



Uttarakhand Open University, Haldwani

BBA(N)-602

School of Management Studies and Commerce



**Marketing Management**

**BBA(N)-602**

**Marketing Management**



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**Course Objective:** This course aims at introducing the concept of marketing and helps developing analytical skills for problem solving in marketing applications.

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**Block I**  
**Introduction to Marketing**

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## **UNIT 1 INTRODUCTION TO MARKETING**

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### **1.1 INTRODUCTION**

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In order to fulfil our needs we consume several goods and services in our day today life. How our (consumers') requirement identified by the companies? How the availability of the goods and services are made easy for us? All such questions are addressed by practices used by the producers of goods and services. These actions of companies are comes under the periphery of marketing. Consumers get aware about different details of the goods and services available in the market, is through the practices of marketing. The information reached to the consumer is like product features, price, quality, availability and many more. The practices of product planning, promotion, pricing, intermediary's decision (wholesaler, retailer), selling, customer relation are the part of marketing.



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## 1.2 OBJECTIVES

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After studying this unit you will be able to understand:

- The meaning and concept of marketing.
- The differences between marketing and selling.
- Nature, scope and importance of marketing.
- Different functions performed under marketing practices.

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## 1.3 ABOUT MARKETING

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Human needs are endless, to fulfil these needs different required product and services are developed by the producers. The means of fulfilling the needs are the outcomes of industrial units as product or services. These unlimited needs and drawn satisfaction from available product and services involves multiple action taken by producers are categorised under the marketing activities performed by the marketer. The marketer meets the consumer (individual) in a place with their offers to fulfil the requirements. The place of marketer and consumer meeting is termed as market place (may be physical or the virtual i.e. internet now a days). The physical place of consumer and producer is called 'market' and the virtual place is termed as 'market space'.

Marketer develops tools to meet out the requirement and uses product and services to fulfil them. The actions taken are covered under marketing. The role of marketer under marketing activities starts from identifying the consumers' needs followed by developing the goods or services. To make available the developed goods and services is the next plan of action performed by the marketer. Marketing does not ends with the transaction of goods and services against each other but continues till the satisfaction for the outcome is received and analysed for further improvement in the current goods and services along with retaining of the customer base for their services. The marketing thus can be understood as a mean to satisfy the consumer against the needs identified and fulfilled through different offerings from the producers.

"Marketing is the activity, set of institutions, and processes for creating, communicating, delivering, and exchanging offerings that have value for customers, clients, partners, and society at large." — American Marketing Association

"Marketing is not only much broader than selling; it is not a specialized activity at all. It encompasses the entire business. It is the whole business seen from the point of view of the final result, that is, from the customer's point of view. Concern and responsibility for marketing must therefore permeate all areas of the enterprise." — Peter Drucker

"Marketing is the social process by which individuals and groups obtain what they need and want through creating and exchanging products and value with others." — Philip Kotler

Marketing is “The management process responsible for identifying, anticipating and satisfying customer requirements profitably.” — The Chartered Institute of Marketing

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## 1.4 MARKETING CONCEPT

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As the marketer serves the consumer by different offerings to satisfy and fulfil their needs. The concept of marketing has changed its dimensions from time to time. The focus of marketer has shifted from product, sale, and profit towards the satisfaction of consumers. The two thought of concept are covered under traditional and modern concepts of marketing are discussed below;

### 1.4.1 TRADITIONAL CONCEPT OF MARKETING

The traditional concept of marketing emphasises on the sale of goods and services while including the convincing the consumer to buy the offerings and attiring the higher sales for the organization. The selling of goods and services include transaction between consumer and producers while persuading the consumer to make a purchase. Higher the sale, higher will be the profit margin of the producers. The traditional concept of marketing emphasizes over three major aspects as;

1. It focuses over the goods and services render by the marketer. Motive of marketer is to make their product and services widely available and accepted by the consumers. Marketers’ understanding about the goods and services is, the offerings are best available to be accepted by the buyers.
2. The measures through which selling is conducted includes all means to attain transaction of goods and services against values provided by the buyer. The producers concentrate on transferring the goods against some value.
3. The more sales of goods and services are inputs for earning revenue for the business. Revenue increment leads to profit maximization for the business.

Thus the traditional marketing concept tries to sell the goods and services for attaining more profits for the business while considering the offerings being well developed to be getting accepted.

### 1.4.2 MODERN CONCEPT OF MARKETING

Time has changed the dimensions of marketing from the traditional approach to the modern perspective. The market emerged as open platform for different businesses to enter and excel in their respective areas of production. This has provided many businesses working in the similar category of offerings served by them to different sets of consumers. Thus marketers’ understanding for their product from traditional approach needs to be changed. It required coordination according to the needs of different sets of the customers. This has provided change in focus of marketers’ from product to consumer needs. The modern concept of marketing looks forward to understand needs of consumer and implement required changes to satisfy the needs of consumer.

The needs are fulfilled using different set of team efforts to make available of different offerings. The motive of the organization is to attain profits while considering the satisfaction as main objective to fulfil through their services. Thus the modern concept of marketing differs from traditional in its approach from product orientation to need satisfaction, selling to coordinated team efforts and profit maximization to profit through consumer satisfaction.

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## 1.5 DIFFERENCE BETWEEN MARKETING AND SELLING

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The modern concept against the traditional concept differentiates the perspective of marketer regarding the practices. The traditional concept majorly influenced with selling concept whereas the modern concept look forward toward the marketing. The selling emphasises how the persuasion can be carried so as to attain sale of the product in contrast to marketing focusing on attainment of customer satisfaction.

Selling refers to short term goals of the marketer to execute the sale using the current offering available with the marketer. The major focus in marketing is the producer and their product which they sale using multiple tools. The focus is to attain profit through higher level of sales for the organization.

Marketing considers customer as king. All the practices move around the customers for offerings provided by marketer. Unlimited needs with its fluctuating nature create a long term exercises executed by the marketers. Satisfaction of customers through value delivery becomes a long term process for marketer as the current needs may not be capable of future needs of the customer. Continuous study of consumer and modification in goods and services according to the changes occur in customers' needs leads to time consuming and continuous process.

The difference between marketing and selling are listed below;

Marketing	Selling
Marketing is concentrating toward the customers' needs.	Selling concentrates in attaining short term gain through higher sales attainment.
Marketing comprises selling, promotion, delivery of goods and services, customer satisfaction and improving the current offerings through continuous improvements.	Selling focuses in convincing customers for the offering provided by the firm and attain sale for those offers.
The marketing practices starts with consumer research process followed by product development, promoting the product and attaining satisfaction of the	Selling begins with production of the products followed by availability of the product and ends with sale of goods and services through

customers.	convincing the customers.
It continues even after sales of goods and services.	It ends up at sales of goods and services are attained.
It is an integrated approach for getting new customers, fulfilling their needs and makes them loyal for the company's products.	Selling practices moves around the product and services render by the producer.
Marketing practices focuses on profit earning through customer satisfaction.	Selling focuses on profit earning through sales maximization.
Marketing consist strategy implication in its practices. Marketing practices are oriented towards the long term growth and stability perspectives.	Selling consist execution of routine practices with short term gains as aim.

The current era of technology has given birth to the new dimension to the market popularly known as 'virtual market'. The practices using digital medium in the virtual has raised a new concept into picture as 'digital marketing'. The advanced form in current marketing practices can be understood as broad term in marketing using all the tools of marketing on internet as well as on electronic devices such as mobile phones, TVs and electronic billboards.

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## 1.6 NATURE OF MARKETING

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Marketing can be better understand through its nature, the nature of marketing is described as

### 1. Marketing is Art as well as Science

Identification of consumer needs and development of the product is based on the scientific approach into action. While making information sharing possible and buyer to get satisfied using the goods and services provided by the marketer, consists art of the marketer. Thus marketing practices involves scientific efforts using art in customer approach is science as well as art.

### 2. Marketing as Economic Function

Marketing involves investment decision of the organization considering the cost of manufacturing and delivery costs tries to attain the benefit for the organization along with the satisfaction attainment for the business. It consist transaction between buyer and seller for the value offered against the money.

### 3. Marketing is creating utility

Marketing now not only fulfils the needs of customer but also generate needs among the customer. The promotional tools well equipped to evolve new utility from the existing product as well as generates new product demand. It creates utility of the current offerings in different set of work.

#### **4. Marketing creates legal ownership transfer**

The transaction between buyer and seller for goods against the money value provides transfer of ownership of goods from seller to buyers. The transaction provides legal ownership of goods to the customer. In case of services the ownership of the services remains with the seller but the perishable nature provide the ownership transfer for the duration in which the buyer uses the services render by the seller or service provider.

#### **5. Marketing is social and dynamic process**

The practices carried by the marketers are coordinated with the social structure. The practices are synchronized with the social norms and try to contribute to the society. The changing dimensions create challenges in front of marketer to meet these changes using appropriate strategies. Thus marketing is social and dynamic process. For example different hair oil companies advertise their product as the contributor to the education of the youngster in the nation. Digital marketing perspective is an example of dynamic nature of marketing.

#### **6. Marketing is customer oriented**

The focus of marketer is to attain the customer satisfaction. Marketing starts with customer needs identification and ends up with attainment of customer satisfaction. All the practices are carried to attain loyal customer for the business.

#### **7. Marketing is human activity**

Marketing activities are carried by the human to accomplish human needs. Thus marketing is a human activity.

#### **8. Marketing is goal oriented**

Marketing involves action to accomplish profit maximization through customer satisfaction. All the functions under marketing are looking forward to attain the goal of customer satisfaction like consumer research to get customer needs insights, pricing to attain product under customer affordability, promotion to attain information meeting customer attention, distribution to make availability of offering to target customers etc.

#### **9. Marketing is a managerial function**

Consumer research, advertising, market decisions, product distribution and different actions of marketing involves management of human resource. Development decision to procuring and innovating new actions for meeting the fluctuating changes in the industry are some of the managerial functions performed under marketing.

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## 1.7 OBJECTIVES OF MARKETING

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Marketing exercises its functions to accomplish following objectives;

### 1. Demand generation

Information of goods and services, attractive offers evolve new desires among the consumers. Need for product influenced by the promotional campaign organized by the marketers. To attain new set of consumer and retaining the current customers are few major objectives of marketing practices.

### 2. Proper information and attractive way of communication

To attract customers and removing misleading rumours is an important task under marketing. Thus the advertising practices include clear and comprehensive understanding about the goods and services offered by the marketer.

### 3. Developing brand loyalty

Individual consumer when satisfied and influenced by one good and service provider, they opt to buy their needed services from the similar producer. Thus every company tries to attain and retain such customers. The loyalty of customer for a specific brand is termed as brand loyalty. Retaining of existing customer is easier as compared to develop new customer base consisting similar level of loyalty for the brand.

### 4. Increase market share

Current market scenario provides competition among different players of similar goods and services in the market. Through different means every marketer tries to generate advantage for their products against the available products in similar category of products. The tools used to make such differences provide marketer competitive advantage over others. This serves as chance to enhance the market share of the company in the market of homogeneous category products. Thus marketing practices objective to get the competitive advantage over other competing firms and attain higher market share.

### 5. Developing new market

Marketing practices open doors for the firm in local as well as in international markets. Practices of marketers' open new dimension as well as new market opportunity to launch their existing and new goods and services. To enhance business and draw new opportunities marketing target for new market to increase the business volume and provide growth to the company.

### 6. Developing new customer base

The growing population of the world is an opportunity for the business as new customers are available for their products. Marketing at one end try to retain the existing customers, on the other end it look forward to attract and attain new customer to increase market share of the business.

### **7. Creating good customer relations**

Selling under marketing begins new action to get the feedback of the customer for the offerings provided by the business. After sales feedback and efforts to retain the customer for the business, leads to development of good relationship between buyer and seller. Marketers try to maintain good relation with the buyer so as to make repeat purchase from the customer and develop brand loyalty.

### **8. Enhancing profit**

Customer satisfaction is the focus on which different practices of marketing are inclined. Higher customer satisfaction enhances the sale of goods and services, hence contributes in profit maximization as well. The actions under marketing are guided towards profit maximization through customer satisfaction. Customers are treated as stakeholders and marketing practices trend to attain wealth maximization which includes enhancing benefits of the stakeholders along with attainment of satisfaction for the goods and services.

### **9. Rendering new goods and services**

The changing and challenging competitive world create new opportunity for development as well. Company's uses these opportunity to develop new product and services for the consumers. It launches new product in existing market or existing product in new market to increase the customer base for the goods and services render by the business. Developing new customer base is difficult but the existing brand loyalty and brand image assist in launching new product as well as enhancing its acceptance among the customers.

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## **1.8 FUNCTIONS PERFORMED IN MARKETING**

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Marketing performs different activities starting from customer need identification and continues even after customer feed to develop better relation with customer and developing new opportunities. Different functions performed under marketing are discussed as;

### **1. Marketing Research**

Product and services under marketing are developed according to their demand by the customer. Identification of customers' needs, grouping of customers according to their taste and preferences, segmenting the homogeneous group of customer ready to purchase the goods and services, combination of different dimensions in promotion of offerings, acceptable pricing for customers are different areas where market is researched to integrate efforts for better combination of offering to the consumer. Marketing research contributes in all the dimensions of decision making of the business.

### **2. Product planning and development**

After the need assessment of customers marketing contributes in developing idea for the needs. The virtual idea converted to the real goods and services under the influence of marketing research results. The new product creation and successful launch of it comprises multiple stage scrutinise for any product under marketing. The modification, alteration and

innovation practices are carried under marketing for the development of the new product or services.

### 3. Packaging

Delivery of goods and services are carried through safe and secure mode to the consumers. Packaging of goods and services ascertain the quality of the goods as goods as at the time of its production. Now packaging is also performing as a source of attention creation for the marketer. Good packaging is now a new concern of the customer handled by the marketer to fulfil the desires of the customers. Packaging involves different regulatory norms followed by the marketer while delivering their product to the consumers.

### 4. Standardization and grading

Quality of the goods and services is one of the dimension under which similar category offerings are compared by the customers. To ensure quality to the customers measures are created under marketing. Standardized outcomes are the measures of quality for all the produces offerings. According to criteria met by the goods and services they are labelled with different grades identifying the quality of their products. Standardization and grading provides maintenance of quality from the producer's side and customer receives better outcomes.

Example:

1. Product like **McDonald** uses standard procedure of their food production so as to provide similar experience to their different consumers.
2. **French perfumes** and **Swiss chocolates** are providing similar quality even they are sold in any nation.

### 5. Branding

Identity to different product or a single identity to all the products of a company is generated by the marketers. The product from a known source is termed as brand. To achieve brand loyalty or loyalty for the goods and services offered by the company marketing practices tries to evolve brand awareness and likeliness among the customers. To attain preference of one company product over the competitive product branding is done by the company to fetch more market share and customer base for the product offered.

Example:

1. **Amul** focuses on the point of view of mass to address any social issue and situations.
2. **Vogue** created advertising campaign addressing



## **6. Product Pricing**

Purchasing capacity is one of the limitations of the customer hindering their purchase of any goods or services. For obtaining the profit maximization through customer satisfaction marketers create different pricing strategies for the different set of customer. Pricing may include the premium pricing for one group of customers and reasonable price for other set of the customer for attaining larger group of customer base as well as satisfaction under the purchasing capacity of the customers.

## **7. Product Promotion**

To stand different and most favourite among the competitive offerings marketers uses different combination of offerings. Promotional tools give them unique preposition for creating better brand image among the customers. Different tools like advertising, sale promotion, publicity etc. are used to generate customer preference and acceptance for the goods and services.

## **8. Supply chain management**

Making goods and services near to the customer is an important function performed under marketing. It involves different intermediaries like wholesaler, retailer who make delivery of goods and services to customer easier. The management of intermediaries is carried under the supply chain management function of marketing. Selection of right set of supply chain helps marketer to make goods and services easily available to the customer at right time and right place.

## **9. Selling**

All the efforts to make customer satisfied under the marketing practices is to fulfil the selling function of marketing. Selling performs value delivery against the value received.

## **10. Procuring and warehousing**

Availability of goods and services at right and right place involve stock creation for the goods and services. The stock of goods and services provide helps in delivery whenever the demand is generated. Marketing involves procuring of the goods and services for longer duration along with keeping the stock for any urgent requirement. Prediction of demand may not lead to right set of quantity for producer to produce thus keeping the stock is required under marketing practices. The stock keeping is done near to the customers so as to make the easily available products to the customers.

## **11. Transportation**

Production of goods and services are concentrates to some geographical boundaries. Whereas widely spread markets need to be cater by the marketers. To make availability of goods and services to the intermediary's, transportation of goods and services are performed

under the marketing practices. The transportation facilities are further provides different offering to the intermediaries for their loyalty to the business.

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## 1.9 IMPORTANCE OF MARKETING

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Let us now discuss the importance of marketing. The following are identified as importance of marketing for an organisation;

- **Coordinating with the change**

The technological era has changed the approaches of business firms. The speed of change accelerated in the technological environment. The pace at which changes are occurring can be met through the understanding of changes occurring at ground level. Marketing assist in meeting the change pace and coordinates the action plan of the firm accordingly. The ground research work is very important in context to modify or alter offerings from business to the consumers. For the sustainable development and getting competitive advantages over the industry players marketing helps the business. Challenges of change are cope up by the marketing practices and provide opportunity to business for its growth and development.

- **Product availability**

Marketing channels and transportation function facilitates business to make product availability feasible for the business. Production planning, inventory management of goods and services, warehousing and demand predictions helps in making product availability at right time and right place. It is important to make available the required goods and services for attaining the customer satisfaction objective of marketing.

- **Economy development**

Nation economy is based on the circulation of money against the optimal utilization of resources. The business houses tries to attain maximization of profit while minimizing the cost of development. The gross domestic product, gross national product etc. are the indicators of an economy development. Marketing practices enhances the demand of the goods and services, leading towards increase in GDP and GNP for any nation. Thus marketing practices are responsible for the development of any economy.

- **Profit maximization**

Brand loyalty, curiosity for new product, multiple utility of the existing and new product provides enhancement in the sales of goods and services. Increase in sale enhances the revenue of the business. Economic planning of production reduces the cost of production leading to maximizing the profit of the business.

- **Competitive advantage**

Uniqueness in competency of business provides preference to their goods and services over the competitive products. Due to competency of business demand for their products

is higher as comparison to similar category products and services. The uniqueness of business gives advantage to business against competitive firms. Marketing practices helps in getting competitive advantage to business firms.



### ***Check Your Progress-A***

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#### **Q1. State True or False.**

- i. In services ownership of the goods dose not transfer to the buyer.
- ii. Marketing is a long term growth and stability oriented process.
- iii. Consumers are considered king under selling concept.
- iv. Marketing involves product as focal point for its actions.
- v. Selling ends when transaction of goods and services takes place against the value for them.

#### **Q2. Multiple choice questions**

- i. Marketing activities are leading to attain
  - a) Profit maximization
  - b) Maximization of sales
  - c) Consumer satisfaction
  - d) Profit maximization through consumer satisfaction
- ii. Traditional concept of marketing is relevant to
  - a) Marketing concept
  - b) Consumer needs
  - c) Selling concept
  - d) None of the above
- iii. Which among the following is not a function under marketing?
  - a) Share market analysis
  - b) Packaging
  - c) Branding
  - d) Pricing
- iv. Marketing is a;
  - a) Long term process
  - b) Short term process

- c) Sales oriented process
- d) Profit oriented process
- v. Marketing helps in;
  - a) Attaining customer satisfaction
  - b) Retaining customers
  - c) Intermediaries decision making
  - d) All of the above

**Q3. Fill in the Blanks**

- i. Profit maximization through.....is the focus of marketing activities.
- ii. When transaction between buyer and seller takes place over internet using..... practices it is said to occur in .....
- iii. Selling concentrates on profit through .....
- iv. Marketing creates new ..... of existing offerings.
- v. New practices in marketing (digital marketing) are the example of ..... nature of marketing.

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**1.10 SCOPE OF MARKETING**

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The scope of marketing is highly significant and responsible for the growth of the business. The scope of marketing is discussed below;

**1. Study of consumer needs**

Marketing research function under marketing first objective is to identify the needs of consumer. To develop product according to the consumers' desires is possible only when the needs of consumer is fully understood by the producers. For getting the nerve of the consumer study of consumer needs is major dimension studied under marketing.

**2. Consumer behaviour**

Humans are structure of different psychological, social, environmental interactions. As changes occur in these factors the psychological, physical outcome of human also get changed. The behavioural changes need to be understood so as to present the offerings in context to the individual consumers. The personality, perception, attitude, family structure and different other factors are the scope of study for producer to get better understanding of consumer. Consumer behaviour is a major branch of study under the marketing practices studies.

**3. Production planning and development**

Demand analysis for future is carried out to meet the requirement under marketing practices. Product design, volume of product, quality of product and different methodology to convert

idea into tangible goods or intangible services are need to be understood by the marketer to cater required goods and services to the consumers. The better execution of marketing practices required understanding of production planning along with creativity of new product development is required.

#### **4. Promotion**

Communication of information regarding the offerings of business is essential to obtain new customers. How the communication need to be done?, When it is to be done?, To whom it is to be done?, What should be the medium (sources) of communication etc. are the questions available while informing customers about the offering. Tools of promotion open the scope for answering the above question appropriately and equip the marketer with best promotional tools in a best manner.

#### **5. Consumer Satisfaction**

Centre point of action under the marketing is to obtain consumer satisfaction. This provides opportunity to understand different perspective of satisfaction related to customers. Different set of offerings and level of satisfaction drawn can be a scope of study under marketing to meet the consumer satisfaction objective.

#### **6. Pricing decision**

Heterogeneous income level of buyers creates challenge in front of marketer for deciding about the price for the goods and services. To obtain maximum price from a capable customer and reasonable charges from less capable person so as to obtain maximum benefits are the challenge for the marketers. Price difference for two set of income capacity should not contradict with company image. Thus appropriate price decision according to the purchasing capacity of the consumer groups can be done with the understanding of pricing strategies.

#### **7. Environmental Analysis**

Humans are social living beings. The impact of environment factor on behaviour of human is obvious. The environment in case of a business comprises industry wise influencing factors understanding. The analysis of business environment along with its interaction with consumers needs to be understood by the marketer. Business environment factors are like political, social, economic, legal, technological etc. and consumer environment like social, cultural etc. need to be study for understanding the impact of their interaction in consumer behaviour.

#### **8. Social responsibility**

Business as discussed does not operates in isolation. It has impact of environment in its practices. Thus business has its responsibility to its environment as well. Marketing practices need to be synchronized with the social requirement. Thus there is need to understand the duties of business for its environment. Under the new practices to meet social responsibility the new term being popularly used as green marketing in marketing field.

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## 1.11 SUMMARY

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Marketing is integration of actions to obtain the objective of customer satisfaction and developing business for its growth. It serves the sustainable development while handling multiple obstacles using appropriate plan of action. Different objectives completion and functions in orientation to attain them prove its pervasive nature to the business.

Objectives of marketing serve the benefit attainment for the business using multiple tools. Functions of marketing safeguard the concerns of the consumers. Thus marketing create balance between the benefits of the business with the consumer satisfaction through different offerings.

The pervasive nature of the marketing opens different dimension for understanding for the marketer to serve basic purpose of marketing. It opens horizons of scope into multiple dimensions and creates importance of the study for every business.



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## 1.12 GLOSSARY

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**Customer Satisfaction:** When the goods and services provided by the marketer meets the customer expectation then it is called to have customer satisfaction.

**Market Place:** A physical place where buyer and seller meet to carry buying and selling of goods and services, is called market place.

**Virtual Market:** “A nonphysical and borderless spatial dimension that exists in the digital domain, in which exchange relations and transactions take place at different levels through digital interactions supported by communication technologies.”

**Digital Marketing:** “Digital marketing is a broad term that includes all marketing channels and methods you can use to promote products or services on the Internet but also on electronic devices such as TVs, mobile phones and electronic billboards.”

**Consumer loyalty:** Consumer willingness to buy from the same brand again and again, which is received after positive customer satisfaction for brand.

**Brand:** "The name, term, sign symbol (or a combination of these) that identifies the maker or seller of the product"

**Brand Image:** “It is set of beliefs, ideas, and impression an individual has regarding any object.”

**Competency domain:** Competency domain is a set of knowledge, skills and abilities possessed by an individual (human /institution).

**Green Marketing:** “Green marketing refers to the process of promoting products or services based on their environmental benefits.”



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## 1.13 ANSWERS TO CHECK YOUR PROGRESS

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### Check Your Progress-A

#### Q1.

- i) True
- ii) True
- iii) False
- iv) False
- v) True.

#### Q2.

- i. d) Profit maximization through consumer satisfaction
- ii. c) Selling concept
- iii. a) Share market analysis
- iv. a) Long term process
- v. d) All of the above.

#### Q3.

- i. Customer Satisfaction
- ii. Digital marketing, Virtual market
- iii. Sales maximization/Sales
- iv. Utilities
- v. Dynamic.



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## 1.16 TERMINAL QUESTIONS

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1. Explain the evolution process of marketing in detail?
2. Distinguish between Product concept and Production
3. Describe the association and difference between traditional and modern concept of marketing.
4. Marketing focuses on consumer satisfaction, Comment.
5. Explain the objectives of marketing with suitable example.
6. What are the scopes of marketing?
7. Marketing is a human activity oriented towards customer, Explain.
8. What do you understand from marketing? Explain its nature to describe how marketing functions are customer centric?
9. “Customers are the King.” Elaborate the statement with reference to the concept of marketing.
10. How marketing differs from selling? Explain the difference using suitable examples.
11. What are the functions of marketing? Evaluate marketing objective against its functions.
12. “A business without marketing does not attain its objective”. Discuss the importance of marketing with reference to the statement.

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## UNIT 2 EVOLUTION OF MARKETING

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### 2.1 Introduction

### 2.2 Objectives

### 2.3. Evolution of Marketing

### 2.4 Philosophies / Orientations of Marketing

### 2.5 Marketing v/s Selling

### 2.6 Marketing Framework

### 2.7 Types of Markets

### 2.8 Marketing Landscape in India

### 2.9 Summary

### 2.10 Glossary

### 2.11 Answer to Check Your Progress

### 2.12 Reference/ Bibliography

### 2.13 Suggested Readings

### 2.14 Terminal & Model Questions

### 2.15 Case

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## 2.1 INTRODUCTION

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In the previous unit you learnt that you have studied about the concept, scope and significance of marketing. Based on it one can realize that how marketing is playing the key role in a firm to face the dynamic environmental challenges and surviving in such a tough scenario. The concept of marketing is not only confined to the firms and business houses but it is pervasive. We are exposed to market of product, service and ideas almost every day. This makes the study of marketing even more interesting.

The present state of marketing was not prevalent initially rather the concept have evolved gradually through different stages and the form of marketing that we witness today is an offshoot of this evolution. In this unit we will be examining the journey of marketing from the time of Industrial revolution in 1930's till date. The unit will also help you in differentiating the older concepts and the new ones in marketing.

In this unit, you will study about how marketing has evolved itself and how the orientations have shifted over the years, till it became holistic concept. This unit will also acquaint the reader with the different types of marketing and the framework under which marketing

process takes place. The unit will end with emerging trends in field of marketing in the current environmental conditions.

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## 2.2 OBJECTIVES

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After reading this unit you will be able to:

- Understand how marketing originated and how it evolved to its existing state.
- Analyze and explain different concepts or philosophies of marketing management
- Differentiate between Selling and Marketing concepts;
- Explain the framework of Marketing and apply the concepts in real scenario.

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## 2.3 EVOLUTION OF MARKETING

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The concept of Marketing emerged due to the practice of exchange. When the need of exchange of one good against the other was arisen, the concept of marketing came into existence. Wroe Alderson, a leading marketing thinker considered the emergence of exchange mechanism as a great invention and contribution to mankind on its journey to civilization. As production couldn't have survived all by itself, the produce was to be sold to someone only then its value is created.

- a) The Barter System-** This system was practiced in the pre-industrial era. In this system of exchange one type of good was exchanged against another type of goods. People used to produce crops like wheat, rice, wool cotton etc. The surplus produced was exchanged against the surplus produced by other person who was engaged in the production of some other good, in this way, they use to meet their requirement by exchanging the product of value with each other. There was no elaborate distribution system because the needs and wants were limited. But as the civilizations prospered and the demand for goods increased, the system became a fiasco.
- b) Stage of Local Market-** After the introduction of barter system, it became difficult to locate the consumer for exchange as in a particular area almost similar type of goods was produced. Thus a common place was developed where all types of exchange use to take place this place came to be known as Market.
- c) The Stage of Monetary Economy** The Barter system had many difficulties in measuring and transfer of goods and services. So currency was introduced in the market thus the next stage in the evolution of marketing was the 'money economy'. The fundamental change that took place in this period was the replacement of barter system by monetary currency. Money becomes the mechanism of exchange of goods and services.
- d) The Stage of Industrial Revolution** - with the dawn of industrial revolution the

concept of Mass Production became popular. Mass production increased the availability of product options in the market at a lower cost. This paved the way for new business system. It introduced new products, new manufacturing system, new transportation mode and methods of communication also. The industrial revolution also gave birth to income revolution, giving a great deal of disposable income to large mass of people.

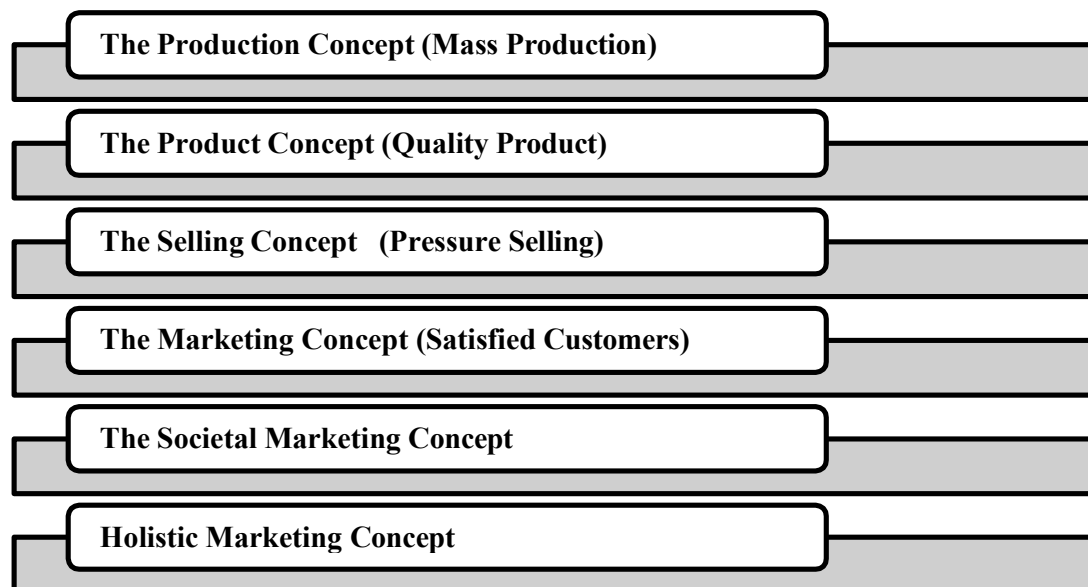
- e) **The Stage of Competition-** The industrial revolution paved the way for mass production and mass distribution of produced goods. Due to large and wide availability of products, the consumer demand gradually got saturated. No longer could the business sell everything they produced. This infused stiff competition among the producers. Earlier, during industrial revolution the main task of the industrial firms was to produce and distribute the products but now the main issue was to face the competition and sustain in the business. They started differentiating their products so that their products are preferred over the competitor's product.

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## 2.4 PHILOSOPHIES/ORIENTATIONS OF MARKETING

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The concept of marketing has evolved through different stages from production orientation to holistic orientation. The modern marketing focuses on consumer's need and satisfaction whereas the societal concept emphasizes on the social security of the consumers as well as that of the society. These philosophies/ orientations of marketing are discussed in the following points.



**Fig 2.1. Philosophies/ orientations of Marketing**

### 2.4.1 THE PRODUCTION CONCEPT (MASS PRODUCTION)

*‘The Production Concept believed that consumers would prefer products that are abundantly available and are inexpensive’*

Managers of production oriented business focused on achieving high product efficiency, low cost, economies of scales and mass distribution. This concept prevailed with the colonization of America and continued till the late 19<sup>th</sup> century. During those days the demand of products was more than the supply of products. In such a scenario the consumers were more interested in possessing the product rather than its quality and features. The producers used to enjoy the huge economies of scale so the entry of new player in the market was difficult, as such a monopoly situation for the existing player prevailed. **Henry Ford** the founder of Form Motor Company once famously remarked, ‘*Customer can have any color they want so long as it’s black*’. Under this concept, production was the genesis point, as it leads to acceptability of the product.

**The Assumptions of this concept were:**

- (i) If the production happen at large scale it can be sold,
- (ii) The management must focus on keeping per unit cost of production low.
- (iii) A firm should put efforts only in producing certain basic quality products, as consumers were not looking for variety.
- (iv) Consumers were impressed only by the availability and affordability of the products.

**Limitations of the concept:**

The marketers, after a certain period of time, could not get the best of consumer patronage. The reason was that the consumer behavior is variety seeking and this concept focused on producing standardized goods, which could not allure the consumer for a long time. The consumer satisfaction and product quality was completely ignored. These shortcomings of production concept gave the way to product concept.

### 2.4.2 THE PRODUCT CONCEPT (QUALITY PRODUCT)

*‘This concept proposes that consumers will be inclined in buying only those products which are superior in quality, performance and are with innovative features’*

As the production concept emphasized on large availability and affordability of products, this concept on the other hand emphasizes on product excellence. The firms that believe in this concept focus on research and development for making available best quality products and improvising on them with period of time. The managers in this concept believe that consumer prefers the best quality products and they are willing to pay extra premium amount for such superior quality products. The organizations that are guided by product concept believes that

the consumers automatically get attracted with well made product, and they need not be allured to make them buy the product.

The managers of these organizations spend considerable energy, time and money to introduce quality and variations in products. However some manager develop so much affinity with the product that they don't realize that the product is not required in the market. The great Management thinker- Prof. Theodore Levitt describes this particular situation as '*Marketing Myopia*'

**The assumptions of this concept were:**

- i. Only those products which are of high quality can be sold in the market
- ii. The quality of the product automatically attracts consumer so no promotion is required.
- iii. This concept may result into the situation of *Marketing Myopia*.

**Limitations of the concept:**

This concept laid all the emphasis on improving the quality of the product but at times, in order to make a superior product the complexity of its usage increases, so if the product is not user friendly the consumers may not easily accept it. Moreover the spending on promotion of the product was also not taken care of but if the consumer is unaware of the availability of the product, how can he land up buying it. This shortcoming gave birth to another concept i.e. selling concept.

### **2.4.3 THE SELLING CONCEPT (PRESSURE SELLING)**

*This concept holds that consumer and business, won't buy much of the products if they are left on their own rather companies should adopt aggressive selling techniques and intense promotion efforts.* This concept mushroomed during the times of Great Depression and World War-II. Such situations conditioned the customers to consume less and manufacture items themselves, so they planted victory gardens instead of buying produce. But due to high capacity of production plants, the production was more in order to optimally utilise the scale of operations. Such large scale production left the marketer with no choice but to push his produce to consumers, they started practising all the tricks that could attract the consumer to buy the product and create demand, this was done by using promotional tools and advertising. Thus this concept assumed that consumers typically is initially reluctant in buying and must be cajoled into buying the product.

This concept maintains the view that an organization cannot expect its product to get picked up automatically by the consumers. The organizations have to put in deliberate efforts to push its products. Under this approach the firms make the product first and the spells out how to sell it and make profit.

**The assumptions of this concept were:**

1. The primary assumption of this school of thought was that consumer initially avoids buying goods and services and spending money on goods that they do not consider of

much use or great value, at this point the role of selling and advertising comes into picture when such efforts persuade them to buy.

2. In order to sustain, each firm should put great promotional efforts for making the product visible and familiar to prospects, so marketing the product and selling both are essential.

#### **Limitations of the concept:**

The problem with selling concept was that it does not take consumer satisfaction into account and sales without satisfaction of consumers may be counterproductive in the long run. This approach was not able to build brand loyalty and goodwill of an organization as the customers were approached only for one time selling.

#### **2.4.4 THE MARKETING CONCEPT (SATISFIED CUSTOMERS)**

*The Marketing concept considers that the best way to attain its organizational goal is by developing a competitive edge over the competitor by offering a differentiated product in terms of its quality, features, supply chain or promotion this is how value can be created for the prospects.*

After World War II, the soldiers returned home, got new jobs and started families. The demand for products increased due to which the buyer's market flourished and consumer became the king. Companies that started practicing customer –centered, sense and respond philosophy achieved higher profits.

Harvard's Theodore Levitt illustrates a perceptive contrast between selling and marketing concepts:

He emphasises that selling is seller oriented and focuses on need set perceived by the seller whereas marketing looks at the buyers perspective and try to project the offering by addressing to the need of the buyer. Apart from this selling is more concerned with converting the offering into cash after exchange while marketing lays stress on satisfying the needs of the consumer to the extent that the loyalty of the customer is generated and leads to repeat purchase. It covers the entire journey of creating, delivering and finally consuming it.

The marketing concept has four major distinguishing features: -

- a) **Target Marketing:** It is very much essential for a marketer to have a set of well defined consumers and he should direct all his efforts in creating the value for them; such a section of the market is called target market. So the firms started paying an overwhelming emphasis on the target market its tastes preferences and needs. It enables the firm to look at a business activity perspective of target customer, and they started creating products based on the needs of the customers.
- b) **Integrated Marketing:** Integrated Marketing simply means that all the different management functions are tightly integrated with one another, keeping marketing as the pivot. For example, marketing department may have identified that there is a need to develop a product, which will satisfy the need of making milk more delicious to drink,

especially for kids. This information is sent to the manufacturing department that tries to make some chocolate or strawberry flavoured powder that can be added to milk to enhance the taste and has high nutritional value too. This information is further provided to the purchase department and they buy the inventory accordingly. Other related departments also integrate and coordinate so as to deliver the best benefits and satisfaction to the consumers.

The integrated marketing takes place at two levels- Firstly, the various marketing functions like Marketing research department, promotion department, customer relation department, sales force, advertising, customer service, product management must work together. Secondly, other departments must embrace Marketing.

c) **Satisfying the Customer Needs:** Marketing concept is a means for fulfilling consumer's needs. It emphasizes that just consumer orientation of firm is not enough; it is essential that such an orientation lead to consumer satisfaction and no firm can afford to ignore it. There are basically five types of needs-

- Stated needs – the ones that a customer expresses explicitly eg: The customer wants a Mobile.
- Real Needs- the set of needs that are defined into ground reality terms eg: The customer wants a Mobile which has a camera with 12 mega pixel but in the range of Rs. 10,000/-
- Unstated Needs - those needs that the consumer do not states but expects that with this amount of price he must get this amount of value. Eg: In a mobile with 12 mega pixel camera and price of Rs. 10,000/- he is also getting an internal memory of 16 GB.
- Delight Needs – this set of need creates a delight in the customer because he is getting an additional benefit / feature which he have not even thought of. Eg: With a mobile phone having 12 mega pixel camera, price of Rs. 10,000/-, an internal memory of 16 GB he is getting a 3GB RAM free. This free bee will surely bring delight to him.
- Secret Needs – this need is latent in nature and is hidden somewhere deep within the customer's subconscious mind. Eg: The customer wants to be seen by friends as a savvy customer, using a classy product.

A **Responsive Marketer** finds a stated need and fulfils it, but he might lose the customer in near future when his competitors will also do the same thing.

An **Anticipative Marketer** will look ahead into what needs customer may have in near future and will add those features to his product. This act will give him an edge over the other competitors.

A **Creative Marketer** discovers and produces such solutions that the customers haven't asked for, but they will enthusiastically accept and respond to such an offering of the marketer. This approach will make him *Pioneer* or the *First Mover*



in the product category.

d) **Realizing profitability goals:** The ultimate objective of a firm, for its long run sustenance is to gain profits because only then the firm's operating costs can be recovered. So the marketing concept treats consumer satisfaction as pathway of attainment of other goals of profit making for the organization. The firm tries hard to control costs and simultaneously ensure quality, optimize productivity and maintain a good organization climate and profitability. They should come up to the expectation of the consumer and satisfy customers by identifying them and producing the products accordingly through a coordinated set of activities. To identify the unsatisfied needs of the consumers, organizations had to conduct extensive market research. This research pointed out that the consumers were highly complex individuals, possessing a wide variety of innate and acquired needs. Hence the study of consumer needs has become the basis of another discipline also i.e. consumer behaviour.

Today Domino's is world's second largest chain of pizza which recorded a total revenue of \$ 624.4 m in 2017. This remarkable achievement was possible only by the virtue of its improved supply chain, strong digital presence and promptly responding to the changing needs of its customers. It introduced the "build your own pizza" feature on its website which kicked off its sales like anything. Domino's added the element of personalization in creating a pizza, through website which allowed them to watch a simulated photographic version of their pizza as they choose a topping, sauce, base and size of pizza. The website also shows exactly what the completed pizza would cost in the process. It facilitated the customers to track the orders from when the pizza enters the oven to when it leaves the store. Domino's also introduced a new point – of – sale system that streamlined the logistics of online and phone orders. The system improved accuracy, increased repeat visits and boosted revenues.

*Source: Marketing Management : A South Asian Perspective 14th Edition, Philip Kotler, Kevin Lane Keller, Abraham Koshy and Mithileswar Jha*

## 2.4.5 THE SOCIETAL MARKETING CONCEPT

*'This concept proposes that the organization's prime responsibility is to improve the standard of living of consumers by delivering them products of better quality at a valued price which will lead to satisfied consumers this becomes instrumental in leveraging the standard of society as a whole.'*

This philosophy cares for not only consumer satisfaction but for consumer welfare or social welfare. In other words, the firm is to discharge its social responsibilities. Thus, social welfare becomes the added dimension. The marketer has to adopt social and ethical consideration into their marketing practices. They must be able to make a balance between

different criterions of organization's profits, consumer's satisfaction and public interest as a whole.

Such social welfare is concerned about the environment free from pollution, human life quality.

Thus, a firm manufacturing a pack of cigarettes should consider and focus upon producing cigarettes that are pollution-free; an automobile manufacturer should not only focus on producing vehicles that are not only fuel efficient but less pollutant one. Example

The Jaipur Foot which was developed by Bhagwan Mahaveer Viklang Sahayta Samiti (BMVSS), established in 1975. Jaipur foot is the world famous artificial limb. This prosthetic leg was created in such a manner that the cost was very low, quick to fit and water-resistant. The design was such that it could be easily manufactured and was affordable to common man. This artificial limb is capable of providing such types of movements as out normal foot can do. A dancer in the movie 'Nacche Mayuri' depicted the use of this foot. Besides being an exceptionally useful and unique, one of its kind product the procedure of manufacturing it is not patented and is available freely in public domain for the social benefit. The value system of human welfare attracted many donors and social workers; as a result the product became very popular and was able to reach the poorer section of the society through medical camps. BMVSS is the largest limb fitting organization in the world because it was able to address the felt need through an innovative product with immense social relevance.

*Source: Marketing Management: A South Asian Perspective 14th Edition, Philip Kotler, Kevin Lane Keller, Abraham Koshy and Mithileswar Jha*

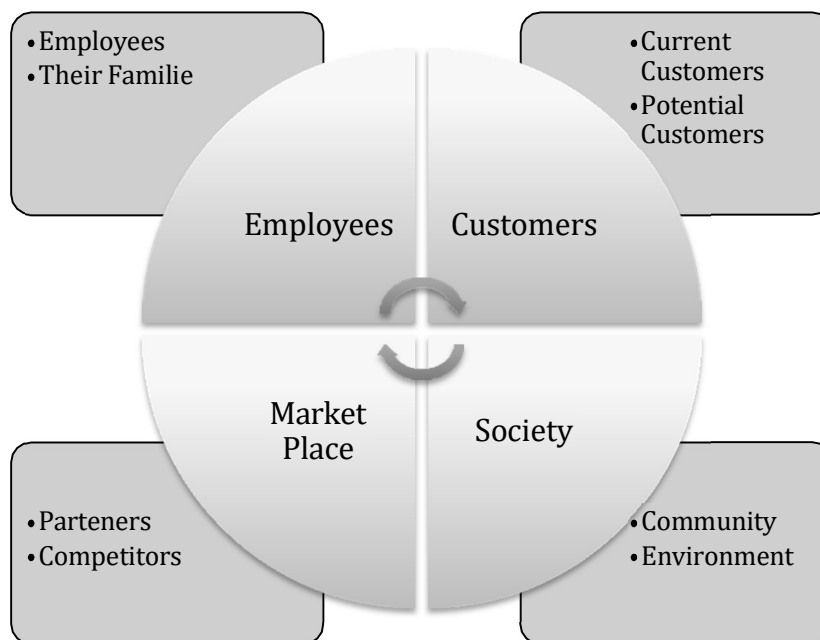
**The assumptions of Societal Marketing concept are:**

- (i) The firm is to be guided by long-term profit goals rather than quick sales.
- (ii) The firm should discharge its social responsibilities,
- (iii) The management needs to integrate the firm's operations and activities in such a way that it meets the organizational goals, needs of individual consumer and social well-being

**Limitations of the Concept:**

This concept is driven by the win -win situation for all the stakeholders involved in the business including the marketer, customer, competitor and the society, so the concept do not

have any major limitations. But for a small business house or a new start up the compliance with this concept is difficult because hardly they are able to attain their break –even and in such a condition thinking about Corporate Social Responsibility (CSR) activities and abiding by the environment friendly norms of production may rise up the cost of production as they do not enjoy the economies of scale. This in turn raises the price of the product; the risen price is not very competitive in the market against the well-established players so the company may be forced to be rolled back.



**Fig 2.2- The Key Stakeholders**

### 2.4.6 HOLISTIC MARKETING CONCEPT

The trends and forces defining the 21st century are leading business firms to a new set of beliefs and practices. Today's best marketers recognize the need to have a more complete, cohesive approach that goes beyond traditional applications of the marketing concept. This concept is based on the development, design, and implementation of marketing programs, processes and activities that recognizes their breadth and interdependencies. Holistic marketing recognizes that "everything matters" in marketing- and that a broad, integrated perspective is often necessary. Holistic marketing is thus an approach that attempts to recognize and reconcile the scope and complexities of marketing activities.

The concept of Holistic Marketing is based on four major components:

- (i) *Relationship Marketing* –It aims to build mutually satisfying long term

relationship with key constituents in order to earn and retain their business. The four key constituents for relationship marketing are customers, employees, channel partners and members of financial communities like shareholders, investors etc. the ultimate outcome of relationship marketing is developing the valuable asset called 'marketing network' consisting of the company and its supporting stakeholders. These networks help in building a strong brand image and higher customer loyalty.

- (ii) *Internal Marketing* – Marketing is no longer confined to a single department of the organization rather it is a company-wide undertaking that drives the company's mission, vision and strategic planning. So the ultimate goal of marketing should be embraced in the behavior of each and every employee at all levels. Thus internal marketing that includes hiring, training and motivating the employees becomes more important so that people who can gel well with the organizational culture can be recruited. Internal marketing requires vertical alignment with senior levels and horizontal alignment with other departments.
- (iii) *Integrated Marketing* – the marketing efforts gives better results only if they are integrated well. As integration brings synergy in the entire system. Integration should be at three levels – the product and service level, across the marketing channel and marketing communication. If all these system work in harmony they may leverage the effect and build stronger brand image.
- (iv) *Performance Marketing* – it requires understanding the financial and non-financial returns to a business and society from marketing activities and programs. The performance of marketing efforts are not only measured by the sales revenue (financial returns) rather it is measured on entire marketing scorecard that comprises of brand equity, social responsibility, environmental concerns, legal aspects, ethical code of conduct, community service etc. thus the business can be considered successful when it ranks high on all or majority of the above matrices.



**Fig 2.3- Dimensions of Holistic Marketing**

Concepts of Marketing	Emphasis and Approach
Production	<ul style="list-style-type: none"> <li>❖ Customers seek for availability and affordability</li> <li>❖ Marketer needs improve production and distribution</li> <li>❖ Achieve economies of scale which lowers the per unit cost of production</li> </ul>
Product	<ul style="list-style-type: none"> <li>❖ Consumers favor products that offer the most quality, performance and innovative features</li> <li>❖ The excellence of the product pulls the customers automatically</li> </ul>
Sales	<ul style="list-style-type: none"> <li>❖ Consumers will buy products only if the company aggressively promotes these products</li> <li>❖ 'Creative advertising and selling will overcome consumers' resistance and convince them to buy'</li> </ul>
Marketing	<ul style="list-style-type: none"> <li>❖ Focuses on needs/ wants of target markets and delivering satisfaction better than competitors</li> </ul>

	❖ ‘The consumer is king! Find a need and fill it’
Societal Marketing	❖ Companies need to take voluntary action to address the ethical, social and environmental impact of its operation on society ❖ Companies need to strike a balance between its profits, satisfying consumer needs and well being of the society
Holistic Marketing	❖ It acknowledges that everything matters in Marketing and a broad integrated perspective is necessary. ❖ It rests on four pillars – Internal Marketing, Integrated Marketing, Relationship Marketing, and Performance Marketing.

Exhibit 2.4 – Classification of Marketing Orientations

**Check Your Progress-A****Q1. Distinguish between the Product and Production Orientation of marketing?**

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**Q2. Explain the concept of Societal Marketing?**

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**Q3. Explain the concept of Holistic Marketing and its components?**

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**Q4. Choose the correct alternative.**

- (i) Initially most of the Indian companies aimed at mass production, economies of scale, reducing per unit cost. This outlook reflects:
- a) Selling Orientation
  - b) Marketing Orientation
  - c) Product Orientation
  - d) Production Orientation
- (ii) Which of the following statement best explains the Societal Marketing Concept:
- a) Consumers will buy products only if the company aggressively promotes them.
  - b) Marketer needs improve production and distribution
  - c) Companies need to strike a balance between its profits, satisfying consumer needs and well being of the society.
  - d) None of the above
- (iii) Which of the following is NOT one of the philosophies of Marketing:
- a) Selling Orientation
  - b) Marketing Orientation
  - c) Product Orientation
  - d) Promotion Orientation

## 2.5 MARKETING V/S SELLING

Though marketing is broader concept than selling, it is often equated with selling. Continuous exposure to advertising and personal selling leads many people to link marketing and selling, or to think that marketing activities start once goods and services have been produced. While marketing certainly includes selling and advertising, it encompasses much more. Marketing also involves analyzing consumer needs, securing information needed to design and produce goods or services that match buyer expectations and creating and maintaining relationships with customers and suppliers. The following table summarizes the key differences between marketing and selling concepts.

<b>Selling</b>	<b>Marketing</b>
Selling is a classical approach	Marketing is contemporary approach
It focuses on push concept	It focuses on pull concept
It is preoccupied with sellers need of selling the produced product	It is preoccupied with the idea of satisfying customer's need by providing him a product.
It focuses on short-term objective of making one time sale.	It focuses on long-term goals of the organization like brand building.
It is limited to transactional approach	It is a relationship oriented approach
Management is sales volume oriented	Management is profit oriented

**Table2.5: Difference between Selling and Marketing**

The concept of marketing comes into action even before the product is produced; it begins with identifying needs or problems of the customers. The marketer addresses these needs by providing a product or a service as a solution to the problem. Thus the entire concept of marketing revolves around the customer. If the customer is satisfied after the usage of product he we go for a repeat purchase and gradually he will build brand loyalty towards the product. On the other hand selling pays no heed to customer needs and satisfaction of needs. The product under selling concept comes into existence due to availability and interest of the producer and is then pushed to the consumers. This approach does not help the organization in the long run as the vision is missing. The various dimensions of selling and marketing can be expressed as follow:



Criterion	Selling Concept	Marketing Concept
Starting Point	Factory	Target Market
Focus	Products	Customer Needs
Means	Selling and Promotion	Integrated Marketing
Ends	Profits Through Sales Volume	Profits Through Customer Satisfaction

**Table 2.6: Selling Concept v/s Marketing concept**

## 2.6 MARKETING FRAMEWORK

The American Marketing Association defines marketing as:

*‘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 objectives ‘*

Philip Kotler and Kevin Keller consider marketing as:

*‘Marketing Management is the art and science of choosing target markets and getting, keeping and growing customers through creating, delivering and communicating superior customer value’*

Different management thinkers have different opinions about the concept of Marketing but one thing that

The marketing process consists of four steps:

- (1) analyzing marketing opportunities,
- (2) selecting target markets,
- (3) developing the Marketing mix, and
- (4) implementing and controlling.

Now let us study each of them briefly.

- (1) Analyzing Marketing Opportunities – This is the first and foremost step of the Marketing Process. In this step the Micro and Macro environment of the industry is scanned thoroughly in order to identify the opportunities and threats present in the operating environment. Different relevant components of environment are analysed. The outer circle in Exhibit 2.7 states the environmental characteristics that provide the framework within which marketing strategies are planned.
- (2) Selecting Target Markets – The target markets are the group of people toward whom the firm decides to direct its marketing efforts. The firms need to have a detailed description of its target market in order to serve better. The inner most circle in

Exhibit 2.7 has target markets around whom the entire marketing activities revolve and all the strategies are formulated keeping them in mind.

- (3) Developing the Marketing Mix – Marketing Mix is the set of strategies which a marketer prepares in order to meet the demands of its target market in most effective manner. Often it is also referred as 4 P's of Marketing namely: Product, Price, Place and Promotion. The extended set of 7 P's is also relevant for service industry in which People, Process and Physical Evidence also plays a major role. Thus, marketing mix may be defined as the set of controllable marketing variables/activities that the firm blends to produce the response it wants in the target markets. The details about implementation of Marketing Mix will be studied in the later chapters. The exhibit 6 depicts the 4 P's in its second concentric circle.
- (4) Implementing and Controlling- The proper implementation and control of all marketing related activities is also very essential because all the planning and analysis becomes of no use if they are not executed properly.

## **Factors Influencing Company Marketing Strategy**



Source: Kotler, P. (2000) *Marketing Management* Millennium edition, USA: Prentice Hall International, p.88.

**Exhibit 2.7: Elements of a marketing strategy and its environmental framework**

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## 2.7 TYPES OF MARKETS

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Based on the type of market in which a company is operating, the strategies of the business are framed and implemented. The focus areas of consumer retail markets are entirely different from business market. So on the basis of type of customers a company is dealing with the markets have been segregated into four categories.

### (1) Business to Consumer Markets (B2C)-

As the name suggests, the business to consumer market involves marketing of consumer goods such as cars, toothpaste, cooking oil, shampoo etc. The consumers are generally less sophisticated than intermediate buyers. They are not willing to spend more time on buying and are very price sensitive. But with the increasing flow of information and awareness, marketing of consumer goods is getting tougher. Today companies have to toil hard in order to make the final purchase by the consumer not only because the consumer is well informed but also due to a lot of choices that he is being offered to. The concepts like brand loyalty is at its lowest, there are shifting loyalties generally on the grounds of price wars, the company which is able to offer same quality product at a lower price wins the game.

*Reliance Jio is a perfect example in this case as to how it was able to grab the highest share of the market by offering free voice call and data during its initial days of launching.*

**(2) Business to Business Markets (B2B)-** Since B2B markets involves all the organizational buyers, trying to sell mass quantities of product to one another; there is a need of establishing more personal relationship between the business buyers. Business buyers are much more knowledgeable than the average customer. They have a whole lot of dedicated team of people in their purchase department who performs all kind of exercises in order to get the order freezed at the minimum possible rates with maximum set of benefits and facilities. In these kind of markets the major emphasis is on product / service quality, its attributes etc. and not on promotion.

*That is the reason why some services such as Accenture and INTEL hardly advertise their products, as they deal in b2b market. They just advertise their presence in the market. The rest is done by the quality of products they have. In b2b market, out of the 4 p's of the marketing mix, promotions is the most ignored.*

Attributes	B2C Markets	B2B Markets
<b>Market Features</b>	Large number of consumers Geographically scattered	Relatively fewer buyers Geographically concentrated
<b>Product Strategy</b>	Product positioning is based on demographic and Psychological attributes of target market.	Products are Technical complex and positioning is done based on functions / features of the product.
<b>Pricing Strategy</b>	Value pricing is done based on customer needs and competitive situation.	Competitive bidding and negotiated prices based on company is fixed. Pricing is also based on the order size.
<b>Distribution Channels</b>	Indirect channels Multiple layers of intermediaries which include wholesaler and retailers.	Direct channels Less number of intermediaries
<b>Promotion Strategy</b>	Emphasis on creating demand and having significant brand differentiation through various forms of advertising.	Emphasis on conveying product information and delivery terms through personal selling.
<b>Buying behavior</b>	Purchase decisions are mostly made on physiological/social/psychological needs Less technical expertise Shorter buying cycle.	Purchase decisions are mainly made on rational/performance basis Technical expertise of cross-functional teams is sought. System is automated, ERP based. Long buying cycles, with tendency of repeat purchase

Table2.8: Difference between B2C and B2B markets

### (3) International or Global Markets

Most global marketing companies have to change their strategies and operations based on the country in which they want to trade. Generally global companies work on one fundamental. “Think local, act global”. The company works with the concept of borderless world. Most problems encountered by the foreign marketer result from the strangeness of the environment within which they need to operate. Success hinges upon the ability to assess and adjust properly to the impact of unfamiliar environment. Companies may be global on the basis of both – business to business as well as business to consumers. The challenges faced by global companies are much more than those faced by local companies. Still Global expansion is an excellent option for any company provided it has deep pockets to sustain the initial expenditure required to establish itself in another country.

*KFC is the world's largest fast food chicken chain serving 109 countries across the world. KFC is world famous for its original recipe of fried chicken made with same secret blend of 11 herbs and spices. When KFC entered Japanese market in 1970, the Japanese considered fast food as artificial, made of mechanical means and unhealthy. To build trust in the brand, an advertisement was released which depicted Colonel Sanders's beginning in Kentucky to convey Southern Hospitality, old U.S tradition, and authentic home cooking. The campaign was hugely successful. KFC now offers sesame and soy sauce flavored chicken and a panko-fried salmon sandwich. This is how the global company keenly caters to the local demand and taste.*

### 4) Government or Non-profit Market -

The government market mainly involves Government offices, ordnance factories, army, navy and other government departments. The non profits on the other hand may involve groups based on different beliefs some of which really have an excellent brand name and are recognized by several companies. Both of these entities have a limited purchasing budget and hence the price of products is important. Accordingly the purchase process is organized. Most government and non-profit organizations involve the issuance of tenders and bids. The one to bid the lowest is known as L1 and the one to bid the highest is known as H1. Naturally, L1 wins the bid. There are several companies, which have modified their products specifically for the government markets to come L1 in these tenders and bids. The products may be a bit inferior, nonetheless they do meet the government's requirement and that is what matters in the end.

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## 2.8 MARKETING LANDSCAPE IN INDIA

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Indian Market is one of the most promising and biggest consumer markets in the world. Apart from this majority of our population is youth so the pace of accepting and adopting new products and technology is also high. These factors have attracted many MNC's and FDI's to

invest in India. Pouring of the foreign multinationals has raised the level of product and consumption to a great extent. More over government policies and procedures are also quite facilitating for business growth in India. So, all these factors together have contributed in amplifying the market growth rates.

Due to these facilitating environmental factors the business growth have spurred up. But besides these triggers the technological advancement in ways of conducting business have also added fuel to the fire. The technological advancement have forced the marketing arena to evolve, it has no doubt presented business with more opportunities to impact fully reach their target audience. Customization has become the buzzword. In order to provide the customers with specially tailored products and services digital media is being used immensely. The digital marketing has many things to offer that can be used to keenly study the changing taste and preferences of the consumers.

The digital platforms of marketing are becoming very popular among the Indian consumers as they not only save time but also provide better discounts and variety at just a click away. It has affected almost all business sectors. We use several applications of E- Marketing I our mobile phones like – banking, shopping, educational utility, home utility etc. Digital marketing allows geophysical barriers to disappear making all consumers and businesses on earth potential customers and suppliers. It is known for its ability to allow business to communicate and form a transaction anywhere and anytime.

Important factors that have contributed to the growth of digital marketing are as follow:

- The changes in lifestyle and standard of living had increased the level of consumption, quality and also the pattern of consumption.
- Extensive use of smart phone and mobile applications
- Easy availability of high speed Internet.
- It provides convenience and saves time of the consumer.
- At times online offers are more attractive and provide sufficient discounts and reward points to the users.
- It is an emerging trend so people feel happy going online.

Besides the consumer perspective, the digital marketing tools have been proved very useful to the marketer as well.

Due to the explosion of technological advancements the entire business arena has been affected, the cost and ease of operating in the market have reduced. Moreover easy access to the market related information have also facilitated in business processes. Not only this the technological advancement has also equally affected the consumers also, the present consumer is more informed about all possible offerings available to him from the marketer and he has a wide variety to choices from. All these situations have intensified the

competition to a great extent, marketers are thriving hard to sustain and develop best quality products to allure customers.

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## 2.9 SUMMARY

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This unit tries to focus upon the journey and the process of how Marketing has gradually evolved into its present advance stage. The first half of the unit depicts and related the evolution of civilizations to various forms of exchange. The most primitive form of exchange was barter system in which only goods were exchanged for other goods, slowly the level of demand and consumption increased and need for common place to buy and sell emerged, this constituted local markets. After proper markets were developed the basis of exchange became ambiguous, which created a need for developing a standard currency for exchange purpose. Due to this need the money as a currency came into existence and monetary exchange started. After the exchange system during 18<sup>th</sup> century, the Industrial revolution started due to which machines were used and mass production was done. The supply of goods increased by no leaps and bounds and due to more supply and less demand intense competition started. This competition forced all the marketers to shift their focus on not only producing the product but also in marketing it well.

The next part of the unit discusses about various orientations of marketing, starting from production orientation where emphasis was on large-scale production, followed by product orientation under which the focus of marketer was to produce best of the quality product. The next orientation, which came into picture, was sales orientation, where focus was only on selling the goods produced by alluring and persuading the customer. The short



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## 2.10 GLOSSARY

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**Barter System:** system of exchange where goods or services are directly exchanged for other goods or services without using any currency exchange.

**Intermediaries:** Firm or person (such as a broker or consultant) who acts as a mediator on a link between parties to a business deal, investment decision, negotiation, etc.

**Industrial Revolution:** The period of time during the 18th and 19th centuries in which work began to be done more by machines in factories than by hand at home.

**Marketing:** Marketing is an ongoing process of discovering and translating consumer needs and desires into products and services, creating demands for these products and services,



serving the consumer and his demand through a network of marketing channels and expanding the market base in the face of competition.

**Marketing Mix:** The set of four controllable marketing tools viz, product, price, promotion and place (Physical Distribution) that the marketer blends to achieve the outcome of desired level of customer need satisfaction. Marketing mix is also known as '**Four Ps**'.

**Marketing Myopia:** A short-sighted and inward looking approach to marketing that focuses on the needs of the company instead of defining the company and its products in terms of the customers' needs and wants.

**Marketing Orientation:** It requires the firm to identify the consumer needs and the to satisfy the consumers in a better way, by searching for new opportunity where the consumer need lies, developing appropriate set of marketing mix and properly implementing it.

**The Exchange Process** occurs when the buyer with a demand and a seller with a product offering confront each other. The customer gets the ownership of the product in lieu of something to offer in the form of price, physical transformation through barter or a premise for any of the two.

**The Marketing Concept** proposes that the reason for success lies in the company's ability to create, deliver and communicate better value proposition through its marketing offer in comparison to the competitors for its chosen target market.

**The Product Concept** has the proposition that consumers will favor those products that offer the most attributes like quality, performance and other innovative features.

**The Production Concept** emerges out of the production orientation. The basic proposition is that customers will choose products and services that are widely available and are of low cost.

**Selling Concept** proposes that customers, be individual or organizations will not buy enough of the organization's products unless they are persuaded to do so through selling effort.

**Societal Marketing Concept** proposes that the enterprise's task is to determine the needs, wants and intentions of the target market and to deliver the expected satisfaction more effectively and efficiently than the competitors in a way to preserve or enhance the consumer's and society's well being

**Target Market** Target market is the end consumer to which the company wants to sell its end products





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## 2.11 ANSWERS TO CHECK YOUR PROGRESS

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### Check Your Progress –A

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(ii) c  
(iii) d



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## 2.14 TERMINAL QUESTIONS

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1. Explain the evolution process of marketing in detail?
2. Distinguish between Product concept and Production concept?
3. Critically analyze the selling orientation of marketing by giving suitable examples?
4. What are four important pillars of Holistic Marketing? Explain each one in detail.
5. Differentiate between selling and marketing?
6. Briefly discuss the marketing framework and its relevance in current market scenario.
7. Explain various types of markets in detail.
8. Discriminate between B2B market and B2C market?
9. What is marketing mix and how is it significant to the marketer?
10. Explain Marketing Myopia with an appropriate example?
11. You are about to launch a health drink in market for infants and toddlers. Discuss the marketing tactics by which the firm can cover the maximum possible market.
12. Discuss how B2B market is different from B2 C market on the grounds of buying behavior?
13. Discuss the stages of evolution of modern marketing concept, in detail?
14. An automobile company continuously focuses on improving its product. It believes that the customers will automatically buy the product, as they are superior. Explain the philosophy being practiced in this case, are there any shortcomings in this philosophy?



## 2.15 CASE SWIGGY

The digital platforms of marketing have made many new formats of business to flourish these days with minimum amount of capital investment the business model have turned into unicorn. Swiggy – A food delivery venture is also an offshoot of this trend. Basically Swiggy is a restaurant aggregator service, which helps in food ordering and delivering. It provides a single window for ordering from a wide range of restaurants to those foodies who somehow are not able to or want to go to the restaurant. Swiggy helps in delivering food at their doorstep. For this purpose they have their own exclusive fleet of delivery personnel, who pick up orders from restaurants and deliver it to customers. It is a complete food ordering and delivery solution that connects neighborhood restaurants with urban foodies.

### Company Background:

Swiggy which is currently an online food ordering and delivery platform was founded by a team of three energetic and passionate intellectuals namely **Nandan Reddy, Sriharsha Majety, and Rahul Jaimini** in August 2014 in Koramangala



Nandan Reddy and Sriharsha Majety initially started their first venture in the year 2013, it was named Bundl. Bundl which basically a logistics aggregator that connected small and medium companies to courier service providers. The concept was new and attractive also but after almost a year, the founder members realized that the logistics business would yield better in food delivery market, as this area is still naïve and need of the hour for many customers. Realizing this they changed their focus to new marketplace. Thus finally in August 2014, they launched out the online food ordering and delivery startup called 'Swiggy'

Swiggy started its Journey from Bengaluru with a compact but dynamic team of six delivery executives and 25 restaurants on its board. In the short span of 3 years, Swiggy was able to scale up with over 25000 restaurant partners across India in more than 13 cities like Delhi-NCR, Mumbai, Bengaluru, Hyderabad, Chennai, Kolkata, and Pune. In the present year 2018 it has added its presence in Ahemdabad, Jaipur and Chandigarh also and recently pitched into the lucrative markets of Nagpur, Kochi and Coimbtore. (As per Economic Times March 14, 2018)



### Revenue Model:

Swiggy has the following major revenue streams.

#### 1. *Capital raised from investors:*

Swiggy is backed by one of best investors available in the market. Swiggy has raised a total of 75.5 million dollars in funding from various investors, including Bessemer Venture

Partners, Norwest Venture, Accel Partners, SAIF Partners, Harmony Venture Partners, RB Investments and Apoletto. Recently there is a speculation about DST Global might invest into it. Swiggy no doubt leads the online ordering space in India at about 6 million monthly orders. An investment in Swiggy will surely mark DST Global's entry into the Internet space of Indian ecosystem, after a gap of 3 years, when it invested in Ola lastly in the year 2015.

## *2. Commission Earned from Channel Partners:*

The primary source of Swiggy's revenue is from commission it collects from restaurants for lead generation and for serving as a delivery partner. It is currently connected with 25000 restaurants across the country. The commission percentage varies from restaurant to restaurant as several factors like: - value of order, popularity of the restaurant, distance etc. determine the amount to be charge.

### *1. Delivery Charges:*

Swiggy also charges a nominal amount as delivery fee from customers on placing orders below a threshold value or in case the delivery location is beyond the stipulated range.

### *2. Featured List:*

Swiggy App is one of the highest rated apps in terms of usage. So getting featured on the curated list of swiggy app also brings business to hotels and restaurants. Swiggy charges restaurants fees for featuring them in this list.

### *3. Swiggy Access:*

Swiggy Access is a paid service, which facilitates food providers to service only through Swiggy Platform across different geographical locations. This feature is beneficial to those service providers who do not have a proper restaurant and dine –in setup and they still have the opportunity to scale up their business without investing much.

## **Competitive Advantage:**

Indian food delivery market is valued at 15 billion dollars and set for an exponential growth. Food delivery has become a very competitive market in India. The competition in food delivery format of business is getting tougher day by day with new players pouring in. In order to keep up the pace in such a battlefield, every brand needs to develop and evolve its competitive edge over the other players. Swiggy is also evolving and adding new features day by day for example Swiggy has launched a new service that will allow customers to pre-order food, up to 48 hours in advance, offering zero delivery charges in return. This service is called *Swiggy Schedule*. This strategic move will not only benefit the customers but also allow

Swiggy to better predict its demand which will help it to improve efficiency in delivery and also tap customers who might not end up ordering food on the platform due to long delivery log in time on the app and website.

“We are constantly looking for new and powerful ways to serve our consumer’s every food need. We have introduced Swiggy Scheduled for those who not only love a great meal but also want the assurance that it will reach their tables on time,” said Anuj Rathi, VP, products, Swiggy. Customers will be able to place their orders a minimum of two hours and maximum of 48 hours in advance. They will also be able to cancel the order anytime from within the app before Swiggy passes on the order details to the restaurant from which the delivery will be made.

Besides it Swiggy has also introduced Swiggy Access, which is a platform for only take away kitchen based restaurants. This feature will aid in increasing the sales of such category of restaurants.

### **Major Players:**

Swiggy is in direct competition with major on-demand food aggregators like Zomato. Whereas there is other small startups like Foodpanda and Faasos also in the competition. Now that Uber has finally released its food delivery app Uber EATS in Mumbai and few other cities and Google has launched its hyper local services and meal delivery app Areo in Bangalore and Mumbai. The competition is getting tougher for Swiggy. Swiggy is aiming to maintain its market share by keeping their maximum focus on 8 major cities which are Mumbai, Pune, Bangalore, Hyderabad, Chennai, Delhi, Gurgaon, and Kolkata.

### **Swiggy Marketing Strategies:**

Swiggy’s marketing strategy consists of both online and offline marketing campaigns. They aim at capacity creation and customer acquisition and for that they bank upon the digital media. They promote their campaigns via Facebook, Youtube, Twitter, Pinterest, and Instagram. Some of its campaigns include Secondtomom, #DiwaliGhayAayi, #SingwithSwiggy and Know your food series of pictures and food walks in a local area. The company has successfully built its brand awareness and connects with its audience through these channels. Their app is also very user friendly and attractive too. Their facebook page is quite active with regular updates, averaging to one post a day. Swiggy uses its Social media not only for campaigning but to engage with its customers right from solving the grievances to taking the feedback.

### **Road Ahead:**

Swiggy have recently expanded its operations in cities like- Nagpur, Coimbatore, Kochi (in March 2018). These cities too have promising markets and is one of the fastest growing

Indian cities that have a thriving local culinary culture. . The bunch of energetic and visionary founders is planning to enter into grocery delivery business, as grocery market is highly lucrative in India.

Moreover as per ET Swiggy is also keen in starting a milk delivery startup. There lies tremendous potential in this area of milk delivery as all Indian households buy milk on regular basis and each spends on an average a sum of more than 1000/- a month.

**Questions:**

1. How does Swiggy bring utility or create value for its customers?
2. Explain the marketing framework of Swiggy?

Source: <https://www.whizsky.com> › Social Media Case Studies India

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## UNIT3 INTRODUCTION TO MARKETING PROCESS

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### 3.1 Introduction

### 3.2 Objectives

### 3.3 The Marketing Process-Five Step Model

### 3.4 Understanding the customer needs, wants and demands;

### 3.5 Designing a customer driven marketing strategy

### 3.6 Designing an integrated marketing program that delivers value to customer

### 3.7 Building customer relationships and creating customer delight

### 3.8 Capturing value from customers to create profits and customer loyalty

### 3.9 Summary

### 3.10 Glossary

### 3.11 Answers to Check Your Progress

### 3.12 References

### 3.13 Suggested Readings

### 3.14 Terminal Questions

### 3.15 Caselets/Cases

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## 3.1 INTRODUCTION

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In the previous unit you learnt about how marketing evolved from product marketing to relationship marketing. In this unit, you will study about the Marketing Process.

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## 3.2 OBJECTIVES

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After reading this unit, you will be able to:

- Understand the five-step model of the marketing process;
- Learn about the different elements of the marketing process model;
- Understand the relationship between the different elements of the marketing process; and



- Understand how these processes are integrated to create value for the customer.

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### 3.3 THE MARKETING PROCESS-FIVE STEP MODEL

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The simplest model of marketing process has five steps. The five steps are as follows:

1. Understanding the customer needs, wants and demands
2. Designing a customer driven marketing strategy
3. Designing an integrated marketing program that delivers value to customer
4. Building customer relationships and creating customer delight
5. Capturing value from customers to create profits and customer loyalty

The above steps can be sequentially explained as follows:



**Fig 3.1 Marketing Process**

Pls note: In steps 1-4, the company CREATES value for the customer by understanding his needs and wants and finally building relationships. In step 5, the company CAPTURES the value from the customers in the form of sales, profits and customer loyalty.

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### 3.4 UNDERSTANDING THE CUSTOMER NEEDS, WANTS AND DEMANDS

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Customer is the cornerstone of all marketing activity and it is thus important to understand his needs, wants and demands. No marketing can happen without understanding what the customer needs, wants and demands. It's important to understand the difference between needs, wants and demands.

#### 3.4.1 NEED

We all are born with a set of needs. Need for food, clothing, shelter (physical needs), love, affection (social needs) status and security (esteem needs) and the like. A need can be defined as a state of deprivation. It is the 'lack' or 'denial' of something very basic to human existence. It is a myth that marketers create needs. Marketers don't create needs, because needs are something we all are born with.

#### 3.4.2 WANT

Specific satisfiers of needs are called as wants. I am hungry-I need food. Food is a need. I may eat *Daal Baati and Choorma* to satisfy my hunger. I may also have other options- Hamburger and Coke or *Chholay Bhature* and the like. Since I am a Punjabi, I would like to go for *Chholay Bhature* for satisfying my hunger. I **need** food and at the same time I want *Chholay Bhature*. **Being hungry is a state of deprivation of food and so it is a need and *Chholay Bhature* is a specific satisfier of the need for food and so it is a want.**

Our wants are shaped by the culture and society in which we live. Since, I am a Punjabi I wanted *Chholay Bhature* for satisfying my need for food. If I were a Rajasthani, I would have preferred *daal baati and choorma* to satisfy my hunger. Marketers create choices/options for satisfying needs and hence they create wants.

#### 3.4.3 DEMAND

We all have unlimited wants but limited resources. A want backed by the ability to pay for the product is called as demand. For example, to satisfy my need for transportation, I want a car. This car may be a simple Maruti Alto or a luxurious BMW. I want a BMW, but do not have enough money to purchase it. Hence, it remains a want and cannot convert into demand because of the lack of resources to pay. But, yes I have enough money to buy an Alto from Maruti. A want supported by a purchasing power is called demand. Thus, I may want a BMW, but I demand an Alto from Maruti, because I can pay for an Alto, but not for a BMW.

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### 3.5 DESIGNING A CUSTOMER DRIVEN MARKETING STRATEGY

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The marketing process model focuses heavily on the customer. The entire idea is to understand the customer, create value for the customer and build a strong relationship with the customer. The entire process revolves around customers. It shall not be wrong to say that marketing = customers.

Designing a customer driven marketing strategy involves seeking answers to the following three basic questions:

1. Who are our customers?
2. What do our customers 'value'?
3. How do we create 'value' for our customers?

### **3.5.1 WHO ARE OUR CUSTOMERS?**

No company can ever serve all the customers in the market. It thus has to choose only those customers that it can serve well and profitably. This involves a decision on *who* it will serve. This needs dividing the market into customer segments based on segmentation variables (you shall study later). This is called as segmentation. Once the market is dividing into segments, the company decides which segment of customers to serve. This is called as Targeting. Once the company decides its target audience, it starts working on identifying what do the customers in that segment 'value'.

For example, the toy market is segmented on the basis of age and we have toys catering to infants, toddlers, teenagers, adolescents and adults. Now, a toy marketer chooses to operate in the segment of teenagers. Thus, the teenage segment comprises its target audience. The next step now lies in understanding what do the teenagers value and delivering that value to the chosen segment of teenagers.

### **3.5.2 WHAT DO OUR CUSTOMERS 'VALUE'?**

This involves identifying the value proposition-that is, developing an understanding on what do the targeted customers value. This value proposition is a set of features and benefits that the company promises to deliver to its targeted customers. This value proposition is a clear differentiator and gives the customers a reason to buy the company's products over that of its competitors. Value proposition provides a point of difference between two brands and helps the customers buy a product that delivers the preferred value.

The example cited above clearly tells that the toy marketer targets the teenage segment to sell its toys. Now, it needs to be further understood as to what do teenagers value. Do they value creativity, adventure, fun, and learning? Having learnt this, the same can be included in product design and marketing strategies to provide value to the targeted customers. A strong value proposition helps a company get a definite edge over its competitors.

### **3.5.3 HOW DO WE CREATE VALUE FOR OUR CUSTOMERS?**

Marketing is an exchange of values between the marketer and the customer. After having understood what the target customer values, the next logical step lies in creating and delivering value to the customers. The value creation process begins right from product design and extends through the 4 Ps to the final delivery of the product to the targeted customers.

Let us learn this from the example of different soaps marketed by HUL.

- a. Lifebuoy delivers a value of 'hygiene' to the customers. This is evident from the red colored soap smelling of carbolic acid. The price, the packaging and the communication are all directed towards delivering the chosen value of hygiene.
- b. Dove claims to be not a soap but a 'moisturizer'. The same is reflected in the design of the product-milky white with an imprint of 'dove' representing softness. The other elements of the marketing mix too convey the same value.
- c. Lux is a soap for a segment of customers who value 'beauty'. The price, packaging, distribution and endorsement are all aligned to deliver the value of beauty.



### ***Check Your Progress- A***

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**Q1. You must be aware of the different types of toothpastes available in the market. Name 5 brands of toothpastes. How are they different from each other in terms of the value that they deliver to the customer?**

**NAMES OF TOOTHPASTE BRANDS**

**VALUE DELIVERED**

- 1.
- 2.
- 3.
- 4.
- 5.

**Q2. You must be aware of the different types of shampoos available in the market. Name 5 brands of shampoos. How are they different from each other in terms of the value that they deliver to the customer?**

**NAMES OF SHAMPOO BRANDS**

**VALUE DELIVERED**

- 1.
- 2.
- 3.
- 4.
- 5.

### 3.6 DESIGNING AN INTEGRATED MARKETING PROGRAM THAT DELIVERS VALUE TO CUSTOMER

The customer driven marketing strategy aimed at identifying who are the target customers (targeting) and how should a company serve them (value proposition). The next step in the process involves developing a marketing mix (4Ps of product, price, place and promotion) and integrating the same to deliver a coherent and consistent value to the customers.

The marketing mix, also called as 4 Ps, is a set of tools-Product, Price, Place and Promotion that need to be aligned to deliver customer value. Each P has an alternative C, making it amenable to be called 4 Cs of marketing.

4 Ps	4Cs
Product	Customer's solution to a problem
Price	Cost to Customer
Place	Convenience to Customer
Promotion	Communication to Customer

The four tools of the marketing mix should be aligned, integrated and synced to avoid any kind of a confusion to customer. This can be explained with the example of Nirma washing powder. The product is a poor man's detergent. An economy product for a customer. In terms of the marketing mix, Nirma can take the following positions:

1. Product-Yellow colored detergent, high in caustic soda. It offers a solution to the customer's problem of removing dirt from clothes.
2. Price-Economy/budget pricing.
3. Place-Available at local kirana/grocery stores. Strictly unavailable at high end retail stores in malls.
4. Promotion-Simple promotion with the Nirma girl saying '*sabki pasand nirma*'.
5. Packaging-A very simple polythene packing is used, which is neither very modern nor contemporary.

A careful observation reveals that all the elements of marketing mix are integrated and in line with the products value proposition, that is, economy. All the elements complement each other and strengthen the perception of the brand as being a 'budget/economy' brand. A close look at the marketing mix indicates that there is no confusion regarding the 'value' derived from the brand. This is how the marketing mix of a company helps to implement its marketing strategy.



### ***Check Your Progress- B***

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**Q1. Visit a nearby Mc Donald's outlet and observe its marketing mix and write very short note on the following:**

- 1. Product**
- 2. Price**
- 3. Place**
- 4. Promotion**
- 5. Packaging**

**Do you find any relationship between the company's marketing strategy and its marketing mix?**

**Write about it.**

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## **3.7 BUILDING CUSTOMER RELATIONSHIPS AND CREATING CUSTOMER DELIGHT**

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### **3.7.1 CUSTOMER VALUE**

The ultimate aim of marketing is to build profitable relationships with the customers by delivering better value and satisfaction than that delivered by the competitors.

Value = All the benefits derived from the product

All the costs incurred in obtaining the product

The above equation makes the following very clear:

Benefits > Costs-The product delivers 'customer value'

Benefits < Costs-The product fails to deliver 'customer value'.

### 3.7.2 CUSTOMER SATISFACTION

We all buy products with certain expectations about its performance. For example, an athlete buys a pair of running shoes from Nike with very high expectations about its performance. He wears it to a sports event and compares its performance against his expectations from the brand. The following two situations may emerge:

1. Performance < Expectations-The athlete is dissatisfied.
2. Performance = Expectations-The athlete is satisfied.
3. Performance > Expectations-The athlete is highly satisfied (delighted)

A satisfied customer has high possibility of repeat purchase, while a delighted customer has a higher possibility to buy the brand and spread a good word of mouth about the brand. This is a very advantageous position for the company, where the delighted customers share their good experiences with other prospects/customers.

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## 3.8 CAPTURING VALUE FROM CUSTOMERS TO CREATE PROFITS AND CUSTOMER LOYALTY

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Customer centric marketing strives to create win-win relations with the customers. The process begins with identifying customer needs and delivering those needs better than the competitors. Marketers thus create value for the customers and subsequently capture the value from the customers in the form of sales, profits, revenues, loyalty, repeat purchase and a good word of mouth from the customers.

Apple is an appropriate example to explain this. The users of Apple products are highly satisfied with the product. The products are well designed and extremely user friendly. The company tries to understand the customer's needs and then suggests the product to purchase. It does not push or sell the product on the customer. Rather, the product is so good that the customer pulls the product. The users of apple are die-hard fans and have the logo of apple on their heads and bodies. This shows the love for the brand and the relationship with the brand. They stand in long queues outside the stores for many days, before the launch of a new product/model. They talk about apple products on every possible platform. Don't you agree that they are unpaid salesmen of the company? Is it not the highest level of customer loyalty and relationship?

The example makes it very clear that Apple has been able to create ultimate value for its customers and in turn has captured their loyalty and ensured its profits.

**Check Your Progress- C**

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**Choose the correct alternative**

**1. Which of the following is not an element of the Marketing Mix?**

- a. Product
- b. Price
- c. Pleasure
- d. Place
- e. Promotion

**2. The following equation represents a state of customer delight:**

- a.  $\text{Performance} < \text{Expectations}$
- b.  $\text{Performance} = \text{Expectations}$
- c.  $\text{Performance} > \text{Expectations}$
- d. There exists no such relationship

**3. Differentiate between need, want and demand with the help of an example.**

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**4. What do you understand by integrated marketing program?**

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**5. Name the elements of the Marketing Mix**

- 1.
- 2.
- 3.
- 4.



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### 3.9 SUMMARY

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The unit discusses the marketing process, which is made up of five steps. Each step has the customer as the central point and leads to building profitable relations with the customer by providing value and satisfaction. The concept of value has been discussed with various examples. Successful marketing requires an exchange of value between the marketers and the customers. Value created for the customer is finally captured by the marketer as profits, sales, loyalty and a good word of mouth.




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### 3.10 GLOSSARY

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**Marketing Mix-** The combination of marketing inputs that affect customer motivation and behaviour. These inputs traditionally encompass four controllable variables 'the 4Ps': product, price, promotion and place.

**Target Audience-** A target audience is the demographic of people most likely to be interested in your product or service.

**Customer Loyalty-** Feelings or attitudes that incline a customer either to return to a company, shop or outlet to purchase there again, or else to re-purchase a particular product, service or brand.

**Value Proposition-** The set of qualities of a good or service that allows it to fulfil the customer's needs and desires, as opposed to simply benefiting the seller.




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### 3.11 ANSWERS TO CHECK YOUR PROGRESS

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#### Check Your Progress A

Q1.

NAMES OF TOOTPASTE BRANDS	VALUE DELIVERED
---------------------------	-----------------

- |              |                       |
|--------------|-----------------------|
| 1. Closeup   | Cosmetic/social value |
| 2. Pepsodent | 24X7 protection       |

- |              |                       |
|--------------|-----------------------|
| 3. Sensodyne | Sensitivity treatment |
| 4. Colgate   | Protection            |
| 5. Dantkanti | Ayurvedic/Herbal      |

Q2.

NAMES OF SHAMPOO BRANDS	VALUE DELIVERED
1. Clinic Plus	Family Shampoo
2. Tresseemme	Saloon shampoo
3. Head and Shoulder	Dandruff Protection
4. Sunsilk	Silky Hair
5. Dove	Moisturizing/Repair shampoo

#### Check Your Progress B

The company's marketing strategy is very closely linked with its marketing mix. In fact, the marketing mix design is based on the marketing strategy that the company has decided.

#### Check Your Progress C

Ans

1.c

2. c

3. Thirst-Need

Bisleri-Want

Having money to buy Bisleri-Demand

4. Integrated marketing program means that the marketing mix used by the company should be in line with the marketing strategy adopted by the company and also the marketing mix elements (4Ps of product, price, place and promotion) should be closely integrated with each other.

5.

1. Product

2. Price

3. Place

4. Promotion



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### 3.12 REFERENCES

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### 3.13 SUGGESTED READINGS

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2. Mc Darel, Lamb & Hair, Introduction to Marketing, Thomson (8th edition), Stanton, Fundamentals of Marketing, TMH.
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4. G.Armstrong and P. Kotler, Marketing: An Introduction, Pearson Education.



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## 3.14 TERMINAL QUESTIONS

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- Q1. Discuss the 5 stage process of marketing. Explain with the help of an example.
- Q2. Marketers do not create needs. They create wants. Discuss the above statement with the help of examples.
- Q3. Discuss the concept of customer delight. Suggest ways by which a restaurant can create delight for its customers.



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## 3.15 CASELETS/CASES

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### Marketing means Understanding the Ropes

Prakash Mehra is a long – time manufacturer of children toys. During a recent meeting of marketing executives at the company, he decided to appoint a committee to examine the firm's products and identify those that were not selling and should be dropped. The committee reported back to the executives and identified five products that were candidates for deletion. The report noted that company sales people could not convince enough retailers to stock these products.

One product manager heatedly opposed the committee on one point. Its recommendation to drop the firm's line of jumping ropes. When asked to put writing in his views, he submitted the following,

*To: The Members of Marketing Committee*

*The decision to delete the jump ropes from our product line, in my opinion is premature. Admittedly our jump rope sales have declined by 48% in the past three years. The decrease according to the committee was traceable primarily to the declining school population.*

*In my view, the decline of our jump rope business was due to our own failure to fully understand the customer needs as well as to look at the market for jump ropes creatively. If we have done this we would have identified several potential markets, namely, the market for people who want to stay trim and just use the rope for exercise, those who want to develop*

*their muscles and need a weighted rope, and market for people who have neither the time nor the facilities for jogging and prefer an indoor exercise that will increase their lung capacity.*

*Very Truly Yours*

*Satish Kaul*

1. What does Satish mean in this situation by Customer Needs? Explain in detail.
2. What would have you done if you were Satish?

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## UNIT4 MARKETING MIX AND MARKETING ORGANIZATION

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**Introduction**

**Objectives**

**4.3. Meaning of Marketing Mix**

**4.4 Components of the Marketing Mix-Product and Price**

**4.5 Components of the Marketing Mix-Place and Promotion**

**4.6 Integrated Marketing**

**4.7 Factors Affecting Marketing Mix**

**4.8 From 4Ps to 4 Cs**

**4.9 Summary**

**4.10 Glossary**

**4.11 Answer to Check Your Progress**

**4.12 Reference/ Bibliography**

**4.13 Suggested Readings**

**4.14 Terminal & Model Questions**

**4.15 Caselets/cases**

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### 4.1 INTRODUCTION

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In the previous unit you learnt about the elements of the marketing process and the five step model of the marketing process.

In this unit, you will study about Marketing Mix and Marketing Organization.

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### 4.2 OBJECTIVES

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After reading this unit you will be able to:

- Understand the meaning of marketing mix;
- Learn about the four elements of the marketing mix;
- Understand the sub-elements of each element of the marketing mix;

- Understand how the marketing mix elements need to be integrated to design an effective marketing strategy;
- Understand the meaning of marketing organization;
- Understand the different kinds of marketing organizations; and
- Appreciate the advantages and disadvantages of different kinds of marketing organizations.

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### 4.3 MEANING OF MARKETING MIX

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Customer is the cornerstone of all marketing activities. Marketing begins with the customer. In fact, marketing means adding more value to the customer than the competitor possibly can. The previous unit thus discussed the marketing process that began with understanding the customer's needs and designing a customer driven marketing strategy that delivers value to the customer. Designing a customer driven marketing strategy requires a mix of marketing variables called Product, Price, Place and Promotion. These variables have P as the starting alphabet and they are four in number-so they are also called as the 4Ps of marketing. Please note that Marketing Mix and 4Ps mean the same and can thus be used interchangeably. They are called a 'mix' because these can be used in different combinations to create value for the target market. Let us take an example of a cake. There are ingredients that are common to every cake mix-egg, flour, butter, sugar, milk. However, the final cake can be different depending upon the amount of the mix elements added to it. One can have a less creamy and less sweet cake if one uses less butter and less sugar to the cake mix. Similarly, used in different combinations the different elements of the marketing mix generate different responses with the target audience. A marketing mix should ideally differentiate a company's products from those of the competition. A marketing plan is made up by the blending of various elements of the marketing mix. Thus, we can say that marketing mix is the operational part of a marketing plan.

E. Jerome McCarthy in 1960 coined the term Marketing Mix to suggest the four P's of marketing – price, promotion, product and place. It is in fact the most popular term in marketing management. Kotler and Armstrong (2010) define marketing mix as 'The set of controllable tactical marketing tools – product, price, place, and promotion – that the firm blends to produce the response it wants in the target market'. Jerome McCarthy viewed the marketing manager as a 'mixer' of ingredients, who mixes the different ingredients/elements of the marketing mix to make a market offer to the customers. Each firm strives to create an ideal combination of the marketing mix elements that adds value to the customer and at the same time enhances the company's profitability.



**Fig 4.1 The Marketing Mix**

#### **Marketing Mix Elements/4Ps**

Marketing of Services is a bigger challenge when compared with the marketing of goods. It is primarily because of the fact that services are intangible and thus difficult to evaluate for a customer. Thus, the 4Ps are not enough to handle the complexity of services and we need three more additional Ps to market services. These additional 3 Ps are-Process, People and Physical Evidence. Services marketing thus has 7Ps, with three additional Ps and the services marketing mix is so called as Extended Marketing Mix.



**Fig 4.2 Extended Marketing Mix**



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## 4.4 COMPONENTS OF THE MARKETING MIX-PRODUCT AND PRICE

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As discussed the marketing mix for goods has 4 components (4Ps)

- Product
- Price
- Place
- Promotion

In this section we shall now discuss each component in detail.

### Product

Kotler and Armstrong (2010) define product as the goods-and-services combination the company offers to the target market. This can be better understood by an everyday example.

*Sohan is doing a job away from his family. He has to report to office at 9 am and gets back home at 9 pm after having dinner at a nearby restaurant. Suddenly, he realized that he has a heap of unwashed clothes and he does not really have time to wash them. This is thus a problem that Sohan is facing. He has to seek a solution to this problem. He has a number of options in his mind:*

*A. Buying a washing machine (Good)*

*B. Hiring a washer man (Service)*

*C. Giving clothes to a nearby laundry (Service)*

A is a Good and B and C are Services, but all A B and C are products that can solve Sohan's problem. Thus, the above definition given by Kotler and Armstrong appears logical.

Sohan finally decides to buy a washing machine to solve his problem and is finally happy with the solution sought.

Referring to the above example we can define a product as a 'solution to a customer's problem'. Also a product could be a 'bundle of benefits/utilities' that a marketer offers to the consumer for a price. By buying a washing machine, Sohan was actually buying the benefit of washing clothes. Every product that a customer buys should have the ability to solve the customer's problem by providing benefit/utility to the customer.

Thus, a product refers to the goods and services that a company offers or sale and that has the effect of solving a customer's problem.

### Scope of the term 'product'

A few decades ago, the products were very limited in their scope. A tangible product was called as Good and an intangible product was called as a Service. Based on tangibility/intangibility there were just two kinds of products. With changing times, today almost everything is marketable viz. people, places, ideas events, corporates, social messages, property, organizations and the list can still be more extensive. Hence, a better term in place of product could be 'offering'. Hence, some marketers prefer to use the term 'offerings' in place of product. However, product still remains a more popular term to denote what a company offers for sale.

### Price

Solomon et al (2009) define price as the amount the consumer must exchange to receive the offering.

Price is different from the other elements of the marketing mix as the other elements are cost elements and price is the only revenue element of the marketing mix. To explain further, it costs to produce a product, promote a product and finding a placement for it in the market. But, a company realizes revenue when a product is sold at a given price.

Pricing decision is a very difficult decision because the prices should be profitable and justifiable too at the same time. It is something which the customer is most judgmental about, wants to compare and review from various online platforms available now and then decide to pay or not to pay depending upon whether s/he derives value from that product at that price or not.

Price is an element which cannot be easily copied by a competitor whereas the other elements can be easily copied by the competitors. For example, Dominos cannot copy Pizza Hut's pricing as both the organizations differ in the value that they provide to their customers. Thus, any discussion on price is irrelevant without a consideration of the value the customer derives from the product at that price.

Pricing plays a very important psychological role in creating a perception for the products/services. It's not just a figure, but much more than that. *For example, the pricing for Nike suggests that it is a premium product while the pricing for Bata suggests that it is a popular product. Pricing decisions play an important role in creating perceptions about a product.*

### Basis and Objectives of Pricing

Following three factors also termed as 3 Cs are used to decide the pricing:

1. Cost-Acts as the floor. No company can afford to set a price which is less than the cost of production, for there shall be a loss at that price.

2. Customer Value-Acts as the ceiling. No company can afford to set a price which is more than the customer's perception of the value of the product, for there shall be no demand at that price.

3. Competition-In between the two factors mentioned above, lies the competition/ market and the price has to be in consideration with what the competitors are charging for a similar offering. A company X can't generally charge a higher price than a company Y for a product which is the similar in terms of functions, features and benefits. Yet, it's possible if the company X is able to build up and create around itself a perception of quality and of being premium provider.

Ceiling Price decided by Customer's Perception of Value (No possible demand at a price higher than this)
Competitor's Price and Value Proposition
Floor Price decided by Costs (Loss at a price lower than this)

### **The 3 Cs Model of Price Setting**

We discussed above the factors affecting price setting. Besides this, different companies have different objectives for price setting.

1. Market Penetration-Maximizing market share
2. Market Skimming-Maximizing current profits

**Check Your Progress-A**

---

**Q1. For the given products, state what problem of the customer does the product solve?**

- a. Washing Machine
- b. Pen
- c. Greeting Card
- d. Petrol
- e. Phone
- f. Car
- g. Camera
- h. Calculator
- i. Cosmetics
- j. Television

**Q2. Mention the three important considerations in price setting?**

- 1.
- 2.
- 3.

**Q3. Choose the correct alternative.**

(i) The term marketing mix was given by:

- a. Jerome Mc Carthy
- b. Philip Kotler
- c. Peter Drucker
- d. Neil Borden

(ii) In the factory, we make drill; in the store, we sell\_\_\_\_\_.

- a. device
- b. holes
- c. hope
- d. confidence
- e. energy

(iii) Which of the following is not included in 4Ps:

- a. Product
- b. Price
- c. Packaging
- d. Place
- e. Promotion

**Q4. Fill in the Blanks with appropriate word or words.**

- i. The term marketing mix and \_\_\_\_\_ can be used interchangeably.
- ii. Pricing is the only \_\_\_\_\_ element of the marketing mix, rest are all cost elements.
- iii. 3. Maximizing market share is also called as \_\_\_\_\_.
- iv. The additional 3 Ps of service marketing are called as \_\_\_\_\_.

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## **4.5 COMPONENTS OF THE MARKETING MIX-PLACE AND PROMOTION**

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### **Place**

According to Kotler and Armstrong (2010) place includes company activities that make the product available to target consumers, in the right quantities at the right place and at the right time. Place is alternatively known as Channel, Distribution or Intermediary. It is the movement of product from provider to the consumer. Goods have to be made available to the customers at convenient locations and the distribution function ensures this.

Let's understand this by a simple example that Banaras is known for Banarasi sarees, but Banarasi Sarees are available across the country. This means that they are distributed across the country. Now how is this possible? This actually involves a chain of individuals and institutions like distributors, wholesalers and retailers who constitute firm's distribution network. This chain is also called as a channel of distribution. Another mode of distribution could be selling directly to customers as Eureka Forbes and Dell. It's a company's decision to decide on the length of the distribution channel. Remember the longer the channel, the more costly the product to the customer because each channel partner is an expense to the company. Thus, companies are in a constant search for more innovative, cheaper and effective distribution channels-online and direct marketing is a recent advancement in the

distribution function. The choice depends upon a number of factors-type of product, the stage of PLC that the product lies in, the competition and the market, existing products of the company to name a few.

### Promotion

Promotion is a function of communication. Solomon et al (2009) propose that promotion includes all of the activities marketers undertake to inform consumers about their products and to encourage potential customers to buy these products.

Promotion is a massive activity and it has become a challenging task with the emergence of digital media. A marketer is always on the lookout for promotional tools that give the bang for the buck-effective as well as economic without compromising on the reach and frequency.

### Objectives of Promotion

- Creating product awareness, especially in the case of a new product;

*(Example: Unpolished dal is relatively a new concept in India and thus the communication of Tata iShakti was informative in nature and had the objective of creating awareness about the brand and educating the market on the use of unpolished pulses.)*

- Communicating the benefits and features of the products;

*(Example: The Tata iShakti unpolished pulses communication talked about the dal as not being processed with water, oil and marble powder and thus it did not have the luster and shine. Thus, it is better for health. Secondly, it cooked faster and thus gave the consumer the benefit of saving fuel)*

- Proposing usage occasions-when and how to use the product;

*(Example: Refer to the communication of Marie biscuits-it promotes itself as a tea time biscuit thus educating the customer on when and how to use the product)*

- Differentiating the product from the competition and thus giving the reason to buy the product;

*(Maruti, for years in its communication has been differentiating the brand on 'economy, mileage and serviceability' and giving its customers a reason to buy the brand)*

- Helping a company survive and evolve from a crisis situation.

*(Example: Maggi as a brand suffered a serious crisis a few years back on a more than acceptable percentage of salt and MSG. Thanks to the communication, Maggi could emerge from the crisis and re-established itself as a profitable brand)*

### Promotion Mix

A marketer uses a number of promotional tools can use them in different combinations. The fact that they can be used in different combinations, marketers use the term 'Promotion Mix'

to indicate the different tools for promotion. The various tools available with the marketer (Promotion Mix) include the following:

1. Advertising
2. Sales Promotion
3. Personal Selling
4. Public Relations
5. Direct Marketing

### **Advertising**

It can be defined as a paid form of, non-personal presentation and promotion of ideas, goods and services by an identified sponsor. It is in fact the most popular tool of communication. We are bombarded with advertisements on multiple media like television, internet, radio, print media, mobile, social media and out-of home etc.

#### **Characteristics of Advertising:**

- It is a paid form of non-personal communication.
- It is mass communication and thus per unit cost of reaching the target audience is lowest, but it is mass in its appeal and thus loses its effectiveness for niche products that are to be used by a niche audience.
- It is a monologue- one-way communication. The sponsor can pass its information but cannot receive a feedback. Digital media has been able to overcome this challenge to a certain extent
- The sponsor is identifiable
- Various dramatic and theatrical effects can be added in audio-visual media, print and outdoor media. The message thus gets amplified.
- It can be reproduced frequently as per need.

#### **Sales Promotion:**

Sales promotion is a pull marketing technique. It involves giving a short term and non-routine incentives to customers and also channel partners to induce trial and increase sales. The idea is to gain the attention of the consumer and improve channel member effectiveness. The popular sales promotion tools are discounts, gift cards, coupons, financing, bundling, refunds and rebates, continuity programs, quantity discounts, contests, buy one get one free, free samples, demonstration, trade show, exhibition, exchange offer, seasonal discount, free service, gifts etc.

#### **Types of Sales Promotion:**

- a. Consumer Promotion-Short term incentives directed towards the customers are known as consumer promotion. The idea is to educate the customer and induce trial.

*Examples:*

- 1. Great Big Bazaar Sale known as Big Bazaar Mahabachat organized every year around Independence Day*
- 2. The Great Amazon Summer Sale (May, 2018) and Diwali Great Indian Festival Sale organized by Amazon*

b. Trade Promotion: Short term incentives directed towards the dealers, distributors and agents are known as trade promotion. The idea is to motivate the channel partners to stock, display, persuade and sell the products to the consumers.

*Example: You are a dealer for Philips TV. Philips proposes that you shall be given 5% discount if you cross a sale of 150 TVs. Obviously, you shall feel motivated because 5% of 150 TV sales is a substantial amount and selling Philips TV is not a difficult job as it is already an established brand. You shall now stock, display, motivate and persuade your customers to buy Philips TV. This 5% discount on sales of 150 TVs given by Philips is an example of Trade Promotion.*

*Dealers' visit to Bangkok, World Cup Tickets are common examples of trade promotion.*

#### **Characteristics of Sales Promotion:**

- Consumer promotion is meant to induce customers for immediate buying and dealer promotion is meant to motivate the dealers. Both the types of promotions are short term and non-routine incentives.
- Sales promotion should be used occasionally. Excessive use of sale promotion may affect the company's image and reputation negatively. Being sure of a sale being organized, the customers may postpone their purchase and wait for only sales to buy the product.

#### **Personal Selling:**

Personal selling includes face-to-face personal communication and presentation with prospects (potential and actual customers) for the purpose of selling the products. It involves personal conversation and presentation of products with customers. It is considered as a highly effective but costly tool promotion.

#### **Characteristics of Personal Selling:**

- Personal selling is a personal presentation and face-to-face interaction with the customers/prospects.
- It is a dialogue between the salesman and the prospect/customers.
- It is advantageous as it gives an instant feedback and an opportunity to resolve the objections/queries raised by the customer/prospect.



- A salesman not only influences the customer to buy but also cultivates a relationship with the customer. For the customer, the salesman represents the company and the customer chooses to interact with the salesman for any further problems with the purchased product.
- It is a very flexible method of promotion as the salesman can exercise a lot of flexibility and modify his selling pitch according to the prospect's/customer's needs and requirements.
- It is costlier than advertising in terms of the per customer contact cost.
- The salesman should have very exact and precise knowledge about the product because his job lies in teaching, educating, and assisting people to buy.

#### **4. Public Relations**

According to William J. Stanton Public relations includes activities that are designed to build a favorable image and favorable relationship with the organization's various publics. These publics include customers, stockholders, employees, unions, environmentalists, the government, and people in local community, or some other groups in society. It also involves handling unfavorable rumors, events and stories that evolve in relation to the organization. Thus, public relations include organization's overall communication efforts intended to influence various stakeholders' attitudes toward the organization. Most good corporates have a dedicated PR department to create the right kind of organizational image. Please note that publicity is a sub-set of public relations-public relations includes publicity.

#### **Characteristics of Public Relations**

- Public relations is a paid form of promotion. It comes at a cost to the company.
- The objective is to build favorable relations with the stakeholders and publics that organization interacts with.
- PR is an ongoing activity and not a one-time affair.
- Major PR tools are as follows:
  - ✓ News-Creating favorable news about the company/products/services.
  - ✓ Special Events-Organizing conferences, press tours, hot balloon releases, candle march, multimedia presentations.
  - ✓ Written Materials-Brochures, annual reports, articles, company newsletters and magazines.
  - ✓ Audio Visual Materials-online videos, corporate films etc.
  - ✓ Corporate Identity Materials-Logos, stationery, business cards, company cars and trucks (like Fed ex) etc.

- ✓ Public Service Activities-Donations and charity, free health checkup, blood donation camp etc.

### **Direct Marketing**

Direct Marketing involves building direct customer relationships. It implies connecting directly with the carefully pre-selected and pre-targeted individuals (from a database) in order to elicit an instant and immediate response and cultivating long term relationships with the pre-selected audience. The communications generally is one-to-one and interactive in nature. The offering and communication is very much customized to meet the needs of the customers in the database.

Direct marketing today is not only a promotional tool, rather it is a new business model and the fastest growing form of marketing. Amazon, eBay and many ecommerce companies have organized the entire marketing around Direct Marketing.

### **Characteristics of Direct Marketing:**

- Using database marketing the buyers can understand the needs of the individual customers better, interact with them over telephone, company websites and direct mail and have personalized products and communications for the customers.
- Convenient and private for buyers.
- Unlimited assortment and choice to customers, spelled out in detailed catalogs and websites.
- It is a low cost and effective marketing and the cost benefits are translated into huge discounts available to customers.
- Enormous comparative information about companies, product and competition is available.
- It has huge flexibility as it allows the marketer to modify the product, price, communication in response to the competition.
- Interactive and immediate because buyers can contact the sellers, interact with them, get their queries resolved and place the order from the comfort of their homes.
- Major forms of Direct Marketing:
  - ✓ Direct-Mail Marketing
  - ✓ Catalog Marketing
  - ✓ Telephone Marketing
  - ✓ Direct Response Television Marketing
  - ✓ Kiosk Marketing
  - ✓ Podcasts
  - ✓ Mobile Marketing

## 4.6 INTEGRATED MARKETING

After having discussed the elements of Marketing Mix in detail, the following table can be better understood.

The Marketing Mix			
Product	Price	Place	Promotion
<ul style="list-style-type: none"> <li>• Quality</li> <li>• Design</li> <li>• Brand Name</li> <li>• Features</li> <li>• Packaging</li> <li>• Services</li> </ul>	<ul style="list-style-type: none"> <li>• List Price</li> <li>• Discounts</li> <li>• Credit Terms</li> <li>• Entrance into the market</li> </ul>	<ul style="list-style-type: none"> <li>• Channels</li> <li>• Coverage</li> <li>• Transportation</li> <li>• Location</li> <li>• Logistics</li> </ul>	<ul style="list-style-type: none"> <li>• Advertising</li> <li>• Personal Selling</li> <li>• Direct Marketing</li> <li>• Sales Promotion</li> <li>• Public Relations</li> </ul>

**Fig 4.3 The Marketing Mix Defined**

*Pls note: Marketing mix has 4 elements. Each element in turn has its own mix- Product Mix, Price Mix, Promotion Mix and Place Mix. For example, Advertising, Personal Selling, Sales Promotion, PR and Direct Marketing are the sub-elements of promotion and form the promotion mix. Similarly, the sub elements of product, price and place form the product mix, price mix and place mix respectively.*

Integrated Marketing is an approach that intends to integrate all marketing efforts so that the customers receive one single, consistent and coherent image of the brand/organization. The idea is to create an integrated, unified and seamless brand experience for consumers in every interaction that they have with the brand.

There are two levels at which this integration is needed:

1. The 4 Ps –product, price, place and promotion need to be integrated.

*For example-Let's discuss the 4Ps for Nirma.*

*Product-A low end detergent powder, rich in caustic soda, strong, harsh on the hands. It's not a premium product at all. We can say it's a budget, economy and popular product.*

*Price-Low per unit.*

*Place-Low end Kirana/grocery stores.*

*Promotion-Low and inexpensive.*

*Packaging-Simple, cheap and not very sophisticated and expensive.*

Looking at the above, we can see that the 4Ps are in sync. All the 4Ps are integrated to deliver a consistent image of a low end and popular detergents. It is not priced high

and is not sold at premium departmental stores. It's not a very attractive and expensive package. The entire marketing effort is highly integrated.

2. The promotion mix/communication mix needs to be integrated.

This means that the platforms for communication today are too many, too diverse and too fragmented. Communication can happen over TV, radio, Magazine, Newspapers, Mobile, email, out-of-home, multiplexes, websites, internet, ATMs, Kiosks and the list is exhaustive. This communication overload cannot be left on its own as it shall create customer confusion and chaos. It has to be integrated to communicate a consistent and coherent image of the brand and organization.

The idea of integration is comparable to an orchestra which as a large number of instruments, but the music emerging out of it is seamless and single. The sound of every individual instrument is not identifiable.

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## 4.7 FACTORS AFFECTING MARKETING MIX

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Marketing Mix is an important decision because it is an expression of the marketing plan. It depends on a number of factors, a few important ones are listed below:

1. Product Novelty-Is the product a breakthrough product which is new to the world or a modification and improvement of an existing product.
2. Type of product-Is the product an FMCG/Consumer Durable? Type of product determines the combination of marketing mix elements.
3. Stage of the Product in the PLC. Each stage of PLC has a typical combination of Marketing Mix elements. Hence, the stage in which the product lies shall determine the marketing mix decision.
4. Type of Market-B2B or B2C has an effect on the marketing mix used.
5. Product Complexity-Complex products need personal selling and demonstration as an important element in the marketing mix.

Other factors on which the marketing mix depends are as follows:

6. Pricing Objective
7. Communication Objective
8. Distribution Objective
9. Customer Characteristics
10. Company's Budget and Resources

**Check Your Progress- B**

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**Q1. List and explain the elements of communication/promotion mix.**

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**Q2. Distinguish between sales promotion and promotion?**

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**Q3. Apple has launched a small and light weight laptop. Suggest what marketing mix that the company should use for it.**

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**Q4. Chhota Bheem is to be launched in America. What promotion mix should the company use to promote Chhota Bheem in America?**

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**Q5. Consider the example of middle class teenagers as the target market for blue jeans. In what places besides department stores could the product be sold? What other promotion could be used?**

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## 4.8 FROM 4PS TO 4CS

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The marketing mix, also called as 4 Ps, is a set of tools-Product, Price, Place and Promotion that need to be aligned to deliver customer value. Each P has an alternative C, making it amenable to be called 4 Cs of marketing.

4 Ps

4Cs

Product

Customer's solution to a problem

Price

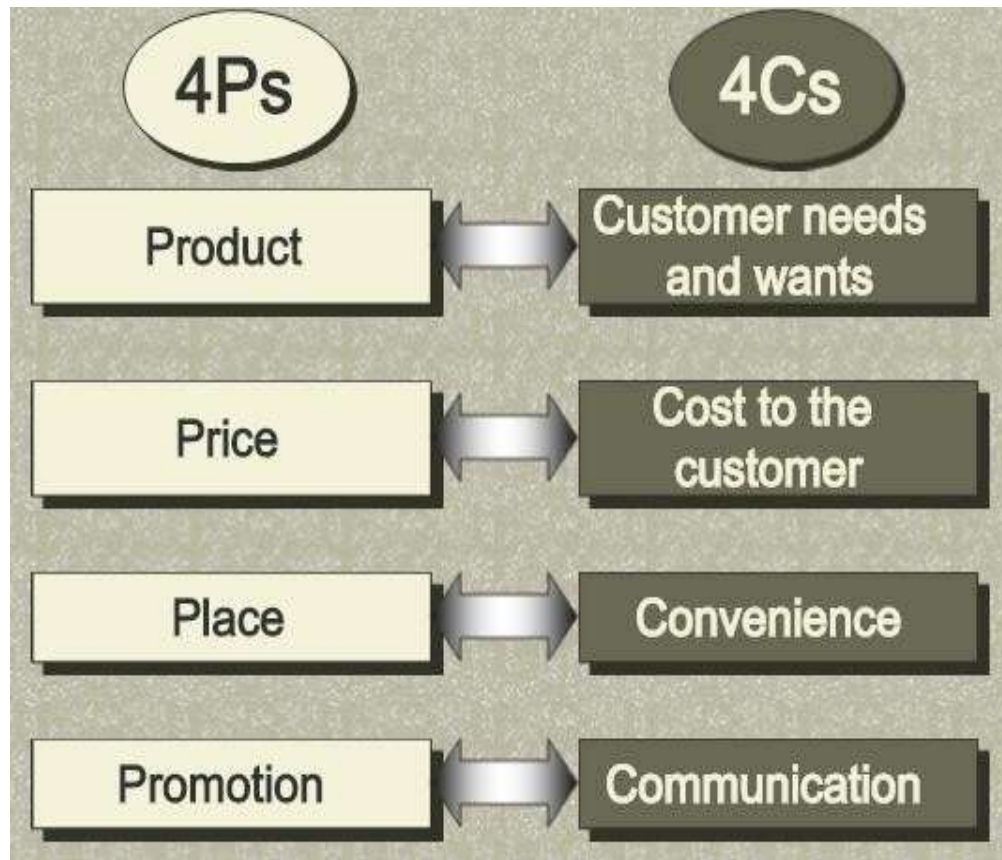
Cost to Customer

Place

Convenience to Customer

Promotion

Communication to Customer



**Fig 4.4 The Marketing Mix: 4Ps and 4Cs**

The above 4Cs framework was suggested by Neil Borden. Every P has a corresponding C and the term beginning with 'C' is more customer centric than the term beginning with P. Terms on the left appear to be more commercial and organization centric while terms on the right appear to be more customer centric and thus Neil Borden initiated this shift from 4 Ps to 4 Cs.

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## 4.9 SUMMARY

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The unit discusses the concept of marketing mix. The elements of marketing mix/4 Ps have been explained in detail. Each mix has its own set of mix or sub-elements which have also been explained. The concept of integrated marketing emphasizes the need for coordinating and synchronizing the different elements of the marketing mix to present a consistent image of the brand/organization to its customers.



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## 4.10 GLOSSARY

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**Product** – Anything that can be offered to a market for attention, acquisition, use or consumption that might satisfy a want or need. It includes physical objects, services, persons, places, organizations and ideas.

**Potential market** – The set of consumers who profess some level of interest in a particular product or service.

**Marketing mix** – blending the four elements of marketing decision making – product, price, distribution and promotion – to satisfy chosen consumer segments.

**Product strategy** – element of marketing decision making involved in developing the right good or service for the firm's customers, including package design, branding, trademarks, warranties, product life cycles and new product development.

**Product life cycle** – The four basic stages through which a successful product progresses – introduction, growth, maturity and decline..

**Pricing strategy** – Element of marketing decision making dealing with methods of setting profitable and justifiable prices.



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## 4.11 ANSWERS TO CHECK YOUR PROGRESS

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### Check Your Progress –A

Q1. For the given products, state what problem of the customer does the product solve?

- a. Washing Machine-Washing Dirty Clothes
- b. Pen-Communication
- c. Greeting Card-Sending Wishes
- d. Petrol-Energy
- e. Phone-Communication
- f. Car-Transportation
- g. Camera-Capturing Moments
- h. Calculator-Computing
- i. Cosmetics-Confidence



j. Television-Entertainment

Q2. Mention the three important considerations in price setting?

1. Cost
2. Competition
3. Customer

Q3. MCQs

- (i) a
- (ii) b
- (iii) c

Q4. Fill in the Blanks with appropriate word or words.

1. The term marketing mix and 4Ps can be used interchangeably.
2. Pricing is the only revenue element of the marketing mix, rest are all cost elements.
3. Maximizing market share is also called as market penetration.
4. The additional 3 Ps of service marketing are called Extended Marketing Mix.

### **Check Your Progress –B**

**Q3. Apple has launched a small and light weight laptop. Suggest what marketing mix that the company should use for it.**

Apple is a premium brand known for technology, design and sophistication. The marketing mix should be designed keeping in mind the above points. A suggestive mix could be as follows:

1. Product-High end, sleek design, latest features.
2. Price-Skimming Pricing.
3. Place-High end stores and dedicated apple stores (Imagine Stores).
4. Promotion-Elite business magazines, business channels, lifestyle channels and the like.

**Q 4. Chhota Bheem is to be launched in America. What promotion mix should the company use to promote Chhota Bheem in America?**

Refer to the values of Chhota Bheem, that is, what kind of a brand it is. It's a kids' brand known for values, moral stories of the super hero Chhota Bheem. Thus, the 4Ps should be such that they attract the kid audience.



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## 4.12 REFERENCES

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## 4.13 SUGGESTED READINGS

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2. Mc Dariel, Lamb & Hair, Introduction to Marketing, Thomson (8th edition), Stanton, Fundamentals of Marketing, TMH.
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4. G.Armstrong and P. Kotler, Marketing: An Introduction, Pearson Education.



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## 4.14 TERMINAL QUESTIONS

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1. Why are customers at the center of the marketing mix?

2. 'Direct Marketing is not only a promotional tool, but is an emerging business model'. Discuss with examples.
3. How can an auto manufacturing company use PR to create a positive image amongst its stakeholders and publics? Discuss.



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## 4.15 CASE LETS/CASES

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A traditional family drinks firm has been developing slowly and built up a strong reputation, but control has now passed to the next generation and they want to look at possible expansion for the firm. The new marketing director made the following statement:

*'We have a strong family image and our products are trusted, but we are considering changing our production strategy. We have normally just produced the flavouring and let others bottle it and take the risks of selling to the public. After considerable market research we have decided to launch our own brand of soft drinks. Initially, these will be: a cola flavour, lemonade and ginger beer. If these are successful then others are planned.'*

1. Explain the marketing importance of 'a strong family image'.
2. Discuss potential changes in the marketing mix that this new strategy will involve and comment on their significance.

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## UNIT 5 MARKETNG ENVIRONMENT

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### 5.1 Introduction

### 5.2 Objectives

### 5.3. Marketing Environment and its Components

### 5.4 Demographic and Economic Environment

### 5.5 Socio Cultural and Technological Environment

### 5.6 Politico-Legal and Natural Environment

### 5.7 Responding to changes in the environment

### 5.8 Summary

### 5.9 Glossary

### 5.10 Answer to Check Your Progress

### 5.11 Reference/ Bibliography

### 5.12 Suggested Readings

### 5.13 Terminal & Model Questions

### 5.14 Caselets/ cases

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## 5.1 INTRODUCTION

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In the previous unit you learnt about the marketing mix (4Ps) and its elements.

In this unit, you will study about marketing environment, its components and how does marketing environment affect marketing decision making.

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## 5.2 OBJECTIVES

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After reading this unit you will be able to:

- Understand the meaning of marketing environment;
- Understand the components of environment of a company-Microenvironment and Macro environment;
- Understand the different environment types facing a company-Demographic, economic, natural, technological, political, legal and cultural;

- Appreciate how changes in the above mentioned environment types affect the company's marketing strategies and
- Discuss the companies' response to the changes in the marketing environment.

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### 5.3 MARKETING ENVIRONMENT AND ITS COMPONENTS

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All organizations have an environment in which they operate. No business organization can exist in vacuum or in isolation from its environment. An organization needs to be aware of the environment in it exists and operates. The environment affects the marketing strategies and decision making and any change in the environment further forces the organization to change its strategies. Thus, it's very important for all firms to identify, analyze and monitor their proximate environment in order to respond to the environmental changes and create effective marketing strategies.

Philip Kotler defines marketing environment as follows:

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

#### Components of Marketing Environment

1. Internal Environment-The internal environment is very specific to a company and includes owners, employees, company policies, machines, raw materials etc. A company's various departments and policies are a part of the internal environment too. The internal environment can largely be controlled by the company and when the external environment changes the internal environment changes in response.

2. External Environment-The external environment lies external to the organization. It is that part of the environment which is largely uncontrollable by the organization. The organization cannot control the external environment, it can only respond to the changes in the external environment. External environment can be divided into parts:

- a. Microenvironment
- b. Macro environment

**Figure 5.1-A Firm's Environment****Figure 5.2-A Cross Section of a Firm's Environment**

a. Microenvironment- It is also known as the operational environment /task environment as it has a direct effect on the working of a company. It is specific to the organization but external in its existence. It consists of factors that are directly related to business. Its components are:

i. Suppliers-the suppliers are entities providing raw materials, components and other such resources to the organization. They are an important part of the microenvironment. This can be understood with the help of an example-*Suppose a supplier of denim fabric refuses to provide supplies to a manufacturer of jeans. The manufacturing of jeans shall stop and this shall have a serious negative effect on marketing. After negotiation with the supplier, the supplier agrees to continue the supplies but at a higher cost. An increase in the cost demanded by the supplier shall affect the cost of production and hence a higher price for the customer. This is an example of how a change in the microenvironment can affect the marketing mix (Price in this case).*

ii. Market Intermediaries-These are channel partners who help to make the product available to the final buyer. These include agents, dealers, distributors, wholesalers, service agencies, physical distribution firms, financial intermediaries etc. A good relation with the intermediaries ensures the availability of the product to the end users. *For example-The product can never be made available to the customers if the dealers and distributors refuse to stock the product.*

iii. Competitors-The main objective of customer centric marketing is to deliver more value to the customer than the competitor. It is here that an understanding of the competitive environment becomes very important. A marketer cannot produce, price, promote and distribute its product in vacuum-without a consideration and comparison with what the competitors are doing.

iv. Customers-These are the most important stakeholders in a company's microenvironment. The entire value delivery system is designed and geared to deliver value to the customers. A marketer should understand what the customer wants with the help of serious market research and deliver more value to its customers than what its competitors can

v. Public-A public is any group which is interested in the organization's ability to meet its objectives. There could be following types of publics in relation with an organization:

- a. Financial publics
- b. Media publics
- c. Government publics
- d. Citizen action publics
- e. Local publics
- f. General public

g. Internal publics



**Fig 5.3A firm's microenvironment**

b. Macro environment-The macro or the broad environment includes larger societal forces which affect society as a whole and in turn have a bearing on marketing decisions. Macro environments made up of seven components:

- Demographic
- Economic
- Social-cultural
- Technological
- Ecological
- Politico-legal

These components are also called as DE STEP model of macro environment.





**Fig 5.4 The Six factors of Macroeconomic Environment-DESTEP Model**

Each of these factors shall be discussed in detail in the following section.

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## 5.4 DEMOGRAPHIC AND ECONOMIC ENVIRONMENT

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The following section shall discuss the demographic and economic environment. We shall first discuss the meaning and the discussion shall be followed by examples of each component of the external environment.

### Demographic Environment

- **Demography** is the study of human populations. It characterizes human population on the parameters of age, gender, size, composition, income, education, density, location, race, occupation and the like.
- **Demographic environment** is important for marketing because marketing involves people as target customers, prospects and final customers. People make up markets and finally any change in demographics shall definitely involve a change in marketing decisions.
- **Demographic trends** include any change or shift in the above defined parameters. For example, India is a young country with Millennials (18-35 years), accounting for 34% (440 million) of the country's population. They also represent a whopping 47% of the country's workforce. This is a shift in the composition of population and has changed the rules of marketing. Similarly, gender composition, income, education levels have all improved and thus have found a corresponding effect on marketing decision making. Demographic trends determine marketing strategies. A few examples can be as follows:

- a. Generational marketing is becoming more important than marketing on the basis of age-The population has clearly distinguishable cohorts of Gen X, Gen Y and Gen Z. The needs of the three cohorts are different. They are different segments in term of the kind of products they needs, the price that they can afford, the communication which they can receive and the stores that they can access. Any marketing effort has an understanding of the generational cohorts as its basis, rather than the age alone.
- b. Rising middle class has given a huge boost to the luxury market and India is slowly becoming luxury friendly. The middle class in India is likely to reach 87 million households by 2025.
- c. Rural customers are becoming more affluent and aspirational and thus contributing to a market of over Rs. 26 trillion by a 300% rise in the rural consumption.
- d. The family structure is changing with a trend towards more nuclear families. This shift has created a huge market for domestic help, baby sitters, day care centres and the like.
- e. More women have joined the workforce than ever before. Financial security has brought empowerment in its wake and now women have a say in family decision making. They have products designed especially for them because they can now afford it. There is a market for automobiles for women, magazines for women, apparels for women and across many more product categories. *For example, Allen Solly introduced its women range of formal wears only to accommodate the working women. Similarly, Titan has Mia range of jewelry for the office going women, just like Lakme has the 9 to 5 range of cosmetics for the working women.*

All the above examples indicate the shift in demographics which has resulted in a market for products which did not exist earlier. Thus, demographic environment and marketing strategy have a strong linkage.

### **Economic Environment**

Economic environment includes factors that affect the purchasing power and purchasing patterns of the consumers.

The following economic factors have an enormous impact on marketing.

#### **a. Changes in Disposable Income**

As the disposable income of a common man increases, the purchasing power increases and as a result the demand for mass products, both necessities and luxuries increases. A very strong impact is observed in the electronics industry with the rising middle class being a major force in the increasing demand for electronic goods like computers, laptops, advanced TVs, mobile phones etc. Electronic products as an industry in India is expected to grow at a compound annual growth rate (CAGR) of 41% during 2017-20 to reach \$400 billion by 2020.

A reverse trend can also exist-as the income tax rate increases, the disposable income decreases and this has the effect of reducing the purchasing power and thus the market for non-essential discretionary products witnesses an adverse effect.

b. The Cost of Borrowing

Access to credit and cost of credit are important economic factors that affect marketing decisions. Suppose the rate of tax on housing loans increases, the real estate market shall surely witness a decline. If car loans become cheaper, car industry shall witness a surge. The decision whether to produce or not, what to produce, how much to produce, how to price, how to promote shall rest quite a lot on the cost of credit.

c. Promotions and Advertising Expenses

If an economic downturn affects the costs and types of advertising outlets available, this can affect marketing. For example, where multiple types of businesses are feeling the effects on the bottom line, some media outlets may be forced to lower advertising rates to attract business. In turn, these lower rates could benefit the businesses least affected by the economy.

d. Government Reforms

Demonetization and GST-government reforms affected the market and hence marketing when they were initiated. We all remember the slump in sales when the consumers did not have cash at home and neither were the ATMs able to serve the demand for cash. They were bad times for marketers and affected marketing decision making.

e. Petroleum/Diesel Prices

Energy prices have a strong association with the pricing element of the marketing mix. As the petrol/diesel price increase, there is a multiplier effect in the entire economy and prices of fruits, vegetables and other commodities increases. The reason being very obvious-the rise in the transportation costs affects the pricing for other industries.

**Check Your Progress-A**

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**Q1. What do you understand by the term microenvironment?**

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**Q2. List and explain the components of macro environment.**

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**Q3. Draw a diagram to explain microenvironment.**

**Q3. Choose the correct alternative.**

- i. Liberalization means;
  - a. Reducing number of reserved industries from 17 to 8
  - b. Liberating the industry, trade and economy from unwanted restrictions
  - c. Free determination of interest rates
  - d. None of the above

- ii. Globalization is the term used to describe process of removal of restriction on;
  - a. Foreign Trade
  - b. Investment
  - c. Both (A) and (B)
  - d. None of the above
  
- iii. In India, Liberalization & Privatization began from
  - a. 1991
  - b. 2001
  - c. 1996
  - d. 1994

**Q4. Fill in the Blanks with appropriate word or words.**

- a. Micro environment is largely \_\_\_\_\_ while macro environment is \_\_\_\_\_.
- b. Dealers, distributors and agents are called as \_\_\_\_\_.
- c. The government has banned the use of polythene and hence the search for alternative packaging material is on. This is a change in the \_\_\_\_\_ environment.

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## **5.5 SOCIO-CULTURAL AND TECHNOLOGICAL ENVIRONMENT**

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### **Socio-Cultural Environment**

A set of beliefs, values, customs, traditions, practices, social institutions, social attitudes and behavioral patterns exists within every population. These forces are in a constant and this makes marketing adaptation important and inevitable. All companies, especially the international companies, require a robust evaluation of the socio-cultural environment prior to entering their target markets.

Major factors that need are discussion are as follows:

- a. Emergence of global consumer cultures-People across the globe are converging in tastes, preferences, values, lifestyles, consumption and cognition. Thanks to the rise of internet and globalization. This has led to the emergence of strong global brands like Coke, Mc Donalds, Dominos, Starbucks etc. Also seen is a surge in coffee culture, pub culture, plastic money culture, fast-food culture and the like.

b. Societal trends are the result of a technologically interconnected world-A lot of the above discussion can be attributed to the digital age where geographies have blurred and technology has connected consumers across the globe.

c. Religion-The world's major religions include Buddhism, Hinduism, Islam, Judaism, and Christianity and these religions are an important source of beliefs, attitudes, and values. Religion has a profound influence on marketing activities.

*Example: Mecca-Cola is an Islamic version of Coke launched in 2002 as a substitute to US coca cola. It is a cola-flavoured carbonated beverage. It is the flagship product of the Mecca Cola World Company it is marketed as an alternative to U.S. brands such as Coca-Cola and Pepsi-Cola to "pro-Muslim" consumers. The company claims it not only to taste great but also gives 20% of profits to charity. Though the brand originated in France, the company is located in Saudi Arabia. It caters to the Arab Muslims and Muslim minorities across the globe.*

*LG Electronics launched the G5300 Qiblah mobile phone in the Middle East. It came with a a compass to help Muslims locate North for prayers to Mecca. It also has an integrated latitude and longitude orientation or city references which indicate the direction of Mecca when combined with a comparison to magnetic north.*

These examples show that religion affects marketing decisions.

d. Colors and aesthetics-Colors have a meaning if their own and companies need to be careful about what a color represents in a cultural context. This can be especially useful in designing logos and campaigns.

*Blue- In USA blue stands for solid, responsible and thus most US logos are in blue.*

*Red-associated with blood, wine-making, activity, heat, and vibrancy in many countries but is poorly received in some African countries.*

*White-identified with purity and cleanliness in the West, with death in parts of Asia.*

*Grey-means inexpensive in Japan and China, but high quality and expensive in the U.S.*

e. Dietary Preferences-Vary from one culture to the other and hence companies need to comprehend this and educate the audience accordingly.

*For example-Kellogs had a tough time in India. It is a ready to eat cereal to be consumed in cold milk. People used the product in hot milk and hence could not experience the crunchiness that the brand promised in its campaign. The company had to spend a considerable amount of time and energy in educating the customers.*

*Subway had to educate Indians about the benefits of sandwiches because Indians do not normally eat bread.*

f. Language and communication-Every word has a meaning and the meaning may vary in different cultures. This has to be considered when naming brands.

*The Tiago was previously announced as the Tata Zica, with "Zica" short for "zippy car", but it was changed because it sounded like the name of the Zika virus. Immediately after Zika virus outbreak the name was changed to Tiago, which means 'masculine name in Portuguese language.*

*An auto company launched a brilliant two wheeler in Spain and named the brand NOVA. The automobile did not sell. Research indicated that Nova in Spanish language means a 'dead*

*man' or something that is defunct. Thus, the name had a negative connotation in Spanish language and thus had to be changed.*

*A fabric softener that carries different brand names in different countries and uses different symbols to indicate softness.*

### **Technological Environment**

Technology abounds us everywhere and has become a way of life. A world without technology is unimaginable. Technology initially started as a facilitator to marketing-helping marketing to reach and connect with the customers and but today more than 80 percent of marketing is technology. Technology has almost taken over the marketing function and has created disruption in the hitherto stable industry.

a. Technology and consumer behavior-Technology has changed consumer behavior. Earlier the consumers walked into the store, considered buying a brand, discuss with friends and relatives and buy the brand. If the company wanted, it maintained a connect with the customers and if did not wish, it left the customer on its own. The scenario has now changed. The customers wanting to buy a brand X from a company, first visit the website of the company. Look for an app. Search the internet for blog and for reviews and feedback. Look for best deals on the internet. Buy the brand and no sooner that they have reached home, they expect a message from the company thanking them for having purchased the brand.

Thus, we see technology has changed the way customers behave, the way companies behave and has almost overtaken the marketing function.

b. Companies are forced to go online-With technology in place, companies are now forced to go online in some form or the other. With online marketing become more secure, the flux is towards it as it offers great product assortment, convenience, 24/7 access and even ease of payment EMI in certain cases. Deep discounts are also a major reason for customers going online and thus companies are being forced to have an online presence.

c. Rise of App based marketing-Technology has been a great enabler in app based marketing. Uber, Ola, Zomato, Swiggy are examples best known. The aggregator model has evolved as an asset light model. A company does not need to own the assets, aggregation is enough-that is, connecting the seller and the buyers is what app marketers do.

App based marketing has made the life of the customers easy. Things are now available at the click of a mouse and the touch of an app. This has changed customer expectations and has made the customers very impatient. The customers have become very demanding and difficult to handle as they do not accept any delay and have a number of options available for switching brands.

d. Origin of new products and markets-Technology is fast making old products redundant and new products are being created and thus new markets. Microwaves, wi-fi, blue tooth are products for a new generation of time starved multi-taskers. Much talked about Internet of things is soon going to an everyday reality. Thus, companies have to keep a watch over the technological environment or else they shall miss creating new products and new market opportunities. Also, the search has to be on for newer and more affordable versions of products in order to add more customers in the market. For example- *Bajaj launched the new Bajaj Chhotu Kool, which is a battery operated fridge for the rural customers. LG launched*

*Sampoorna, a TV which came with a price tag of Rs. 5000/ especially for a farmer in rural India who wishes to give a TV in marriage to his daughter. Both the examples are product innovations for rural markets and for those at the Bottom of the Pyramid.*

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## 5.6 POLITICO-LEGAL AND NATURAL ENVIRONMENT

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### Politico-Legal Environment

The politico-legal system in a country affects business in a big way. This is because it dictates the formulation and execution of policies. Any change in the system, sets in motion a change economic policies and reforms and any change in economic policies and reforms is sure affects business and marketing. Every party has an election manifesto in which it makes promises and a major reforms process happens in fulfilling those promises.

Political environment is an important environmental force that affects many environments viz-technological, legal and the like.

a. Demonetization and marketing-The demonetization move of the Modi government was a momentous moment in the history of marketing. On November 8, 2016, Indian Prime Minister Narendra Modi, in a stunning surprise announcement, declared that 500 and 1,000 rupee notes were to be demonetized (i.e., removed from circulation as legal tender). There was an immediate cash crunch. ATMs failed to meet the need for cash.

The business was hit mad. Even the online marketplaces cancelled the cash on delivery orders because the customers did not have cash to pay. Its here that digital payment giants like Paytm, Zapp, Freecharge, Mobikwik won the market share overnight. Immediately after the demonetization move, Paytm could have a 700% increase in overall traffic on the platform and 1000% growth in the value of money added to Paytm accounts. In addition, the average transaction value has increased by 200% and the number of mobile app downloads by 300%. The rules of the game changed once again. Technology overtook marketing and those companies that did not go digital missed the train.

b. GST and marketing-GST became an Indian reality on 1 July, 2017. The rates of taxation changes and thus impacted business and marketing.

Both the above mentioned reforms have brought in more transparency into the system and the changed the existing rules of business and marketing.

c. Liberal Policies-The government's resolve to liberalize trade and business has given impetus to Globalization, cross border investments and movement of goods and services. One direct example is opening of the various sectors and increase in the permissible FDI limit in almost all sector Viz. 51% in multi-brand retailing, 100% in single brand retailing, 49% in insurance etc.

d. Business related legislations-The government has stringent laws pertaining to Competition (MRTP Act), Consumer Protection Acts etc and the general public is now aware of these acts and hence marketing has to be more ethical and value based.



## Natural Environment

Natural environment includes the natural resources that are needed as inputs by marketers or that are affected by marketing activities. The current

A few environmental trends are as follows and each of them has some implication over marketing.

- a. Shortages of raw materials-raw materials are becoming scarcer and thus companies are on a ongoing search for alternative materials. For example Renewable and alternative sources of energy are being conceived. Similarly, products that use less water are being devised. There is an increase in the market for washing machines that consume less water in their processing. Capetown, once a tourist destination, has lost all its appeal because of the water crisis that is looming large. Such crises thus affect destination marketing too.
- b. Increased pollution-Increased pollution has led to experiments like odd even, banning of crackers on Diwali. There has now been an emphasis on biodegradable packaging. Recently enough, there was a news on an increase in the market for such plants in households and gardens that purify the air and thus reduce pollution levels.
- c. Increased government intervention-Legal environment has a direct impact of the natural environment. The legislation to ban polythene and plastics was to impact the natural environment. It led to an immediate scramble for the search for alternatives and a huge market for bags was created overnight.
- d. Green Marketing and environmentally sustainable strategies- A sense of responsibility has now dawned upon consumers too. Sustainable practices and green marketing has now become a differentiator for the customers. Customers now prefer cars like Reva that consume electricity rather than petrol. Reva, a Banagalore based car, is now a part of the Mahindra group. Customers now prefer Ecotels like Fern rather than hotels.



### ***Check Your Progress- B***

**Q1. Explain socio cultural environment and its effect on business.**

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**Q2. Explain with examples how technological environment affects business decisions.**

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**Q3. The automobile industry in India has changed due to a change in the emission norms. Discuss the norm and the change that the law has resulted into.**

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## **5.7 RESPONDING TO CHANGES IN THE ENVIRONMENT**

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After having studied the above, we can conclude that responses to environmental changes can largely be reactive or proactive.

**Reactive-** It requires responding and adapting to forces in the environment. Polythene getting banned required a reactive search for alternative packing material. This is called as a reactive response.

**Proactive-** It requires observing the environmental trends, foreseeing and responding before the environment changes. It's about being vigilant and thus being proactive. Observing the environmental trends towards more women joining the workforce, Van Heusen, Allen Solly introduced the work wardrobe in India. This is called as a proactive response and it can happen only if a company keeps a tab over the environmental trends.

Whatever, be the mode-reactive or proactive, a change is inevitable and the companies that don't change do it at the peril of perishing. For example, Xerox thought itself as a leader in the photocopying industry, but failed to realize that the environment and the customers were becoming digital. This move to digital had changed the competition for Xerox. Earlier, it was competing with Sharp, Canon and Ricoh and now the new challenge came from IT companies like HP and IBM. It lost market shares initially, but soon realized the new competition and originated new and better products like network printers, multifunction devices, digital presses, book factories and the like and thus became more customer centric. The customer was now ready to deal with digital platforms and so was Xerox ready to deal with the new breed of digital customers.

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## **5.8 SUMMARY**

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The unit talks about a company's environments-Internal/External/Microenvironment and Macro environment in detail. It further differentiates between the different kinds of

environments in terms of its controllability vs. uncontrollability. Further, each environment is explained in detail-the meaning and multiple examples that indicate that environment affects marketing decisions, marketing mix and hence the marketing strategy. The examples are too many and too self-explanatory.

Finally, the unit ends with the response mechanism that an organization has to cope with the environmental changes. Examples of success stories and failure stories culminate the learning from the unit.



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## 5.9 GLOSSARY

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**Environmental scanning** – The process of collecting information about the external marketing environment in order to identify and interpret potential trends

**Environmental management** – An effort to attain organizational objectives by predicting and influencing the firm's competitive, political-legal, economic, technological and social-cultural environments

**Buyer behavior** – Process by which consumers and business buyers make purchase decisions

Consumer behavior – Buyer behavior of ultimate consumers

**Marketing Mix** – blending the four elements of marketing decision making – product, price, distribution and promotion – to satisfy chosen consumer segments



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## 5.10 ANSWERS TO CHECK YOUR PROGRESS

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### Check Your Progress –A

#### Q3. MCQs

- i. b
- ii. b
- iii. a

#### Q4. Fill in the Blanks with appropriate word or words.

- a. Micro environment is **controllable** to a large extent while macroenvironment is **uncontrollable**.
- b. Dealers, distributors and agents are called as **Channel Intermediaries**.
- c. The government has banned the use of polythene and hence the search for alternative packaging material is on. This is a change in the **legal** environment.

### Check Your Progress –B

Q3. The automobile industry in India has changed due to a change in the emission norms. Discuss the norm and the change that the law has resulted into.

Vehicles are one of the contributors to air pollution and there is need to reduce vehicular emissions on a continuous basis. Indian Automotive Industry recognises this fact and is continuously working towards controlling emissions as per the roadmap suggested by the Auto Fuel Policy and proactively developing environment-friendly technologies.

The proposed road map envisaged implementation of BS IV norms across the country by April 2017 in a phased manner and BS V emission norms in 2020/2021 and BS VI from 2024. The automobile industry has to change the engines in its automobiles in order to be abide to these norms.



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## 5.12 SUGGESTED READINGS

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## 5.13 TERMINAL QUESTIONS

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- Q1. List and explain the elements of a company's microenvironment and add a note on its importance.
- Q2. List and explain the elements of a company's macro environment. Give 2 examples each (from each element of the environment) of an environmental change that has resulted in a change marketing.
- Q3. List 4 trends in the economic environment that every firm should keep a watch on and also give examples of companies' responses to each trend.
- Q4. How should marketers respond to the changing environment? Explain giving examples.



## 5.14 CASE LETS/CASES

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Mc Donald's is one of the world's largest chains of fast food restaurants. They operate thirty two thousand restaurants serving more than sixty million customers daily. The key to rapid and successful international expansion of Mc Donald's is the franchise model pioneered by them.

Mc Donald's recognized early in their life that overseas market required an extremely high degree of local responsiveness and that they needed to manage business spread across different regions effectively and efficiently which would be achieved only through "Transnational Strategy". The value chain was constructed taking into consideration of local culture, legal-political and economic environments in mind.

The India story of Mc Donald's runs like this-It ventured into the Indian market with a beef burger. Soon, it realized that the Hindu population shall be unacceptable about a beef burger and the same instant replaced beef with mutton. Then followed the Indian delight of aloo tikki and thus the aloo tikki burger. Jews do not like a mixing of meat products with dairy products, hence in Israel Mc. Donald's did not go for hamburgers- rather it served cheeseburgers and milkshake.

1. Reading the above caselet, which environmental element do you think Mc Donald's is sensitive about. Discuss.
2. What has made Mc. Donald's a truly successful global brand? Discuss

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## UNIT6 MARKETING RESEARCH

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- 6.1 Introduction**
- 6.2 Objectives**
- 6.3. Marketing Research-Meaning and Importance**
- 6.4 Market Research Process**
- 6.5 Developing the Research Plan**
- 6.6 Implementing the Research Plan**
- 6.7 Interpreting and Reporting the Findings**
- 6.8 Summary**
- 6.9 Glossary**
- 6.10 Answer to Check Your Progress**
- 6.11 Reference/ Bibliography**
- 6.12 Suggested Readings**
- 6.13 Terminal & Model Questions**

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### 6.1 INTRODUCTION

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In the previous unit you learnt about the marketing environment and its elements. In this unit, you will study about marketing research, its importance, the process of research and how can organizations make better decisions with the help of marketing research.

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### 6.2 OBJECTIVES

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After reading this unit you will be able to:

- Understand the meaning and importance of marketing research.
- Outline the steps in the process of marketing research.
- Explain how companies use research to make better marketing decisions and
- Appreciate the issues of ethics in marketing research.

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## 6.3 MARKETING RESEARCH-MEANING AND IMPORTANCE

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### Introduction and Definition

Marketing is an exchange of value between the customer and marketers. Unit III made it very clear that customer is at the center of all marketing activities. Customer centric marketing essentially involves understanding the customer's needs and wants and delivering the products and service exactly according to customer's expectation. Now, the marketer is very far from the customers. The marketer delivers goods to the channel partners who make it available to the customers. In most cases, the marketer has not even seen and known the customer. In such a case, how can the marketer know who his customer is and what his customer expects? How can the marketer understand the customer in order to deliver the goods and services that the customer expects? How do you think is it possible for a marketer to understand the customer and deliver what the customer wants?

The solution to all the above questions lies in marketing research. Marketing research provides a fresh understanding of customers and the marketplace that helps in developing customer relationships and delivering customer value.

*For Example: When Sony launched the Walkman in 1979, it was the first of its kind of device. Research had provided an insight that customers wanted a personal portable music and a device that could provide personal portable music was not there in the market. Thus, there was a gap in the market and Sony closed the gap with its iconic 'Walkman'. As time progressed, the product became outdated. It was here that Apple again researched and gathered insights from the customers. The insights revealed that consumers wanted to take 'all their' music with them but they wanted their personal device to be 'unobtrusive'. This insight led to two conclusions:*

- 1. The device should have a memory and that too a good memory so that customers can carry all their music with them. It was thus decided to design a device that can carry 1,000 songs at least.*
  - 2. The device should be as small as possible.*
-



The above two design goals led to what is known as an Apple iPod today. Had there not been something called as marketing research, the world would not have witnessed iconic products of the kind of Apple iPod.

The above examples provide a very clear understanding of the importance of marketing research. Marketing research is the only connecting bridge between the manufacturer, marketer and the customer.

Definition: Marketing research is the systematic design, collection, analysis and reporting of data relevant to a particular marketing situation facing an organization. It is a conscious and structured approach of gathering insights from the customer, the decision maker for buying products and services.

### **Importance of Marketing Research**

The following points highlight the importance of marketing research;

1. Providing Competitive Insight- Market research helps to find out about the competitors' products, services, marketing mix, marketing strategies, and target audience. Using this information a company can design its own marketing mix and campaigns
2. Identifying marketing problems-It helps in identifying and solving the problems that company faces. A company faces a decline in sales. It could be a problem, but also could be a symptom of the problem (explained in later sections. Marketing research helps to identify the symptoms from the problems and seek a solution thereafter.
3. Identifying market opportunities- It also helps in identifying new market opportunities that exist in the market. In the above examples we saw how Sony and Apple could launch Walkman and iPod respectively, after gaining insights from the customer. Thus, marketing research helps to identify the gaps in the market, which are actually market opportunities.
4. Providing marketing relevant data-It provides information on market share, nature of competition, customer satisfaction levels, sales performances and channel of distribution. This helps the firms in solving problems.
5. Designing a better marketing mix-Today, markets have transformed to become global market places with enormous competition. Customers have become complex and demanding and companies need new and innovative channels to contact customers. It is this becoming important to arrive at a precise market segmentation and targeting the right customer with the right product at the right time and place and at the right price. The marketing intelligence provided through marketing research helps solve the above problems with reasonable precision. A better marketing mix means a better marketing strategy.
6. Understanding customer needs and wants- Marketing research connects the customer to the manufacturer and marketer. Refer to the above example of Apple and Sony to understand this better.

*For example, another development in customer's entertainment patterns revealed the customers prefer personalized, private and their own entertainment on their own screens. This led to services like Amazon Prime, Netflix and Hotstar.*

7. Devising better communications mix-Mass marketing is a passé. All customers need personalized, focused and customized communication. The communication platforms have become much more than yesteryears and are too many and too complex to handle. Marketing research uses promotional research to study media mix, advertising effectiveness and integrated communication tools. Research on such aspects will help in promoting effectively a company's product in the market over a multitude of tools of communication.

8. Improving the selling efforts- Selling process involves a sequence of steps beginning from prospecting to closing the deal. Identifying sales territories is a critical step in the sales process. All these steps and aspects of sales can be improved by marketing research.

9. Sales Forecasting- Marketing research helps to forecast sales-using qualitative and quantitative methods viz. Delphi method, market share method, sales force estimate method etc. This helps in fixing sales quotas. A forecast of sales also helps the production department decide on the levels of inventory to carry. Thus, good market research addresses a number of issues pertaining to sales management.

10. Revitalizing existing brands-Brands become obsolete over time. They lose their appeal over time as the original customers have grown old and the new customers have not been added. In order to survive, new customers have to be added. But these new customers are a new genre of customers and they need to be understood before the company modifies the product according to them. It's here that marketing research is needed.

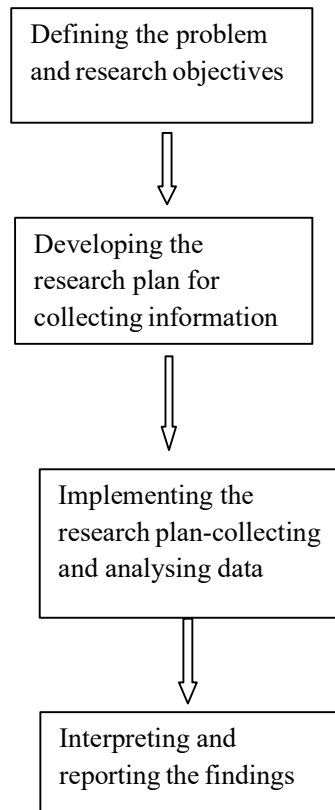
*For example-We all know that Dabur is a more than century brand heritage brand in India. The initial customers of Dabur have grown old and Dabur cannot expand its market if it were to serve only those set of customers. Now, it should add more customers and these customers are the new age customers-currently studying in schools and colleges. Now, what kind of product, packaging and flavors would they prefer is something that Dabur has to find out? In order to explore the tastes and preferences of the 'to be customers' Dabur has commissioned a research which involves Dabur executives going to schools and colleges and exploring the preferred flavors and packaging etc. This has borne fruits and Dabur has added new flavors and new products to its portfolio, without alienating the old and adult customer base.*

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## 6.4 MARKET RESEARCH PROCESS

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The following section shall discuss the process of marketing research. Find below the illustration on the process of research. It involves 4 major steps as shown in the figure



**Fig: 6.1 Market Research Process**

### Steps of Marketing Research

The above illustration is a representation of the 4 step process of marketing research, which begins with problem definition. Marketing research is an important management function, but different companies handle it quite differently. Giants like HUL, P&G, 3M, Apple, GE and Gillette have dedicated marketing research department. On the other hand, smaller firms have a different approach-they hire market research firms or consultants to help them with the research function by commissioning research for them. Another approach could be, buying data collected by other firms to improve decision making.

Find below the names of a few famous marketing research firms.

- IMRB International

- RNB Research
- TNS India Private Limited
- Hansa Research
- Milward Brown
- AC Neilson
- ORG-Marg
- KSA Technopak
- Forrester Research
- Gallup International

### **Defining the Problem and Research Objectives**

This is the first step of marketing research and in fact the most critical and difficult step in the entire process. It is so important that it has often been compared to the foundation of a building-the stronger the foundation, the stronger the building, the clearer the research problem, the better the research output. This is because the rest of the steps of research process depend upon the problem definition. If the problem definition is incorrect/wrong, the company would land up spending money, time and resources only to find out that the problem did not even exist and the whole research process was started on a wrong note.

*For example: A laundry equipment manufacturer compared his sales over a period of 5 years and identified that the sales is declining. He thought that something was wrong with his organization and he commissioned research for the same. He paid a huge fee for the marketing research agency for the research. A study of the trends in the industry revealed an important fact-the sale of the entire industry was on a decline. In fact, his company's sale did not decline as much as the industry's sales had declined. This revealed two facts:*

- 1. His company was doing relatively better than the other companies in the laundry equipment industry;*
- 2. What he was thinking of as a problem, was not a problem at all. The decline in sales was due to the fact that consumer's tastes and preferences had changed and they wanted sleeker and heavily featured laundry equipment. The equipment needed a redesign and product modification.*

The above example is a case of wrong problem definition and wasting of time, energy, money and resources in solving a problem which did not even exist.

Thus, it is said that problem definition is the most important part of marketing research. A problem well defined is a problem half solved.

### **Separating Symptoms from the Problem**

This can be better understood by our own example. When we have fever we take crocin and the fever subsides. After 5 hours, fever again develops and subsides on taking crocin again. This happens for 3 days. The fourth day we go to a doctor and doctor says that there is a throat infection and fever is happening because of the throat infection. He gives antibiotics and the fever does not recur. All this time, you were treating the symptoms by taking crocin, but the problem that was an infection remained as it is. When, antibiotic is taken, the problem is solved and symptom (fever) does not happen again.

In doing market research, the symptom should be separated from the problem. The treatment has to be given to the problem and not to the symptom. When, problem is treated symptom does not happen again.

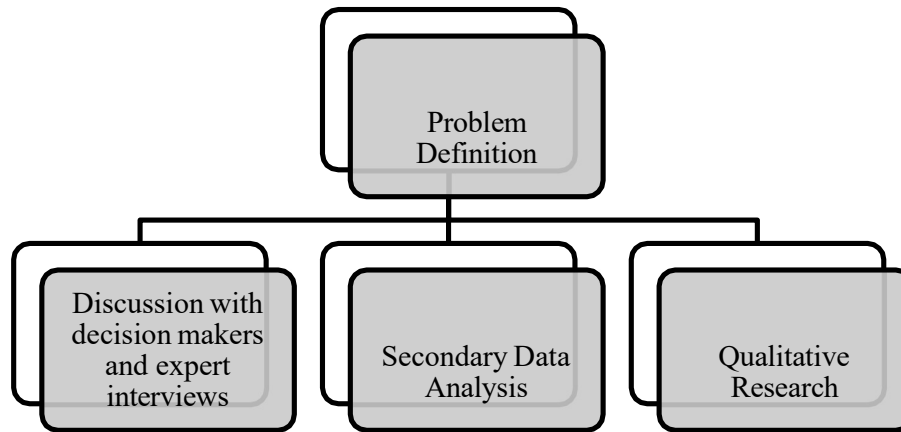
Most marketers think that declining sales is a problem. But, more often than not a problem, it's a symptom of a problem. The problem could be any of the following and even anything else.

1. Better product by the competitor
2. More value given by the competitor
3. Ineffective communication and hence customer being unaware of the product.
4. Faulty distribution and hence the product is not available to the customers
5. Unattractive and inconvenient packaging
6. Product complexity
7. Poor after sales service by the company

and many more such reasons. It is therefore very important to understand the background and environment of the problem, so that the right problem is identified and we treat the problems and not the symptoms. Problem definition thus requires a number of tasks as explained below.

### **Tasks involved in Problem Definition**

We shall continue with the laundry equipment manufacturing example. Problem definition process requires the following tasks:



**Fig: 6.2 Problem Definition**

### **Problem definition**

The above tasks are important for problem definition.

1. Discussion with decision makers- It involves an interaction of the marketing research agency with the laundry equipment manufacturer in order to understand the environment and background of the problem and why the client wants to get a research done, this is called as client brief.
2. Expert interviews-It involves collecting data from all those experts who have an experience of working with laundry equipment. This is also known as expert surveys. It may include customers who use the laundry equipment, sales people who sell laundry equipment, engineers who have an experience with the product and many more such related experts.
3. Secondary Data Analysis- It involved studying the data from secondary sources on industry trends, sales etc. The above example showed that studying secondary data revealed that the entire industry of laundry equipment was facing a decline. The meaning of secondary data shall be explained in the latter section.
4. Qualitative Research-This means doing focus group and depth interviews with chosen experts to understand the problem situation better. The meaning of focus group and depth interviews shall be explained in the latter section.

**Problem definition involves the translation of a management problem into a marketing research problem.**

Management Problem	Marketing Research Problem
Should the company introduce a new product?	Determine the customer's taste and preferences and intention-to-purchase for the new product
Should the communication strategy of the company be changed?	Determine the effectiveness of the existing communication strategy
Should the price of the product be reduced?	Determine the additional unit that the customers will buy if the price is reduced.

Once the problem is identified and defined, clarity is obtained on research objectives, what data should be collected, from whom the data should be collected, how the data should be analysed etc.



### ***Check Your Progress-A***

**Q1. What do you understand by marketing research?**

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**Q2. Explain the importance of marketing research for a decision maker?**

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**Q3. Choose the correct alternative.**

- i. The first step in the process of marketing research is:
  - a. Sampling
  - b. Data collection

- c. Problem definition
  - d. Data analysis
- ii. Problem definition involves:
- a. Translation of management problem into a marketing problem
  - b. Translation of research problem into objectives
  - c. Translation of input to output
  - d. All of the above
- iii. Research should treat the
- a. Symptoms
  - b. Problems
  - c. Both symptoms and problems
  - d. None of the above

**Q4. Fill in the Blanks with appropriate word or words.**

- i) A company is experiencing a decline in sales due to poor distribution. Decline in sales is a \_\_\_\_\_ and poor distribution is the \_\_\_\_\_.
- ii) A company wants to understand whether it should change the product design and features. This is a management problem /a marketing research problem (choose the correct option)

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## **6.5 DEVELOPING THE RESEARCH PLAN**

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Once the problem is defined, the further steps are devoted towards collecting data and thus solving the problem. It involves decisions like developing a research design, collecting data and the likes.

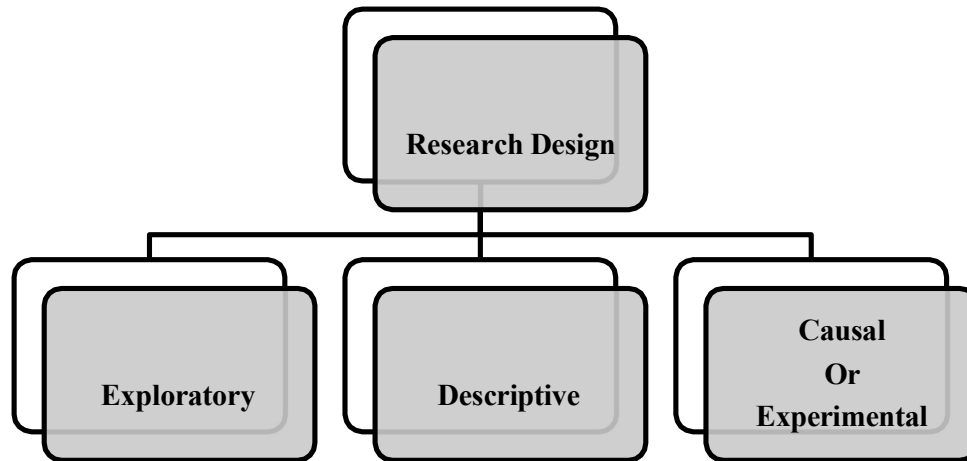
### **Research Design**

Developing the research plan involves deciding on the Research Design. Research design is comparable to a blue print before making a building. Three kinds of research designs are possible:

- a. Exploratory Research Design-The purpose of exploratory research is to explore the problem situation, probe, dig deep like a detective and thus help in problem definition. It is qualitative in nature. Depth interviews and focus group are major exploratory research tools.
- b. Descriptive Research Design-The purpose of descriptive research is to describe something-market, target audience, market share, customer attitudes, intention-to purchase etc. Most marketing researches are descriptive in nature.



c. Causal/ Experimental Research Design-Causal design is employed where cause-and-effect relationships exist. For examples, if two variables can be related in a cause- and- effect relationship like price and sales, advertising and sales, training and sales then causal/experimental is the research design of choice.



**Fig: 6.3 Research Design**

### **Research Design**

Once the information needs and thus the research design is clear, the next step is data collection.

### **Data Collection**

Data to be collected could be primary data, secondary data or both. It's important here to make a distinction between primary data and secondary data.

Primary Data- Firsthand Information collected for the specific purpose at hand.

Secondary Data-Information that already exists somewhere (internet search engines, journals, magazines, social media sites, government records, online databases etc) and is used by a researcher to meet his information needs for the problem at hand is called as secondary data. It had been collected by some individual/some organization its research, but is used by another researcher for his information needs.

### **Primary data vs. Secondary Data**

	Primary data	Secondary data
Collection Time	Lot of time required	Relatively less time required
Cost	High	Low

Ease of collecting	Low	High
Availability	-	Not always available on the needed subject
Recency	High	May be outdated also. Needs to be checked for recency.
Relevance	High	Low

Thus, we compare primary data with secondary data. Secondary data has many problems in terms of its relevance, accuracy, biasness and it's often not enough updated. Yet, most researched begin with secondary data. This is because of the following reasons:

- a. Secondary data is a must for problem definition. Pls see carefully, it is one of the tasks of problem definition. Refer to the laundry equipment case-a study of secondary data on laundry equipment industry helped to define the problem better.
- b. It may reduce the need for the more expensive primary data.
- c. In very rare cases, the problem may also be solved using secondary data. Thus, the need for collecting primary data may not exist at all.

### Data Collection

Data collection involves numerous decisions like

- Research Approach
- Contact Methods
- Sampling Plan and
- Research Instruments

### Research Approach

Research approach could be observation, survey and experiment.

**Observation Research-**This means that data is gathered by observing people, their behavior, and actions in a given situation. *For example-A restaurant can solve a location problem by observing the people in the proximity, neighborhood conditions and competition in the nearby area. Toy companies design toys by observing kids playing with the toys.*

**Survey Research-** Most marketing researches are survey based. It is a data collection approach best suited for descriptive research. As explained earlier too, this approach describes people in terms of their knowledge, belief, opinion, attitude and intention to purchase and the like. It is administered by direct questioning using a questionnaire. It is a very versatile technique because it can be conducted in person, over mail, over telephone, over social media etc.

**Experimental Research-**It is the most appropriate technique for causal research, which attempts to establish a relationship between two variables which supposedly share a cause-and-effect relationship. *For example-a retail store chain can have two different layouts at two*

*locations and study the impact on retail foot falls. This helps to understand the relationship between store layout and store traffic.*

### **Contact Methods**

The respondents now need to be contacted. The contact methods could be as follows:

- Mail
- Telephone/Mobile
- Personal Interviewing
- Group interviewing using focus group interviewing. This involves group of 4-5 experts being interviewed by a trained interviewer called as a moderator. It is called focus group because the interviewer focuses the discussion on important issues. Focus group can also be conducted online.
- Online Interviews

### **Sampling**

Any kind of research needs data and this data has to be obtained from respondents. The population of respondents is too large in the universe but a researcher cannot collect data from all of them. A census is not possible. Hence, a few people have to be drawn from the population of respondents for the purpose of data collection. These few chosen people are called as Sample. A sample is a segment of the population selected for marketing research to represent the population as a whole. Ideally, the sample should be representative of the population so that the findings of the study on the sample can be generalized on the population as a whole.

### **Research/Measurement Instrument**

These include the interventions from capturing data from the respondents. These could be

- Questionnaires-As explained above, questionnaire has a set of questions to be administered to the respondents. Questionnaire is by far the most commonly used research instrument. It is flexible in nature and can be administered over multiple platforms.

Mechanical Instruments-These are scientific and mechanical devices for data collection.

*For example-People meters are attached to television sets to observe TV watching behavior of respondents in media studies. IBM devised Blue Eyes technology offers an interpretation of facial expression and eye movements to track the audience's reaction to the advertisements.*

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## 6.6 IMPLEMENTING THE RESEARCH PLAN

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This involves executing the marketing research plan. The plan is already in place, its success now lies on the execution. The firm can do data collection on its own or outsource the data collection to an external agency. Data collection is indeed the most expensive step of market research and also susceptible to errors and biases. A good researcher keeps a close watch on the execution of research too. It may involve contacting some respondents to check their genuity. Keeping a tab on the surveyor to see that he/she is doing an authentic and impartial job and not using indiscreet shortcuts.

Data once collected needs a meticulous analysis. More important than analysis is the interpretation of the analyzed data and reporting the findings to the client. A very important aspect here is the research ethics. This implies that the respondent should be kept anonymous. At no point, should his identity and demographic details be revealed. The data should be used strictly for the purpose that it is collected. Also, the research findings should not be revealed to the competitors. It involves a lot of ethical commitment and behavior.



### *Check Your Progress- B*

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**Q1. What do you understand by research design? Discuss the different kinds of research design with appropriate examples.**

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**Q2. Differentiate between primary data and secondary data. When is each appropriate and how are they collected?**

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**Q3. What is observation? Explain when observation should be used as a data collection method.**

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**Q4. A retailer wants to find out the effectiveness of the extra money he has put in advertising. He wants to know if the investment has increased awareness, recognition, and recall and has finally translated into more sales. The retailer has hired you as a consultant. What kind of a research design would you use for this scenario? Give reasons for your answer.**

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## **6.7 INTERPRETING AND REPORTING THE FINDINGS**

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After all the steps have been executed, the researcher now has to interpret the findings, draw conclusions and report to the client. There can be two kinds of reports-Popular reports and Technical Reports. Popular reports are simple and non-jargonized while technical reports are complex.

Reports should ideally be simple and should not be written to impress upon the client with statistical prowess. The client is looking for insights to solve the problem that he/she is facing or an opportunity that he is confronted with. He wants simple solutions and thus a good report must capture insights.

A marketing research report should not be followed blindly. A researcher is a statistician; he knows how to play with numbers. But, a marketing manager is a person who is in the field and has a firsthand interaction with customers, dealers, and channel members. Thus, a researcher's report and a marketing manager's prowess should be combined for deriving more meaning out of the report. The same report can prove to be much more meaningful, when the researcher and manager co-operate.

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## **6.8 SUMMARY**

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The unit talks about marketing research. The unit begins with the meaning of marketing research. Multiple examples have been cited for explaining the meaning and importance of marketing research. Next, is an elaboration on the steps involved in the research process. Problem definition is the most important step of marketing research and all the tasks involved

have been explained well with examples. A problem well defined is a problem half solved. Differentiating between a problem and symptom is very important and a lot of care and caution is needed. Research design has been explained as the blue print of research. Data collection, research approach follows in the latter part of the unit. A note on data collection methods adds value to the unit. Implementation of research and research ethics is an integral part of any good research. Research report is a document that presents the findings, analysis, conclusions, and recommendations to the client.



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## 6.9 GLOSSARY

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**Ad tracking:** Monitoring a brand's performance with an advertisement to determine the effectiveness of the media targeting, the quality of the advertisements, and ROI.

**Applied Research:** Research that is conducted with specific objectives in order to develop new products or applications.

**Causal Research:** Research that examines the cause-and-effect relationship among variables.

**Causation:** The action of causing something.

**Data Collection:** The gathering and preparation of data for research purposes.

**Data entry:** It is the process of entering data from surveys, research, etc., into an electronic format.

**Data:** Statistics collected for research purposes.

**Focus Group:** It is a type of qualitative research where a group of people have a discussion on their perceptions, opinions, etc., toward a product or service.

**Market Research:** It is the process of gathering, recording, and analyzing data and information about customers, competitors, and the market in which you intend to enter.

**Qualitative Research:** Research that uses exploratory techniques to obtain words and descriptions as data, as opposed to numerical data.

**Quantitative Research:** Research that uses numbers for data to analyze results.

**Research Design:** how the information is to be gathered for research, including the instruments to be used and how the information will be analysed.



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## 6.10 ANSWERS TO CHECK YOUR PROGRESS

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### Check Your Progress –A

**Q3. Choose the correct alternative.**

- i) c
- ii) a
- iii) b

**Q4. Fill in the Blanks with appropriate word or words.**

- i) A company is experiencing a decline in sales due to poor distribution. Decline in sales is a symptom and poor distribution is the problem.
- ii) A company wants to understand whether it should change the product design and features. This is a management problem /a marketing research problem (choose the correct option)



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## 6.13 TERMINAL QUESTIONS

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1. A coconut water manufacturer from South India wants to launch his ready-to-drink coconut water in North India. He does not know anything about north India and is thus unsure of his decision. He has hired you as a researcher to understand whether he should go ahead or not. In the above scenario, answer the following questions:

- a. Management Problem
- b. Marketing Research Problem
- c. How would you define the problem? Discuss the tasks involved.
- d. What research design would you use?
- e. Who shall be the respondents for your research?
- f. What shall be the contact methods?
- g. How do you plan to capture the data? (Hint: Measurement instrument)



**Block II**  
**STP Concept and Consumer Behaviour**

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## UNIT 7 STP CONCEPT AND MARKET SEGMENTATION

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- 7.1 Introduction
- 7.2 Objectives
- 7.3 Mass-Marketing: The Precursor To Market Segmentation
- 7.4 Market Segmentation
- 7.5 Effective Segmentation
- 7.6 What Follows Segmentation: Targeting & Positioning
- 7.7 Summary
- 7.8 Glossary
- 7.9 Answers To Check Your Progress
- 7.10 References/ Bibliography
- 7.11 Suggested Readings
- 7.12 Terminal & Model Questions

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### 7.1 INTRODUCTION

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In the previous units, you were introduced to the discipline of marketing management. You came to know of the various stages through which marketing has evolved over the years. This was followed by an elaborate discussion about the marketing process. Marketing mix and its various constituents were also discussed. You also learned about the various forces in the environment which have a bearing on the marketing process and the fortunes of a product or service in the market. You also understood how market researches are conducted to assist the marketers in decision making.

These market researches also bring out the fact that the markets are not homogenous in the sense that all the customers in a market seldom have the same needs. In fact, in a market, it is very common to find customers with varying different needs. This makes it possible to group customers in a market according to their needs. These different customer-groups, in which all the members have almost similar needs, are called market segments. In this unit, we shall study about these market segments.

Marketers generally find it more prudent to select one or more of these numerous segments and direct their marketing efforts to them rather than trying to cater to the whole market. This process of selecting one or more segments for purpose of selling is called targeting. You shall also be introduced to Targeting & Positioning towards the end of this unit.

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## 7.2 OBJECTIVES

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After reading this unit, you will be able to:

- Describe the evolution of market segmentation as a marketing tool
- Understand the importance of market segmentation in marketing
- Outline the process of market segmentation
- List the segmentation variables used in consumer & business markets
- Explain the inter-relationship of segmentation, targeting and positioning
- Quote corporate examples of market application of the concept of segmentation

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## 7.3 MASS-MARKETING: THE PRECURSOR TO MARKET SEGMENTATION

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In older days, marketers used to sell only one type of product without any regard to the special needs of the customers. This was cost-effective also- fabricating a single type of product would not require a variety of machines or vastly different types of production set-ups. The shop-floor/production workers also needed to be trained in only a few skills. Workers also gained proficiency faster since they had to produce the same product again and again. In other words, it was easier for them to climb up the experience curve. Sourcing the raw material was also easy since the same raw material had to be purchased every time for successive production cycles.

For these reasons, producing a standard product in very large volumes used to be much less expensive. Therefore, the marketers would pass on the cost savings to the customers by selling the product at a much cheaper price. They used to think that the customers would also not mind the lack of variety and product choices if they get the product at dirt-cheap prices.

So much so that Henry Ford, the pioneer of assembly line production and automobile manufacturing, had once famously remarked that he would sell his Model-T Ford brand of cars to his customers in 'whichever colour they prefer as long as it is black'. What he actually implied was that he would not sell this brand of cars in any other colour except black notwithstanding the customer preferences.

Do you know what this kind of marketing philosophy is known as? You would recall from the discussion regarding the evolution of marketing that this most closely resembles the 'production' orientation.

Gradually, the marketers realised that this approach to marketing can't bring a lasting success. This is so because not all customers in a market-place are exactly alike. They may have different expectations from a product and may wish to derive vastly different benefits from its use. Do you have TV at your home? Do all the family members like watching the same programmes? The children in your family might be interested in cartoons, the elders

might prefer watching news broadcasts. Some members can be found glued to the TV when a cricket match is being telecasted while others find the movies more engaging. If this is the level of disparity in entertainment preferences within a small family, you can imagine how diverse the customer choices shall be in a marketplace!

This understanding of the inherent differences in customer needs and preferences in a marketplace led to the evolution of micro-marketing.

Micro-marketing is the exact opposite of mass-marketing. Micro-marketing recognises that the customers may have different expectations from a product or service. It hinges on customising the market offerings to suit the customer-requirements.

Naturally, this entails additional costs. The marketer may have to design a variety of products to satisfy the disparate customer needs. S/He shall have to run different product lines and use different promotional features. Still, it is an approach worth adopting as it results into a highly satisfied customer base which translates into repeat sales and higher earnings.

Market Segmentation is one of the ways in which micro-marketing can be accomplished.

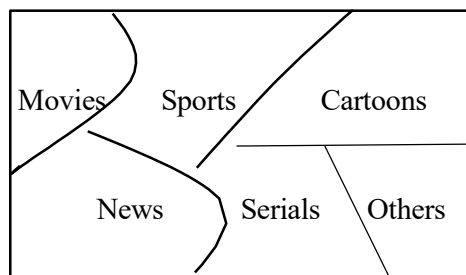
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## 7.4 MARKET SEGMENTATION

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Market Segmentation is the process of breaking down the whole market into smaller & homogenous groups of customers. These groups are homogenous in the sense that the customers within a particular group have similar needs and thereby similar product preferences. On the other hand, the customers in two different groups have widely different needs and product preferences. These customer-groups into which the whole market is divided are referred to as market segments.

For instance, the TV audience (market) may be divided into different segments based on the kind of programmes they prefer watching. In the adjoining figure, six different market segments can be spotted based on the programme preferences of the TV audience.



**Figure 7.1: Market Segments Based on Programme Preferences**

### 7.4.1 SEGMENTATION VARIABLES FOR CONSUMER MARKETS

Let's now discuss how the markets are segmented. The major segmentation methods used in the consumer markets have been discussed in the following passages.

#### 7.4.1.1 Geographic Segmentation

It is done by dividing the market into different geographical units like regions, countries or states. For instance, the firms operating internationally segment the global market into USA & Western Europe, Latin America, Africa, Middle East, South Asia & South-East Asia etc. Marketers selling domestically in India many-a-times segment the Indian markets into Northern, Southern, Eastern, Western & Central regions. This region-wise segmentation makes sense also as customers in a particular region experience almost similar geo-climatic conditions resulting into similar lifestyles and product choices. McDonald's India segmented the Indian market on this basis and introduced *masala-dosa* burger in southern parts to suit the local palate.

Geographic segmentation may also be done on the basis of population or soil-type. Prominent luxury car-makers like Lamborghini segment the Indian market into metros (population greater than 10 lakh) and non-metros and focus primarily on the former. Firms selling agricultural equipments & tractors in India segment the market with respect to soil types. This is so because some soils are hard (eg- black soil in Maharashtra) and hence ploughing them requires considerable effort in comparison to softer alluvial soils found in Uttar Pradesh. So, they equip their tractors with greater horse-power engines for purpose of selling in regions with predominantly black soil.

#### 7.4.1.2 Demographic Segmentation

Demographic segmentation is the most widely used method of segmentation. This is so as the demographic variables can be measured every easily. In this, the customers are divided into segments based on the variables like age, gender, education, income, occupation, religion, family size, family life cycle, nationality, generation & social class.

Johnson & Johnson presents a good example of segmenting the market on the basis of age. They have earned a fortune by designing & selling a range of products meant exclusively for toddlers. They have developed a 'no more tears' formula for use in bathing soaps and shampoos. This formula prevents any irritation even if the soap or shampoo bubbles get into the eyes of the toddlers and hence is popular among mothers tending to their newborns. There are marketers who focus exclusively on customers in the 50 & above age group & bring out medicines for diseases like dementia which general strike during old age.

Marketers also use gender to segment the markets. Do you know about the famous rivalry between the FMCG firms, HUL and Emami? HUL segmented the markets based on gender and introduced a fairness cream, 'Fair & Lovely' meant exclusively for women. As it emerged later on that the Indian men also secretly long for a fair skin tone, Emami cashed in on the opportunity by launching 'Fair & Handsome' targeted on such male customers.

Tata Motors used income as a demographic variable to segment the market and brought out 'Nano' brand of cars around 2008 for customer segments with relatively lower income levels. One could have bought the base version of 'Nano' in just one lakh rupees. Do you recall the 'Nano' television advertisements? 'Nano' is shown in these advertisements as an affordable car for the first time car buyers. Compare this with Mercedes or Audi which cost in crores. Which customer groups are these premium car brands targeting? Indeed the super-rich with very high income levels.

Education and literacy levels of customers can also be utilized as a segmentation variable. The Uttarakhand Open University is offering distance learning courses for students at the graduate and post-graduate levels. They must have segmented the market on basis of education and literacy levels. Subsequently, they must have decided to target those customers who have completed schooling. On the other hand, National Institute of Open Schooling predominantly serves those customer segments who are yet to complete secondary education. What about Adult Literacy Programmes offered by the governments? Are they not being run for those who are illiterates?

Have you noticed doctors using a device called sphygmomanometer to measure blood pressure? Suppose that you run a firm which markets these devices. You would certainly want to use occupation as a variable to segment the whole market; and then try to sell your devices to only those in the medical profession-doctors and nurses- and not to teachers and lawyers!

Religion is another prominent segmentation variable. Have you heard of Geeta Press? It publishes and markets Hindu religious & mythological texts like *Ved-Puran*, *Ramayana* etc. They must have segmented the market with regard to religion. What about those marketers who sell the 'Santa-Claus' outfits around Christmas? They are also using the same segmentation variable.

In India, some families just have two or four members- think of the nuclear families which have children staying with their parents. Some joint families may have more than ten members spanning across three-four generations. This family size offers an opportunity for segmentation. Do you purchase wheat flour? You must have noticed different package sizes in which this flour is available- 1, 5, 10, 20 and even 50 kilograms. While the smaller package sizes are suitable for smaller nuclear families, the 50 kg size is meant for joint families with more number of family members. ITC makes use of family size as a segmentation variable to sell its '*Aashirvaad*' brand of flour.

Family life cycle consists of various stages which a family witnesses over a period of time. Suppose you get a job in Delhi and settle there. You would be at the 'Bachelor' stage. After some time, you shall get married ('Newly Married' stage). Over a period of time, you would have children (Full Nest). Eventually when these children grow up and settle in some other city for educational or employment reasons, you shall be left behind with your spouse (Empty Nest). As old age approaches, either of the life-partners dies leaving the other all alone (Solitary Survivor). Thus, you see your family progressing through various stages in the family life cycle, which shall determine your needs and product choices.

Let's take some examples. In Delhi, there are many entities providing tiffin services, i.e. home-cooked food at your doorsteps. Can you guess who their prime customers are? Indeed, the bachelors. What about travel companies like Cox & Kings which provide special tour packages for honeymooners? They must have segmented the market on the basis of stages in the family life-cycle to zero-in on the newly-married couples. Walt Disney Company operates a chain of amusement parks & resorts meant for visits by full-nesters. In older days, before the emergence of online-banking, India Post, a government owned enterprise, used to provide money-order services. A daughter employed in Mumbai could send some money for her parents back home in Haldwani by paying a small commission to India Post. This was how India Post served empty-nesters. Likewise, old-age homes primarily serve the empty-nesters and solitary-survivors.

Nationality is another variable used in market segmentation. Do you like watching movies? If you do, you might find the following case-study interesting.

**Bollywood: Paisa Vasool !**

The Indian film industry, popularly referred to as Bollywood, has now find new avenues to fill up its already brimming coffers. Till the 1990s, Bollywood primarily depended on the sales proceeds of music rights and box-office collections from the movie releases in cinema halls across the country. It soon realized that there is a large Indian diaspora settled outside the country in places like USA, Canada and UK. These migrants, who left the country in search of jobs long ago are still connected to their roots. Their friends and relatives back home who visit them once in a while and bring along *achaars* and *chutneys* for their culinary indulgence just can't let this connection wither away. Bollywood found it a profitable proposition to feed on this nostalgia by planning simultaneous movie releases in the adopted countries of these migrants also.

*Dilwale Dukhaniya Le Jayenge*, released in 1995, raked in 16 crore rupees from foreign releases. *Kabhi Khushi Kabhi Gam* and *Lagaan* earned more than 10 crore rupees in 2001. More recently, *Dangal* and *Sultan* earnings from foreign theatrical releases has been beyond 80 crore rupees according to some media reports. Unearthing this new set of audiences has truly helped Bollywood hit a jackpot!

Do you understand that the Bollywood movie-makers must have segmented the audience in these foreign countries based on their nationality/ country of origin? A substantial segment of people of Indian origin in these countries must have prompted them to release their movies there also.

You must have noticed in your family that members belonging to different generations have widely different tastes. These differences come to fore while deciding which music channel to watch! You love the Yo Yo Honey Singh rap songs while your grandparents fondly remember the Kishore Kumar & Mohammad Rafi melodies of yesteryears. The mobile

handset marketers have segmented the markets to understand these generational gaps. HMD Global has recently re-launched the Nokia 3310, which was in vogue in 2000s and was known for its ease of handling. This re-launch is expected to entice those from the older generation who are not as tech-savvy as the younger generations and hence have no use for complicated features found in the most advanced smartphones now-a-days.

Lastly, social class is also used as a segmentation variable.

### **Social Class**

Social classes are artificial divisions in the society which reflect the difference in living standards and social recognition. For instance, celebrities like Sachin Tendulkar, Amitabh Bachhan, Anil Ambani etc. belong to the same social class. Likewise a teacher in a government run school, the doctor in a public hospital and the postmaster can be thought to belong to the same social class.

Social classes are perceived to be arranged hierarchically on the social class ladder. For instance, you might be placed much below Sachin Tendulkar in the social class ladder. But, compared to a slum dweller or a rag-picker, you shall be perceived to be occupying a superior position in the social class ladder.

Individuals may move up or down the social class ladder. What if tomorrow you found a business empire and become a billionaire? You would have moved up the social ladder to be placed alongside Sachin Tendulkar and Anil Ambani! Unlike people from two different social classes, those in the same social class have similar needs and product preferences. Hence, the utility of social class as a basis for market segmentation.

Versace, the Italian luxury fashion company, segments the market with respect to social class and targets those at the very apex of the social class ladder by offering them premium products. Similar is the case of Raymond Group, an Indian branded fabric retailer.

#### **7.4.1.3 Psychographic Segmentation**

In psychographic segmentation, customers are divided into segments on the basis of their lifestyles, personality and value-systems.

Have you observed your friends, relatives and neighbours closely? They might be having widely different lifestyles reflected in their unique interests and hobbies pursued by them. Marketers like Ranbaxy segmented the markets based on lifestyles. They brought out a food supplement 'Revital' for those with a very busy lifestyle.

Likewise, the customers can be segmented on the basis of their personalities. Some customers are extremely risk-averse: they prefer stability and take every possible precaution to guard themselves from unforeseen risks. Insurance companies cleverly exploit this tendency to sell their insurance products. Many people are stimulated by variety. They are open to new experiences and among the first ones to try a new product in the market. Hence,



marketers launching a novel product try to obtain purchase from this customer segment. 'Woodland' is a brand of rugged shoes meant for those customers who are rough and tough. 'Dove' is a bathing soap meant for gentle personalities with delicate skins!

Grown-ups have a fully developed value system. Value-system comprises of all the values that an individual holds dear. The value-system of an individual can be inferred from his activities. For instance, altruism- the tendency to help others- can be part of the value system of an individual. Such an individual would donate money and volunteer for social work.

Since, customers tend to favour those products and services which correspond to their value systems, segmenting the market using this variable makes a lot of sense. NGOs looking for donations segment the market and focus on the altruists for fund raising. Bajaj Auto tries to woo the customer segment which cherishes the values of patriotism and loyalty when it promotes its 'Bajaj V' brand of bikes as being 'made with the invincible metal of INS Vikrant'. INS Vikrant, incidentally, is now-decommissioned warship of the Indian Navy.

#### 7.4.1.4 Behavioural Segmentation

This type of segmentation is done on the basis of the behaviours exhibited by the customers towards the product. These behavioural variables include the product buy/use occasions, benefits sought from product use, user status, usage rates, loyalty & attitude displayed towards the product and buyer-readiness stage. Let's discuss these one at a time.

Customers can be segmented based on the occasions on which they buy or use the products. Some products are bought/used on occasions of critical life events like birth, marriage, illness, divorce, retirement etc. Divorce lawyers segment the market on the basis of these occasions and offer their services to those customers/couples who are getting divorced. In Uttarakhand, there are *pandits* who solemnize marriages. Young people of your age know of so many brands who sell romantic wares on the occasion of Valentine's Day! Kellogg's sells cereals for breakfast. Haldiram segmented the Indian market on basis of occasions on which customers buy sweets and launched its own line of packaged sweets for purpose of consumption on festive occasions.

Customers also differ with respect to the benefits they seek from the consumption of a product or service. Some customers look for convenience of purchase. E-commerce firms like Grofers which deliver grocery items at customer-doorsteps in metro cities like Bengaluru & Delhi are catering to this segment of customers. Likewise, there exists another customer segment which seeks the benefit of reliability of service. Maruti Suzuki catered to this reliability seeking customer segment by setting up an extensive network of service stations spread across the country. This network provides prompt service to its customers in event of a car breakdown. In India, a significant number of customers hunt for low prices. Marketers organize discount sales to cater to this segment- Flipkart's 'Big Billion Days' sale is a good example. Similarly, Indian Railways offer 'Premium Tatkal' ticketing service for those passengers who plan a trip at a very short notice and seek the benefit of prompt service.

Customers can also be segmented on the basis of their user status into non-users, potential users, first-time users, regular users and ex-users of a product or service. Coaching institutes arrange demo-classes for potential students to tempt them into applying for admissions. The *Swatch Bharat Abhiyaan* aims to encourage use of toilets among non-users.

Customers also differ a lot with regard to their intensity of use of a product. They may range from being heavy to medium to light users which can be used as a basis for segmentation. Car-manufacturers have brought diesel versions to cater to the heavy user customer-segment. Since diesel is cheaper than petrol, the diesel version of car helps the owner save on fuel costs despite using the car on a regular basis. The light users may not be too enthusiastic about the diesel version as they, anyway, use their cars only occasionally. Electric cars being sold currently are meant for light users as they run only 80-100 kilometres after being charged for 7-8 hours at a stretch.

Customers may exhibit 'hard-core loyalty' towards a particular brand and stick to it on every purchase occasion. Alternatively, they may patronize two-three brands simultaneously displaying 'split-loyalty'. Or they may be 'switchers'- not loyal to any of the brands and making purchase decision with the aim to get the best deals. The marketers segment the market on the basis of their loyalty and reward the hard-core loyals. Jet Airways' 'Jet Privilege' programme offers special perks like airport-lounge access and priority boarding to its loyal customers. Marketers offer random-discounts to entice the switchers into making purchases.

Customers do exhibit different attitudes in a marketplace. Marketers can segment them into five groups- enthusiastic, positive, indifferent, negative, hostile- based on their attitude towards their offerings. They may then decide not to waste any marketing effort on those with a hostile attitude while trying to win over those with a negative or indifferent attitude. Many marketers request customers displaying enthusiastic attitude towards their offerings to advocate them to fellow customers.

Buyer-readiness is another variable that can be used as a basis for segmentation. Do you know what buyer-readiness is? Any prospective buyer moves through different stages before actually buying a product or service. He starts as somebody absolutely 'unaware' of the existence of the product. Gradually, he becomes 'aware'. Over a period of time, he accumulates substantial information about the product (informed). This may generate a genuine interest in him about the product (interested). He may go on to start harbouring a 'desire to buy' the product. Finally, this desire intensifies and transforms into an 'intention to buy'. These are the exact stages through which you moved before finally applying for admission to the Uttarakhand Open University. Try and recall! Thus, the buyers may be segmented into different groups- unaware, aware, informed, interested, desiring to buy and intending to buy. Marketers run promotional campaigns (advertisements etc.) for those in the 'unaware' segment and provide product information to those in the 'aware but uninformed' segment. The Indian government runs various promotional campaigns on *Doordarshan* to create awareness among those unaware of its various schemes. The informative advertisements on 'Dengue' which are run around the peak months of October

and November are meant to provide exhaustive information to that segment who is aware of the disease but is not fully informed. 'Early bird' discounts (special discounts offered to the first few buyers) are offered by many marketers to tempt those who intend to buy a product to rush their purchase.

## 7.4.2 SEGMENTATION VARIABLES FOR BUSINESS MARKETS

Let's move on to the segmentation variables used in business markets. By the way, do you remember the difference between the two- consumer and business markets?

### Consumer Markets V/s Business Markets

Consumer markets consists of those entities which purchase goods or services for personal use. Customers in the consumer markets tend to make frequent but small volume purchases.

On the other hand, business markets consists of those individuals or organisations which acquire goods and service not for personal use but for some commercial purpose. Bulk volume purchases are common in business markets.

Take example of a soap. How many soaps do you purchase in a month for your family? Just a few! What about the shopkeeper from whom you buy these soaps? How many units of soap does he purchase from the wholesaler every month? At least a few hundred! And he has purchased these soaps not for his personal use but to sell them to customers like you.

Hence, while your family and other such families constitute the consumer market, the shopkeepers are part of the business market.

The variables used for market segmentation in business markets are only slightly different from those in the consumer markets. So, we shall keep the discussion brief. Following are the variables used to segment the business markets-

### 7.4.2.1 Demographic Variables

The business customers can be segmented on the basis of their size: large industries, small-scale industries, micro-units and cottage enterprises. This makes sense as the purchase capacity of a business customer depends on its scale of operations. Marketers may decide to offer their products or services to a few large scale industries or numerous small scale industries.

The business customers may also be segmented based on their location.

At times, they are segmented based on the industrial sectors to which they belong. For instance, a steel producer may segment the business customers requiring steel into industrial sectors like automobile assemblers, white-goods manufacturers and construction firms etc. and decide which industrial sector to target.

#### 7.4.2.2 Operating Variables

Operating variables like technological sophistication of the business customers can be used for segmentation. Customers may be segmented depending on whether they are using obsolete, current or cutting-edge technology.

They may also be segmented into heavy, medium, light or non-users based on their use intensity just like the consumer markets.

Some business customers want a single product or service while others expect the full range of product or services to be provided to them. These special requirements can also be used as a basis for segmentation. Thus, two educational institutions- one expecting the computer dealer to supply only the hardware while the other also asking for installation of computer systems as well as their timely maintenance - shall fall in two different segments.

#### 7.4.2.3 Purchasing Approaches

Business customers exhibit a variety of approaches towards the purchase process which provides the opportunity for dividing them into different segments.

Business customers may have a system in which purchases for all the organisational requirements are made centrally by the same set of people (centralised procurement). The exact opposite may also be true- different departments may have the freedom to make their own purchases as per their requirements (decentralised procurement). It is for the marketer to decide which of these two segments to target.

Different functions/departments may dominate purchase decision-making in different business organisations. Marketers may segment the business customers based on which function- finance, sales, production, marketing etc. - has the greatest say in the purchase decisions.

Business customers may also have different purchase policies. Some prefer outright purchase of products, other prefer leasing (obtaining the right to temporary use the assets owned by others by paying usage charges). For example, to run its branches, one bank might acquire a whole building while another might decide to function from a rented one. Real estate marketers decide whether to serve the former segment or the latter, i.e. whether to construct office space for selling or for renting out to banks.

Business customers may have different purchase criteria. For some, quality is the top-most priority while for others the price may matter the most. For quite a few, the prompt response of the seller to the customer's distress calls in event of an unforeseen problem with the product after its purchase is the biggest concern. Marketers have to decide which of these customer segments to cater to.

#### 7.4.2.4 Situational Variables

Some business customers want prompt deliveries while others give sufficient time to their suppliers by ordering much in advance. Since the former segment is willing to pay a

premium for quick service, it presents a lucrative opportunity to the marketer though also requiring considerable efforts on his part.

Business markets can also be segmented based on the size of the order placed by them. The marketer has to decide whether to concentrate on large or small orders.

#### **7.4.2.5 Customer Characteristics**

Just like in consumer markets, some business customers display high loyalty to their suppliers while others switch suppliers at the slightest opportunity. This can be used as a basis for segmentation.

Business markets may also be segmented on the basis of their organisational culture and values. Marketers may decide to serve that customer segment of which the culture and values align closely with theirs. Or alternatively, they may decide to serve those segments with entirely different values and culture.

Business customers also have vastly different orientations. Some are transactional buyers looking for the best bargains in terms of price, quality or delivery terms. Others may look at the purchase occasion not as a one-off transaction but as an opportunity to improve their functioning. This latter segment expect the marketers to provide them a comprehensive 'solution' to their problems and not just a bunch of stand-alone products or services and is ready to pay a premium for it. Marketers can decide to focus on either of these segments.



#### ***Check Your Progress-A***

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#### **Q1. Mark True/False against the following-**

- i. Mass-marketing treats all the customer alike while segmentation recognises the difference between the customers in a market.
- ii. The Uttarakhand Open University, offering correspondence course at under-graduate and post-graduate levels, must be segmenting the market using psychographic variables.
- iii. Firms selling ice-scooters focus mainly on Himalayan regions of the country. These firms must be employing geographic segmentation.
- iv. A company selling engine assembly to automobile manufacturers is operating in consumer markets.

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## 7.5 EFFECTIVE SEGMENTATION

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You have understood that a market can be segmented variously. Does it mean that all segmentation is useful? For it to be useful, market segments obtained by segmentation should have the following attributes -

- They should be measurable. It should be possible to obtain information regarding the segment size (number of customers in the segment), purchasing power (how much they can spend to buy an offering), special needs & preferences as well as other characteristics. This is so as this information shall be utilised by the marketer to decide his product design, pricing policy and promotional strategy to suit the segment requirements.
- They should be substantial in size and should have large number of customers. Then only can the marketer serve them profitably. For instance, demographic segmentation on the basis of age may yield a 100+ age group segment. But, this segmentation is not useful because even if a marketer decides to produce dietary supplements for this segment, he would only be able to sell a few hundred units a year which is just not viable.
- They should be accessible. It should be easy for the marketers to reach and serve them.
- They should be differentiable. They should have some unique attributes to help marketer distinguish them from other segments. For instance, they should respond differently to product features, product pricing and promotional campaigns.
- They should be actionable. It should be possible for the marketer to devise marketing programmes to attract and serve them.

So, it is advisable for a marketer to use only those segmentation variables which help him identify the market segments having the attributes listed above.

You should also bear in mind that actual use of segmentation in the marketing world is a lot more complicated than what has been discussed above. Seldom are the markets segmented using just one of these variables. Marketers rather practise multi-attribute segmentation in which a bunch of segmentation variables is used simultaneously.

Let's take the example of a newly launched upmarket restaurant in Delhi. The restaurant might first segment the whole market on the basis of ethnicity (demographic segmentation) to discover the *Garhwali* community segment. Then, it might further segment this *Garhwali* community with regard to disposable incomes (demographic segmentation) to zero-in on the 'affluent *Garhwalis*'. Within this 'affluent *Garhwalis*' segment, psychographic segmentation may be used by the restaurant to uncover a sub-segment of 'affluent *Garhwalis* who value their traditions'. The restaurant may then decide to pursue this segment of customers and offer ethnic *Garhwali* delicacies in its menu.

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## 7.6 WHAT FOLLOWS SEGMENTATION: TARGETING & POSITIONING

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Now that you understand segmentation, you must be wondering what next! Segmentation is not an end in itself. We segment the market so that we may target one (or a few) of the segments for purpose of selling our products. This is called Market Targeting.

Let's build up on our example in the preceding section. The Delhi-based restaurant might have found various community segments in Delhi apart from the *Garhwalis*. The fact that they chose to pursue the *Garhwali* segment further, and not the other communities, is an instance of market-targeting.

Remember, the HUL and Emami rivalry? They both segmented the market into male and female customers on the basis of gender. While HUL targeted the female segment with its 'Fair & Lovely' brand, Emami focused on meeting the needs of the male segment and brought its 'Fair & Handsome' brand of fairness cream. Thus, their target segments were different.

Targeting is followed by Positioning. Positioning is the act of designing a company's offering and image to suit the needs of the target market. This shall cause the company's offering to occupy a unique place (position) in the mind of the target market and help in attracting it.

In our example, the Delhi based restaurant might position itself as an ethnic *Garhwali* restaurant by offering *Garhwali* delicacies in its menu and designing its outlet to give the feel of a traditional *Garhwali* dwelling to attract the target segment.

Thus works the triumvirate of Segmentation, Targeting & Positioning- STP, in the marketing lingo. Remember that all the marketing strategy is built on STP. We shall be discussing targeting and positioning in the subsequent units.



### **Check Your Progress- B**

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**Q1.** Mark True/False against the following-

- i. Customers in Uttarakhand can be geographically segmented into two groups- *Kumauni* & *Garhwali*. If both the customer segments have the same product preferences and respond similarly to marketing programmes, they lack in differentiability and hence useless.
- ii. The act of promoting the Boroline brand as a '*Khushbudar* anti-septic cream' most closely resembles market positioning.
- iii. Segmentation is the basis for targeting and positioning.
- iv. '*Tiger Jinda Hai*' movie tries to cash in on the audience which likes watching action movies. It is not meant for those who like comedies or real-life cinema. This statement made by a critic defines the target market of the movie.



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## 7.7 SUMMARY

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In this unit, we started by discussing the evolution of segmentation as a successor to mass-marketing. We followed this up with a detailed deliberation on the various segmentation variables commonly used in consumer and business markets. A few corporate examples were also taken up to understand how segmentation is actually used in marketing. We also touched upon the attributes which make the segmentation exercise useful. This was followed by a brief explanation of how the troika of segmentation, targeting & positioning works in tandem.



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## 7.8 GLOSSARY

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**Mass-Marketing-** It is the practice of producing & selling the same standard product to all the customers without any regard to their unique needs and preferences.

**Experience Curve-** A graphical representation of improvement in workforce-efficiency that results from faster accumulation of experience owing to doing the same work repetitively.

**Production Orientation-** It is the marketing philosophy that advocates that the customers prefer widely available & inexpensive products and seeks to provide the same through high-volume production of standardised products.

**Micro-marketing-** The strategy of focussing marketing efforts on a small group of highly-defined customers.

**Consumer Markets-** Customers who buy a product or service for personal consumption.

**Business Markets-** Customers buying a product or service for commercial or business use.

**Segmentation-** It is the process of dividing the customers into different groups on the basis of their needs and product preferences.

**Market Segment-** It is a homogenous group of customers with similar needs and product preferences.

**Brands-** Those names or symbols which help customers distinguish between different products (eg-Lux, Breeze, Dove) in the same product category (bathing soaps).

**Market Offerings-** The term used to denote both products and services being offered by a marketer to customers in a market.

**Multi-Attribute Segmentation-** It is the practice of using two or more segmentation variables simultaneously to identify customer segments.



**Targeting-** The process of deciding how many and which market segments to serve.

**Positioning-** Designing company products and image to suit & attract the target segments.



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## 7.9 ANSWERS TO CHECK YOUR PROGRESS

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### Check Your Progress –A

1. True
2. False
3. True
4. False

### Check Your Progress –B

1. True
2. True
3. True
4. True



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## 7.10 REFERENCES

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- Kotler, P., Keller, K. L., Koshy A. & Jha M. (2008), Marketing Management: A South Asian Perspective, Pearson Education, India



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## 7.11 SUGGESTED READINGS

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1. Philip Kotler, Marketing Management, Pearson Education.
2. Kotler, Keller, Koshy & Jha, Marketing Management: A South Asian Perspective, Pearson Education

3. Mc Daniel, Lamb & Hair, Introduction to Marketing, Thomson/ South-Western
4. Stanton, Fundamentals of Marketing, Mc-Graw Hill
5. Subhash C Jain, Marketing: Planning & Strategy, Thomson/South-Western
6. Armstrong & Kotler, Marketing: An Introduction, Pearson Education.
7. Philip Kotler, Marketing Management: Analysis, Planning & Control, Prentice-Hall



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## 7.12 TERMINAL & MODEL QUESTIONS

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1. What is mass-marketing? How does it differ from micro-marketing?
2. What do you mean by segmentation? Elaborate with the help of corporate examples.
3. What are the variables commonly used for segmenting consumer markets?
4. How is segmentation applied in business markets?
5. What attributes help the marketer assess the utility of a segmentation- variable?
6. How are targeting and positioning different from segmentation? Explain their inter-relationship using a hypothetical product of your choice.

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## UNIT 8 TARGET MARKET

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- 8.1 Introduction**
- 8.2 Objectives**
- 8.3 Selecting Target Markets**
- 8.4 Approaches to Target Market Selection**
- 8.5 Segments-By-Segment Invasion Planning**
- 8.6 Targeting Niches and Individual Customers**
- 8.7 Summary**
- 8.8 Glossary**
- 8.9 Answers To Check Your Progress**
- 8.10 References/ Bibliography**
- 8.11 Suggested Readings**
- 8.12 Terminal & Model Questions**

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### 8.1 INTRODUCTION

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In the preceding unit, we saw how the failure of mass-marketing led to the emergence of market segmentation. We deliberated on the application of segmentation as a marketing tool. This was followed by a detailed discussion on commonly used segmentation variables both in consumer as well as business markets. We also understood that the segments identified using these variables need to have some attributes to be useful for the marketers. Towards the end of the unit, you were also introduced to the other two dimensions of the STP troika- targeting and positioning. We also touched upon the inter-relationship among the three.

In this unit, we shall be discussing Targeting in greater detail. As you already know, marketers begin by segmenting the markets on the basis of different segmentation variables. This is followed by targeting in which the marketers select one or more of these segments to focus their marketing efforts on. The segment(s) thus chosen become their target market(s). In this unit, we shall be discussing the basis on which these target markets are selected. We shall also discuss some prominent target market selection patterns commonly observed in the markets.

Marketing is a dynamic discipline. It may so happen that in due time, the marketer may decide to expand his market coverage by targeting more number of segments. Such a move should, however, be grounded in market logic. Therefore, the precautions which need to be taken while making such strategic moves shall also be deliberated upon. We shall also supplement this discussion with some real life corporate examples and case-studies.

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## 8.2 OBJECTIVES

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After reading this unit, you will be able to:

- Explain the link between segmentation and targeting
- Understand the basis for evaluating and selecting target markets
- Compare and contrast the commonly observed target market selection patterns
- Differentiate between segment marketing & niche marketing
- Learn tools commonly used by marketers to gather competitive intelligence
- Quote corporate examples of market application of the concept of targeting

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## 8.3 SELECTING TARGET MARKETS

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You have now understood the process of segmentation in which we divide the market into different customer groups / segments with similar needs and product preferences. The next marketing task is to decide how many and which all segments to cater to. Targeting refers to the process of selection of one or more market segments as target markets. Once the marketer knows which customer-groups are his/her target markets, s./he spends considerable time in understanding their unique needs and product preferences. The insights thus gained by the marketer help him/her customise his/her offering to suit target markets with the objective of becoming the marketer of choice for them.

But how to go about this task of selecting these target markets? For this, the marketer needs to do a comparative evaluation of the various market segments identified by the segmentation exercise using some criteria.

### 8.3.1 CRITERIA FOR EVALUATING MARKET SEGMENTS

The first requirement for doing a comparative analysis of the different market segments is to decide the criteria to be used for this purpose. Let's now take a look at some of these gauges.

#### 8.3.1.1 Overall Attractiveness of Market Segment

The overall attractiveness of a market segments can be determined by a variety of factors. Some of these factors have been discussed in detail in the preceding unit. Let's recapitulate.

Firstly, the segment characteristics-like size, needs, purchase capacity, media habits- should be measurable.

Secondly, the market segment should be substantial in size. This is because more number of customers in a segment make it incumbent on the marketer targeting that segment to increase production volumes to match their demand. And high volume production is often efficient- per unit cost of production reduces as the production volumes grow. This provides an

opening for the marketer to reduce the price and attract even more number of customers, including the price-sensitive ones.

Please note that the 'size' here is not limited to the number of customers in the market segment but also entails their purchase volumes. So, a segment with very few customers may also be attractive if these customers make purchases in very high volumes. At times, a small sized segment- with small number of customers and low purchase volumes per customer- may still be preferred if the segment has reasonable chances of growing at a rapid pace in future. Let's take an example. When the e-commerce firms (like Flipkart) first started their operations in the country, the number of people having access to internet was very small. You must be aware that internet connection is a prerequisite for the customers to visit websites of e-commerce firms and place orders. So, a very small proportion of Indian population having internet access should have dissuaded the e-commerce firms from entering the Indian market. But they were not too bothered because they expected this segment of internet-user customers to grow rapidly. And grow it did. From just 1% of the population having access to internet in 2000 to almost 30% of the population online today, India has raced past many countries to now rank second globally in terms of the total number of internet users. No surprise that the e-commerce firms have also witnessed their business growing in tandem.

Next, the market segment should be accessible- easy for the marketer to reach and serve. The segment should also be unique enough to be easily distinguishable from the other segments- its response to the product features and promotional campaigns should be different from that of the other segments.

Lastly, the segment should be actionable- it should provide the marketer ample scope for formulating effective marketing programmes.

Segment profitability is another factor that determines the overall attractiveness of a market segment. How is the segment profitability determined? It is the net of the price charged from a customer in lieu of a product or service and the total cost incurred in producing and delivering that product or service to the customer. So a market segment in which the customers are ready and willing to pay a premium on their purchase shall be more profitable for the marketer. Likewise, if the segment is accessible- it does not cost much to reach and serve the segment- the marketer shall be able to rein in his expenses and shall therefore enjoy greater profitability.

The risk inherent in a segment should also be carefully considered. What if the segment suddenly shrinks? Let's take an example. A ferocious civil war broke out in our southern neighbour, Sri Lanka in 1990s. This forced lakhs of Sri Lankan Tamils to run for their life and take refuge in our country. These refugees were settled temporarily in various refugee colonies in Tamil Nadu. Sensing an opportunity in their large numbers, some local marketers brought products targeted exclusively on this segment of Sri Lankan Tamil refugees. Now that the war in Sri Lanka is over, there are speculations that these refugees might be sent back to Sri Lanka. This is a frightening prospect for the aforementioned marketers who face the risk of a sudden shrinkage in the market segment targeted by them. Such segment shrinkages

may also happen due to change in legal and regulatory norms. Augusta Westland, an Italian helicopter design & manufacturing firm had zeroed in on India as one of its target markets. However, owing to bribery allegations surfacing around 2013, the firm was blacklisted and barred from participating in defence contracts with Indian armed forces. These two examples bring home the point that a market segment has to have a low risk profile to be considered attractive.

#### 8.3.1.2 Market Segment Overlap with Marketer-Capabilities

Before discussing any further, we need to find out whether you can be of some help to our friend Kabeer Bhagat. Kabeer has decided to become an entrepreneur and start a restaurant in his hometown. He comes from a modest family which also has reservations against this career choice of his. So, he borrows some money from his friends to start his food outlet. He also can't afford the luxury of hiring a cook and will have to prepare the dishes himself. Having studied marketing management, he starts by segmenting the market and finds out that among those who eat outside, there are two prominent customer segments in his hometown: the more sizeable segment prefers having Chinese food like noodles etc. while the other segment, which is much smaller in size, prefers Italian dishes like pizza etc. Both these segments are otherwise similar in terms of challenges & opportunities offered by them.

His research has revealed that it is easier to obtain supplies of ingredients/raw-materials that go into the Italian dishes. Plus, he also knows how to cook Italian food. But, since the Chinese food segment is much bigger in size, he finds it to be more attractive. He is in a big dilemma. Should he target the more sizeable Chinese food segment or should he target the Italian food segment which suits his capability but is much smaller in size? Please advise him.

If you compare the two segments on market attractiveness, you might find the Chinese segment superior owing to its size. But, if you also consider that it is easier to obtain raw-material for the Italian segment and, even more importantly, Kabeer already knows how to cook Italian food, you may decide to target the Italian segment. That shall certainly be a more prudent decision because the Italian segment fits in well with the marketer's (Kabeer's) capabilities and therefore easier to serve.

Thus, you now understand that marketer's capability is also an important consideration for selecting the target market. A marketer should choose the market segment which matches his capabilities closely. Let's discuss in detail.

Capability refers to whether the marketer has the skill-set necessary to serve a market segment. Recall that Kabeer didn't know how to prepare Chinese food but had the skills to prepare Italian food. For this reason, targeting the Italian food segment, despite its smaller size, was the correct choice. You must have heard of Apple Inc. It started as a personal computer manufacturer and diversified later to smart-phones. Of late, it has also launched its smart-watches targeted on the upper-middle class because it already had the technological skills required for manufacturing them, the basic technology behind the various smart-devices being the same.

Capability also includes having access to resources. If a marketer already possesses or can easily arrange resources to serve a market segment, it makes sense for him to choose it as his target. Kabeer found it easier to obtain raw-material supplies for the Italian food segment and hence chose it as his target market. India Post has recently set up a banking subsidiary, India Post Payments Bank, to offer deposit & remittance services targeted mainly on the thrift-minded middle-class customer segment because it already has an extensive post-office network to house the bank branches.

It also helps if the marketer decides to target the market segment which aligns closely with his own long term objectives.

Once all the market segments have been evaluated & comparative analysis done using the aforementioned two criteria, the marketers select the market segment(s) which presents the best marketing opportunities to them as their target market(s).

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## **8.4 APPROACHES TO TARGET MARKET SELECTION**

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A marketer may approach the target market(s) selection in five distinct ways discussed below.

### **8.4.1 SINGLE-SEGMENT CONCENTRATION**

The marketer may decide to concentrate entirely on a particular market segment. He makes all-out efforts to understand the needs of the customers in the target segment and design a product to suit them. Since, all the aspects- product design & development, procurement (of raw-materials), production, distribution and promotion- are geared to just the one target market segment, the marketer tends to benefit from operational efficiency. This helps him in keeping expenses under control.

However, one prerequisite is that the segment should be sizeable enough to offer the marketer sufficient selling opportunity. Secondly, this approach of targeting a single market may turn out to be considerably risky if the target-segment suddenly shrinks due to various environmental developments as has been discussed in the preceding section also. Additionally, a strong rival may also enter the same segment and cause the marketer to suffer considerable loss. So, it is advisable to adopt this approach only when the marketer has reasonable chances of capturing leadership position in the lone target market segment.

### **8.4.2 SELECTIVE SPECIALISATION**

Alternatively, the marketer may decide to target more than just one segment. She/He may pick up a number of segments, based on his/her assessment of their attractiveness and his own capabilities, as his target markets. She/He researches the customer needs in these target markets and comes up with different offerings for the different market segments.

This safeguards a marketer from risks inherent in the single-segment concentration approach. Even if the marketer doesn't perform well in one target segment or is outperformed by a stronger rival, he still has other target markets to fall back on. This explains the popularity of this approach among the marketers. For instance, HUL has different brands of bathing soaps, each targeting a particular market segment. While 'Lifebuoy' targets the health conscious customers, the freshness-seeking customers have been targeted by 'Liril'. 'Hamam' is meant for those who value traditional & nature-based solutions. Likewise, Titan, a Tata Group company, also has different sub-brands targeting different market segments. It offers 'Sonata' for the price-sensitive segment, 'Fastrack' for the young & sporty personalities and 'Raga' range of ornamental watches for the female customers.

However, this approach leads to a ballooning of expenses. The customers in the different target markets may have widely different product and attribute preferences requiring the marketer to design and develop a different product for each target market. He may also have to vary his distribution and promotion according to the different target markets.

Therefore, for the marketers adopting this approach, it is advisable to target those segments which have some synergy. This synergy may be harnessed if the raw-material base, processing requirements or distribution channels are similar for the market offerings meant for the different target segments.

### **8.4.3 PRODUCT SPECIALISATION**

This approach entails specialising in a product or technology and offering it to different market segments with minimal alteration, if any at all. The specialisation results into operational efficiencies. The marketer may also benefit from a strong reputation in a particular product or technology. Pidilite Industries Limited, offers a good example. It specialises in adhesive technology. It has brought spin off products using this technology to serve the different market segments. For instance, 'Fevicol' is for use by the household segment as well as the wood-based industries (eg-furniture) segment while the instant adhesive 'Feviqwik' is used for minor repairs in household & industrial segments. 'Dr. Fixit' is used as water-proofing material in construction sector segment. Thus, it offers a range of solutions to different market segments using the same technology.

However, the marketers who adopt this approach have to be wary of those technological changes which may threaten their technology and products.

### **8.4.4 SEGMENT SPECIALISATION**

This approach is diametrically opposite to the product specialisation approach discussed above. In segment specialisation, the marketer targets a single market segment and aspires to offer the full range of products to fulfill all its needs in entirety. Tour operators practice segment specialisation by offering the whole range of services that the tourists may need. They make transport and accommodation arrangements and also organise sight-seeing and random leisure activities.



Segment specialisation is a more expensive approach than product-specialisation because the marketer might have to offer a range of disconnected products in a bid to service all the requirements of the targeted market segment. However, the marketers who execute it successfully enjoy a strong reputation for serving this customer segment.

This approach is very sensitive to changes in spending by the target markets. For instance, their disposable incomes may reduce due to inflation which may force them to endure spending cuts thus impacting the business of the marketer. High inflation has been found to be associated with low tourist inflow impacting the earnings of tour operators. Do you remember the floods that struck Uttarakhand in 2013? This disaster impacted the tourist inflow causing significant losses to many a tour operators in the subsequent months.

### **8.4.5 FULL MARKET COVERAGE**

The marketer also has the choice to target the whole market- all the segments. He does this by researching the customers and accordingly designing individual products for every single market segment. The promotional strategies are also tailored to the different customer segments. This approach is, therefore, also known as differentiated marketing. Here, the endeavour is to be the marketer of choice for customers in all the segments.

‘Coca-Cola’ has adopted this approach to be the largest selling thirst- quencher in the world. Apart from the flagship ‘Coca-Cola’ brand, it has many other brands each targeted on a particular market segment. ‘Fanta’ is a carbonated beverage available in different fruit-flavours while ‘Sprite’ is a lemon/lime flavoured beverage. ‘Diet Coke’ is meant for health conscious segment which avoids carbonated beverages. ‘Minute-maid’ is a fruit based non-carbonated beverage for the segment which prefers to have fruit juice while ‘Dasani’ is bottled water. ‘Powerade’ is an instant energy drink for sportspersons.

However, this approach requires the marketer to have deep pockets. The reason is that the expenses in product design & development, production, distribution and promotion multiply manifold. Multiple production lines have to be run to manufacture the different products. Raw-materials may have to be procured from different sources and separate distribution channels might have to be set up to serve the different customer segments. Advertising costs shall also be high.

These expenses can be curbed to considerable extent if the marketer’s segment managers, in-charge of different customer segments, co-ordinate their efforts. This inter-segment co-operation may be in combined sourcing of raw-material supplies, sharing of company resources- both men and machines etc. It is for the top management to nudge the segment managers towards such collaborative behaviour.



### Check Your Progress-A

The figures given below represent a particular approach to target market selection. In the figures,  $S_1$ ,  $S_2$  and  $S_3$  correspond to the three market segments while  $P_1$ ,  $P_2$  and  $P_3$  correspond to three different products. The segment(s) targeted by the marketer is marked as T. The cells left blank denote the segments side-stepped by the marketer. You have to name the target market selection approach that each of the following figures most closely resembles.

1.

	$S_1$	$S_2$	$S_3$
$P_1$	T	T	T
$P_2$	T	T	T
$P_3$	T	T	T

4.

	$S_1$	$S_2$	$S_3$
$P_1$			
$P_2$	T	T	T
$P_3$			

2.

	$S_1$	$S_2$	$S_3$
$P_1$		T	
$P_2$			T
$P_3$	T		

3.

	$S_1$	$S_2$	$S_3$
$P_1$	T		
$P_2$	T		
$P_3$	T		

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## 8.5 SEGMENT-BY-SEGMENT INVASION PLANNING

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Just as in normal life, in the hyper-competitive world of marketing also, long-term planning is a must. Ordinary firms plan only for the current year, while the best of the lot plan for the longer haul, at times, for as much as 20-30 years into the future. Most of the global automobile majors have been making substantial investments in developing autonomous car (driver-less) technology with an eye on the future only. Consider the case of Maruti Suzuki India Limited, India's leading automobile manufacturer owned by the Suzuki Motor Corporation, Japan. It has recently announced a substantial investment in Gujarat to set up a lithium-ion battery production plant in partnership with Toshiba and Denso. This is with an eye on the future when electric cars are expected to fully replace the current generation of petrol & diesel based vehicles.

A firm which is considerably successful in its chosen target markets shall gradually outgrow them. As sales-volume & sales-revenue increase, some of the profits are ploughed back into the business to expand the production capacity. Gradually, the firm recognises the inadequacy of its current target markets in absorbing its augmented capacity and starts experiencing the need to expand to other customer segments. Alternatively, increased earnings may augment the firm's resources and encourage it to expand to other customer segments also.

At times, a marketer may want to expand the existing target market by catering to other customer segments also in search of potential synergies and operational efficiency resulting from such a move. Many times, intense competition in the existing target market may force the marketer to look for greener pastures elsewhere in other market segments.

A marketer should be well prepared for such future eventualities. He should have a clear idea regarding which customer segments to 'invade' - in the form of a 'segment-by-segment invasion plan' - if such a need is felt in future.

The criteria for preparing invasion plans is the same as used for selecting target markets. Customer segments for prospective invasions are also earmarked with due consideration to their attractiveness (segment size & growth prospects, segment profitability, presence or absence of competition etc.) and capability (skill-set, access to resources etc.) of the marketer.

One additional consideration is the 'fit' with the target markets which are being served by the marketer currently. What do we mean by this? 'Fit' refers to a considerable overlap between the prospective invasion target and the currently served target markets in terms of similarity of resources and skills required to serve them. The greater this overlap, more attractive shall be the prospective invasion target. Let's take an example to understand this.

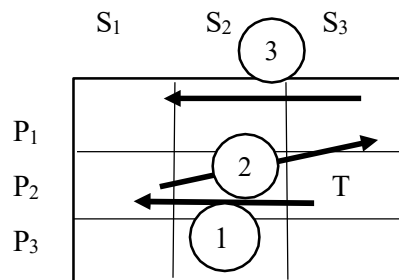
'Amul', a cooperative, started by selling branded packaged milk to household customers in Gujarat and nearby areas. It used to source milk from farmers in villages, perform quality

assessment, process and package the milk before selling it under its registered brand name. With the objective of expanding its business, Amul started offering processed-milk items (curd, butter and ice-creams etc.) also apart from milk. It also started selling its packaged milk products in other geographical segments like the nearby states of Rajasthan, Maharashtra, Delhi and UP. Subsequently, it expanded its product portfolio further to offer biscuits, chocolates and flavoured milk also.

Note that this segment-by-segment invasion was carefully planned by Amul. It first invaded those segments which could be easily served using its existing resources and capabilities. For instance, supplying branded milk in other states didn't require any extra effort apart from having to extend the distribution network. Similarly, different processed food items like curd, ice-cream, chocolate and flavoured milk have milk as raw-material and also share many of the vital ingredients.

### 8.5.1 SEGMENT-BY-SEGMENT INVASION PATTERN

Most of the segment-by-segment invasions adopt a particular pattern. Marketers, originally serving a particular target segment initiate the invasion by targeting other hitherto untouched customer segments and introducing their existing products in them. Once the newer customer segments have been invaded and won over with the marketer selling well, it is time to plan the next invasion. This time, it is effected by way of introducing new products one by one in all the customer segments- the original target market as well as the freshly invaded customer segments. The following illustration (Figure 8.1) is being used as a comprehension aid.



**Figure 8.1: Segment-By-Segment Invasion Pattern**

This figure is a crude approximation of a marketplace. In this market, three distinct market segments- S<sub>1</sub>, S<sub>2</sub> and S<sub>3</sub>- have been identified. P<sub>1</sub>, P<sub>2</sub> and P<sub>3</sub> correspond to three different products. To begin with, the marketer has chosen to target the market segment marked by T. All the remaining cells, left blank represent the market segments not currently being targeted by him. The marketer's segment-by-segment invasion plan has been shown by the three arrows. The encircled numbers 1, 2 and 3 correspond to the successive moves in this invasion plan.

You can see that the marketer is currently offering only product P<sub>2</sub> and catering only to the S<sub>3</sub> market segment. The first move in his invasion plan shall be to introduce the existing P<sub>2</sub> product in S<sub>2</sub> and S<sub>1</sub> segments also. He may do this by effecting minor modifications in his

product. This shall entail an increase in distribution costs while also offering the marketer an opportunity to increase his sales.

Once this product  $P_2$  is well established in the whole market- all the three segments- he shall initiate the second move of his invasion plan, which will be to introduce another product  $P_1$  in his original target market,  $S_3$ . This implies significant investments in procurement (of raw-materials required to produce  $P_1$ ), production (for setting up a new production line for  $P_1$ ) and promotion (to sell  $P_1$ ).

This would be followed by the third move to also introduce  $P_1$  gradually in the freshly invaded  $S_2$  and  $S_1$  segments just as was done with  $P_2$  in the first move. Eventually, this freshly introduced product,  $P_1$ , shall also get a foothold in the whole market.

Please don't think that the invasion plan terminates here. The marketer may decide to offer  $P_3$  gradually to the whole market just like  $P_1$ .

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## 8.6 TARGETING NICHE & INDIVIDUAL CUSTOMERS

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Now you know how marketers segment the markets and target one or more customer segments and how they invade newer customer segments over a period of time. You also know that a segment comprises of customers with similar needs and preferences and that the marketer's endeavour is to customise his/her offering to them. But, don't you think that there may be subtle differences among the customers within a segment also? Those residing in hills are addicted to tea. But, not all the customers in this segment have similar taste. Some like it mild, others like it strong. Some will only have tea brewed with *elaichi* while others prefer *adrak-chai*! So, at times, the marketer may dive much deeper than just the customer segment level to unearth the special needs of the customer(s) and bring products to cater to them. Let's find out how.

### 8.6.1 NICHE

A niche can be understood as a more narrowly defined customer segment. For instance, 'those who watch movies in their leisure' is a broadly defined segment while those who watch only sci-fi (science-fiction) or rom-coms (romantic comedies) is a niche within the aforesaid broader segment.

Since broadly defined segments are also generally large enough (sizeable number of customers), they are proactively sought by the marketers. As such, you may find a couple of marketers serving a segment. Since niches are smaller in size, only a few marketers are attracted to them. In-fact at times, none of the marketers finds it worthwhile to serve a niche. These niches remain unserved or only partially served. In our example, those who watch only the sci-fi genre have to make do with whatever movies are being released. Only once in a while, they get a chance to watch movies like *Robot* or *Ra-1* which suit their taste!

Being underserved, niches offer a lucrative opportunity especially to new market-entrant firms. Gather.com, a social networking site for people in prime of their career & having high disposable incomes has gained rapid popularity. Note that this was a niche otherwise neglected by Facebook. Also owing to the same fact, the niches are always willing to pay a premium to the marketers offering them products or services exactly according to their taste. This sometimes makes it a profitable proposition for the marketers to serve them.

‘Krack’ cream and ‘Itch Guard’ brands marketed by Paras Pharmaceuticals and targeted on different niches have done brisk business. While STAR Sports targets the broader segment of customers who watch sports events, STAR Cricket is meant exclusively for the niche customers who only watch cricket.

Just as in the case of a segment, attractiveness of a niche is also determined by its size, profitability and growth potential as well as the premium that the niche customers are willing to pay. Additionally, the marketer should be able to determine the distinct needs and preferences of the niche and should have the skill and resource capability to satisfy them. It would be even better if the niche is unlikely to attract potential rivals.

It would be prudent for the marketer to target an unserved niche where it can benefit from the first-mover advantage and establish a strong foothold, thus also dissuading potential market entrants from challenging him. This is very important since niches are often so small that they can’t be simultaneously viable for more than a few marketers.

### 8.6.2 INDIVIDUAL CUSTOMERS

What can be the ‘ultimate’ in marketing? Researching the needs & preferences of individual customer and bringing customised offering to satisfy that customer. Just like the roadside *aaloo-tikki* vendor! Remember, how he prepares his concoction exactly as per your wish. Or the tailors & the hairdressers who customise their offerings to every single customer. ‘Lenskart’ provides you the opportunity to pick up any design for your specs from thousands of options. Some of the apparel firms offer you the option of uploading your photograph and bodily dimensions which are then used as inputs to prepare your ‘virtual’ body profile. You can then dress this virtual *avatar* of yours in various design & colour combinations to find out the best option for yourself and place your order.

Firms operating in this manner are said to be having a ‘customer’ orientation. In earlier times, it would have been difficult to execute this model on a mass scale and simultaneously keep down the expenses. Not so anymore, now that we have access to enabling technologies. Have you observed that the advertisements that appear on your Facebook page are not exactly the same as the ones which appear on your friend’s page? Actually, Facebook uses sophisticated algorithms to analyse your browsing habits, comments, location data etc. and predict your needs & product preferences. Accordingly, advertisements promoting various products and services are placed on your page. The organised retailers- discount stores or shopping malls- keep a record of purchases made by their customers and accordingly customise their promotional offers to each one of them.

Yet, this approach is not for every marketer to adopt. After all, a product like car can't be customised to every single customer! Moreover, the profits to be made by having this orientation should make up for the expenses incurred in customer data collection & producing customised offerings for it to be a worthwhile strategy for the marketer.

**One last word!**

Now that you have understood the concepts of market segmentation (Unit 7) and targeting (Unit 8) and their role as marketing tools, you should augment your knowledge by observing their real life application in the world of marketing. Please understand that it would be very difficult for you to lay hands on reliable data regarding the variables used by a marketer for segmenting the markets or his specific reasons for targeting a particular market segment. Why so? Because these are those strategic decisions which have a significant impact on the marketer's sales volumes, market share and revenue earnings. Hence, the marketers prefer not to keep such information in the public domain so as to not allow their market-rivals any opportunity to plan their counter-strategies.

Therefore, it is very difficult to understand the segmentation and targeting strategies adopted by a marketer. But, it is not impossible! Let's discuss how.

The promotional campaigns unleashed by a marketer provide sufficient hints regarding his target market and his approach to segmentation. For instance, take the '*dar ke aage jeet hai*' themed 'Mountain Dew' advertisements which show the protagonists consuming the beverage to conquer their fear before indulging in some dangerously risky adventure. It is very much clear that the brand is targeting thrill-seeking individuals who accept the challenges thrown to them head-on. Does this not seem like psychographic segmentation using personality types as a segmentation variable?

Media- selection by marketer for promotional purpose also gives a rich array of information. Different customer segments have different media-preferences. The younger generation might prefer 'MTV' while '*Grihshobha*' is a magazine popular among housewives. So, just by observing the media used for promotional purpose, the customer segments targeted by a marketer can be guessed reasonably accurately.

Scanning the external communication emanating from a firm can also help fathom its segmentation and targeting strategy. Business firms put out press releases and organise media briefings from time to time. The top executives deliver public speeches and give interviews where they may fleetingly touch upon their segmentation & targeting strategies and prospective invasion plans. Many senior executives of Mahindra & Mahindra publically hinted at the company's plans to bring cutting edge electric mobility (vehicles) solutions to India much before the company came up with an official declaration to this effect.

Patanjali Ayurveda Limited, which now figures among the leading FMCG marketers in India has recently briefed media about its plans to enter the apparel market also.

Lastly, the tactical moves made by a marketer are sure give-aways of their prospective invasion plans. For instance, what for would a marketer rent office space in a particular region other than for launching his brand in that region also?

So, in a nutshell, you can guess the segmentation and targeting strategy of a marketer with reliable accuracy if only you keenly observe his actions. In fact, marketer do this all the time-gather competitive intelligence- so that they may pre-empt their rival and safeguard their market position. For instance, the rivals of a leading automobile firm in India correctly predicted its foray into in-house vehicle design & development when news of it recruiting design engineers in droves from Italy surfaced!



### ***Check Your Progress- B***

**Q1.** Answer the following questions.

- i. If out of the 8000 cars sold in Chamoli district in a year, a company sold 2000 cars, what is its market share?
- ii. Out of LG, Nestle, Google and Acer, which one is an FMGG brand?
- iii. 'Dettol' was launched as anti-septic liquid by R&B. Now, it is also sold as a soap and hand-wash. Which concept does this targeting of additional customer segments most closely resemble?
- iv. If a marketer places his advertisements in the Uttarakhand Open University text books, which customer segment is most likely his target market?

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## **8.7 SUMMARY**

In this unit, we understood the concept of targeting and its application in the marketing world. We also discussed the criteria used by the marketers for evaluating the various customer segments and selecting one or more of them as target markets. A comparative analysis of the commonly observed target market selection patterns was also done. We came to know about how marketers draw up long-term plans to augment the number of customer segments targeted by them. The approach to marketing that goes beyond customer segments, to identify and cater to niches as well as individual customers with unique needs,



was also briefly touched upon. Towards the end, the techniques for gathering competitive intelligence were taken up for discussion.



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## 8.8 GLOSSARY

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**Targeting-** It is the act of deciding how many and which market segment(s), identified through market segmentation, to target. This decision is taken with due consideration to the segment attractiveness as well as marketer's capabilities.

**Target Market-** It refers to the market segment which the marketer decides to cater to. This is followed by researching the preferences of the customers in the chosen target market and accordingly designing products and services.

**Single Segment Concentration-** Choosing only one market segment as target market.

**Selective Specialisation-** Selecting two or more market segments as target markets and bringing out different products or services customised to each of them.

**Product Specialisation-** Targeting all the market segments with the same standardised product or service with minor modifications.

**Segment Specialisation-** Targeting a particular market segment by offering the full range of products and services demanded by it.

**Full Market Coverage-** The market targeting approach in which the marketer caters to all the customer segments by offering customised products or services to each of them.

**Differentiated Marketing-** The practice of using different product designs and promotional strategies for different customer segments.

**Segment-By-Segment Invasion Planning-** It refers to the marketer's deliberate act of planning for a gradual expansion from the customer segments currently targeted to hitherto untouched ones.

**Niche-** Narrowly defined group of customers with distinctive needs and preferences. It is smaller in size than a customer segment and often willing to pay a premium to obtain customised products and services.

**Customer Concept-** Marketing approach in which every individual customer is offered products & services customised to suit his unique requirements.

**First Mover Advantage-** The benefit of greater market share and higher customer recall which accrues to the marketer in the market in which he is the first one to offer products and services to the customers.

**External Communication-** The tools like press releases, media briefings, speeches and interviews by top executives used by a business firm to communicate to the general public.

**Market Share-** It is the portion of the total market controlled by a company or its brand. It is mathematically determined product category-wise by calculating the company's sales as a percentage of total sales in the market.

**FMCG-** It is the acronym for Fast Moving Consumer Goods. These goods are sold in consumer markets. They are purchased frequently and in small quantities by the customers for personal consumption. Examples include toothpaste, hair-oil, biscuits etc. HUL, P&G, Dabur & Patanjali are the major firms in the FMCG category.

**Competitive Intelligence-** The information gathered legally about the market rivals with the objective of securing and enhancing one's competitiveness in a market.



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## 8.9 ANSWERS TO CHECK YOUR PROGRESS

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### Check Your Progress –A

1. Full Market Coverage
2. Selective Specialisation
3. Segment Specialisation
4. Product Specialisation

### Check Your Progress –B

1. 25%
2. Nestle
3. Segment-by-segment invasion planning
4. Those pursuing higher studies after completing secondary education



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## 8.10 REFERENCES

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## 8.11 SUGGESTED READINGS

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2. Kotler, Keller, Koshy & Jha, Marketing Management: A South Asian Perspective, Pearson Education
3. Mc Daniel, Lamb & Hair, Introduction to Marketing, Thomson/ South-Western
4. Stanton, Fundamentals of Marketing, Mc-Graw Hill
5. Subhash C Jain, Marketing: Planning & Strategy, Thomson/South-Western
6. Armstrong & Kotler, Marketing: An Introduction, Pearson Education
7. Philip Kotler, Marketing Management: Analysis, Planning & Control, Prentice-Hall



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## 8.12 TERMINAL & MODEL QUESTIONS

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- Q1. Using corporate examples, describe the inter-relationship of segmentation and targeting.
- Q2. What are the aspects to be considered while selecting target markets?
- Q3. Compare & contrast the target market selection patterns commonly observed in markets.
- Q4. How does a marketer formulate its segment-by-segment invasion plans? Elucidate using examples from the marketing world.
- Q5. What risks and returns are inherent in niche marketing?
- Q6. The management of a government owned and financed higher education institute in your area is wary of the frequent initiatives taken by the privately owned rivals in a bid to snatch its students. Suggest how the management of the government owned institute can predict these competitive moves to be able to pre-empt them.

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## **UNIT 9 DIFFERENTIATION AND POSITIONING STRATEGY**

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- 9.1 Introduction**
- 9.2 Learning Objectives**
- 9.3 Meaning of Differentiation**
- 9.4 Meaning of Positioning**
- 9.5 Objectives of Positioning**
- 9.6 Various Types of Positioning**
- 9.7 Procedure of Setting of Positioning Strategy**
- 9.8 Positioning Errors**
- 9.9 Summary**
- 9.10 Glossary**
- 9.11 Answer to Check Your Progress**
- 9.12 Reference/ Bibliography**
- 9.13 Suggested Readings**
- 9.14 Terminal & Model Questions**
- 9.15 Case Study**

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### **9.1 INTRODUCTION**

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In the previous unit you learnt Segmentation and Targeting. Segmenting is breaking the large heterogeneous market into small homogeneous market, to have better understanding about the customer and their purchase behaviour. As STP is a technique of Identifying, Understanding and placement of product in market. It assists company in identification of potential segment of market and positioning the product in the identified customers.

Differentiation suggests a unique marketing mix, which make its different from those of its competitors. It helps a company in developing differentiation strategy, to get market leadership through which company creates unique identity in the market and differentiates from other.

Post Liberalization, Privatisation and Globalisation policy there was increase in the private companies' and producers at large scale in almost all the sectors. It created a perfect competition market where in order to sustain in the business operation and to grow in long run firms (producers and sellers) need to develop some USP (Unique Selling Proposition) to

create differentiation among the other competitor and in order to be remembered in a crowded marketplace.

In this unit, you will study about Differentiation, its objectives, importance, types and strategy of differentiation. Next is Positioning, definition, objective, strategy. One aspect of the success of a company is its marketing mix, which serves its target markets in a way better and unique from its competitors.

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## 9.2 LEARNING OBJECTIVES

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After studying this chapter you should be able to:

- Concept of differentiation: meaning, objective
- Identify the type of product differentiation.
- Procedure of creating differentiation.
- Define positioning, meaning, importance and describe positioning strategy.
- The reasons of adopting a positioning strategy.
- General positioning errors that a company should avoid.
- Recognize the different positioning strategies that a firm can pursue.

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## 9.3 MEANING OF DIFFERENTIATION

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The dictionary meaning of Differentiation is the “act of differentiating” or “the process of becoming or making something different”. Studies have proved that the success of any brand completely depends on a smart differentiation strategy. Product Differentiation is “offering those set of attribute that competitors don’t have.”

According to Philip Kotler -

“Differentiation is the process of adding meaningful and valued differences to distinguish the company’s offering from the competition”.

Differentiation is the process of distinguishing a product or service from its competitor, to make it more striking and build superiority in the market, so marketers are always looking for new dimensions of differentiation.

Every Company is having different strategy of differentiation to create unique image and build brand equity. The company develops the strategy on the basis of company’s internal competency and competitive environment.

While preparing Differentiation strategy the marketer must focus on the following questions:

- a) Whether the company offer product with some unique features and creativity in the industry, new solution, better services, new offers.

- b) Whether the company will/ can create credibility through the offering by company, which need long time where credibility protects identity, builds Brand equity and image of company.
- c) Does a company offering, deliver better value for money to customer?

### **9.3.1 OBJECTIVES OF DIFFERENTIATION**

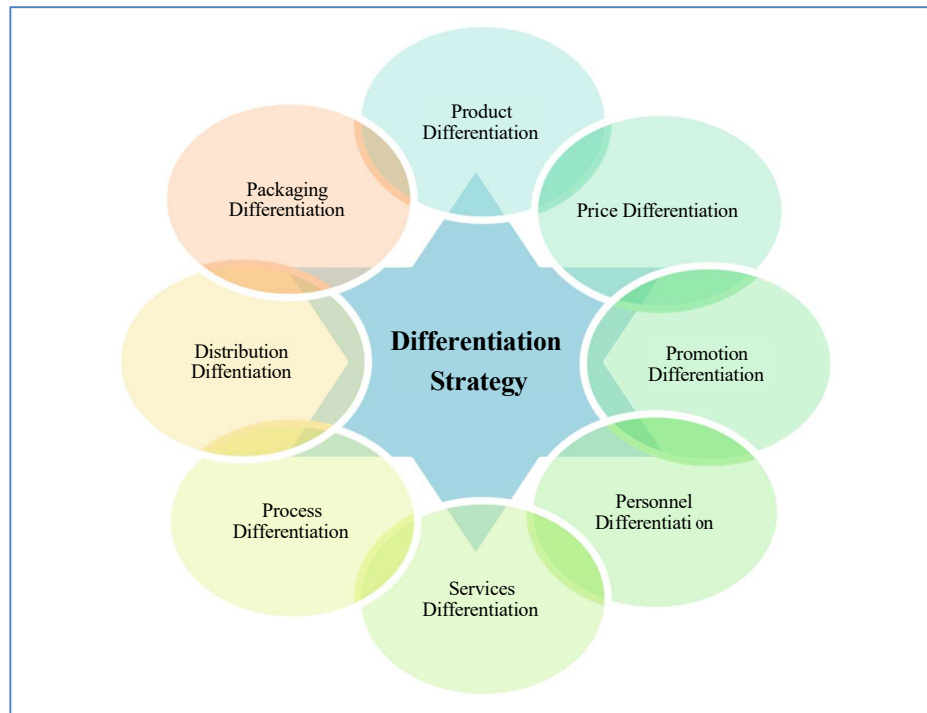
Differentiation is a strategy that not only creates uniqueness but also provides competitive edge. Here the seller faces an abundance of design parameters, including form, features, performance quality, conformance quality, durability, reliability, reparability and style. Some of the objectives of differentiation are;

1. To create Unique, Valuable and Visible presence of product in the market.
2. To have competitive edge over other competitor and exploit Opportunity.
3. Providing marketing advantage to the company.
4. Attracting new customers.
5. Building loyalty with the customer.
6. Establishing strong brand equity.
7. Provide new alternative to customer.
8. To neutralize threat from new entrant, rivalry, supplier.

### **9.3.2 TYPES OF DIFFERENTIATION STRATEGY**

All companies are using different differentiation strategy, which completely depends on the Unique Selling proposition of the company(USP). Some of the differentiation techniques are discussed below.

- A) Product Physical Differentiation
- B) Service Differentiation
- C) Personnel Differentiation
- D) Image Differentiation
- E) Price Differentiation
- F) Promotion Differentiation
- G) Process Differentiation
- H) Distribution Differentiation
- I) Packaging Differentiation

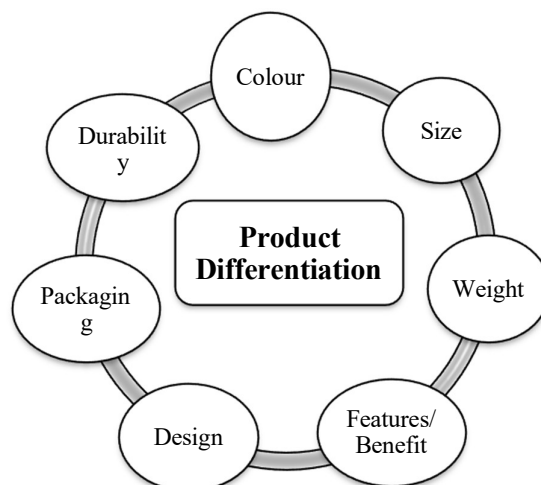


**Figure 9.1: Types of Differentiation Strategy**

**A) Product Physical Differentiation.**

Product can be goods or services. When the product is differentiated on the basis of its unique physical characteristics or appearance that is design, colour, size, weight, packaging, features, durability it is called Product Physical Differentiation.

Example- Two cars of different company and different model can be easily distinguished on the basis of visible nature like, Design, Colour, Size, Weight, functions. Household goods and Furniture are bought on the basis of latest design, features.

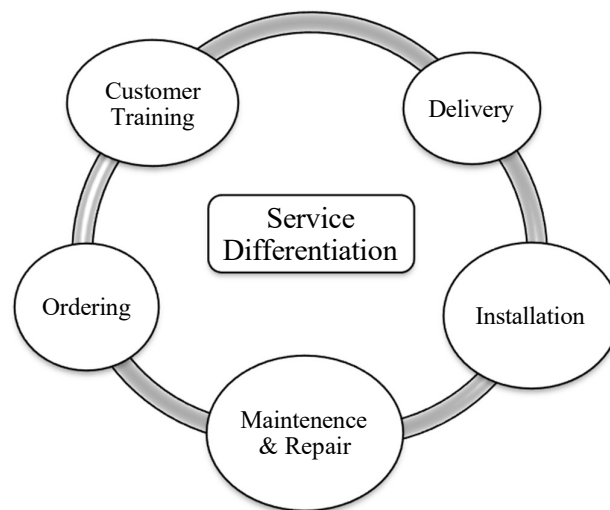


**Figure 9.2: Product Differentiation**

### B) Service Differentiation:

When the product is intangible in nature then it is called services. Services are intangible, inseparable, perishable, non-transferable. If the service is labour focussed then labour differentiation is been adopted, but when the service is technology focussed then technology differentiation is being adopted. Services differentiation is based on delivering a superior service than other competitors, like 24x7 services, Fast response.

Example- Banking, Insurance, Hotel, online shopping, service centre industries uses different aspect of services industry to create edge over competitor. Another example is different services are offered to current account holder in bank than the saving account holder. Different services offered by different Airline industry, differentiation between services offered to economical class and Business Class passenger of Airline. Services offered to Dell Inspiron customer are superior to the Dell Vostro customer. Dell Inspiron customer gets 24x7 services where as Dell Vostro get 24x5 service.



**Figure 9.3: Service Differentiation**

### C) Personnel Differentiation:

Companies can gain competitive edge in human capital through recruitment, selection, training experts over other competing companies.. Especially in service sector by ensuring best, qualified, trained staff and sound manpower their industry the company can do Personnel differentiation. Mainly in labour focussed services where the quality of manpower plays important role. On the basis of competence specialised employee the company creates differentiation. Competitive personnel characteristics like trustworthy, courtesy, competence, responsive.

Example- Hospital industry, Management Consultancy, legal services and coaching institute differentiate their company by hiring most qualified.



**D) Image Differentiation:**

The corporation can build more attracting, appealing and convincing image of the product, which helps the corporation get the differential advantage (Timothy, 1996). Image refers to the public's opinion, thoughts, and feelings about the product and the company. The company can create an exceptional image. The outstanding and distinctive image of the company creates and improves the loyalty of the customer. Name, colours, logo, slogan are some of the tools used in Image differentiation.

Example- Brand like Sony and Apple had created different image. Max Newyork Life Insurance Company, ABN AMRO Bank, HSBC Bank, Blackberry mobile created Image differentiation in their fields.

**E) Price Differentiation**

Price differentiation occurs when the company sell the product at different prices. It is a technique of creating a distinction on the basis of differential pricing.

Example- in Transportation Industry like Airline industry, Roadways and Telecom companies uses Price differentiation. Insurance company charges different amount of premium for the same policy from their customer as per their age.

These industries keep different pricing on the basis of Age, Slack period, peak period, peak hour and off- peak hour. Some company offers a student discount.

**F) Promotion Differentiation**

Promotion is the communication mechanism of exchange of information. It adds value in the eyes of customer, which creates premium over other competitor. Promotion builds interest of customer and distinguishes from other. The various techniques used to create promotional differentiation are Personal selling, Advertising, Word of Mouth (WoM), Sales promotion, Public relations, Net Marketing, Electronic media, print media etc.

Example- There are company which promote their product through special and premium magazines like Harvard Business Review, Forbes etc.

**G) Process Differentiation**

Process differentiation is a unique system in company where they are developing best value services in whole industry.

Example- Tiered activities, Especially in Mutual fund, companies are offering different techniques to sell the funds. Franklin Templeton provides easy process of purchasing the funds online. The customer can change the amount of SIP (systematic Investment Plan) and the customer can also change date of SIP deduction through login account himself.

ICICI prudential Mutual fund provide URN to customer which have to be fetch by customer to their bank account, after that the customer is required to send NACH mandate form to Mutual fund company.

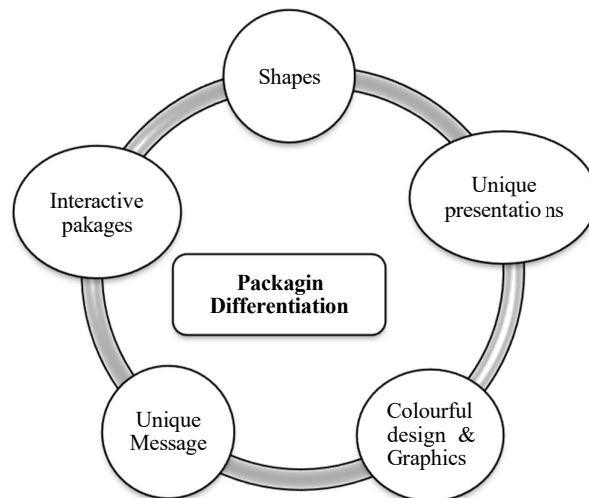
**H) Distribution Differentiation**

It is also called channel differentiation. The objective is to create unique distribution network to facilitate easy access of the product to the customers. Depending upon the companies' policy different channels of distribution are adopted. On the basis of target market and need of the customer the companies are adopting the effective distribution pattern.

Example: Mutual Fund companies like ICICI Pru Mutual Fund and HDFC Mutual fund sell their schemes through online- offline platform. But Axis Mutual Fund outsources Karvy Stock Broking Company, online and offline to sell their product.

### I) Packaging Differentiation

Brand differentiation is fundamental to companies' success, so packaging plays a main role by calling attention of customer to products over those of competitors. Design, Shape, colourful graphics, unique presentations, unique messaging and technological assists are a few of the equipment company use to stay ahead in the competition.



**Figure 9.4: Types of Packaging Differentiation**

Packaging is the art of designing and packing the product which makes the product attractive and appealing to customer.

- a. **Colourful design & Graphics**, it refers to the quality and combination of colours and graphics printed including glossy surfaces. Example- chocolate rapper and packing
- b. **Shapes & design**, attractive shapes and design of packaging is done by company so that product is easy to handle and at the same time innovative packing at times attracts the attention of the customers, e.g., moulded bottles of cold drinks are used.
- c. **Custom presentations** Multipacks and variety packages, increasing visibility and creating unique presence on the shelf. The dimensional presentation creates uniqueness than a symmetrical box does.
- d. **Unique messages**: Some of the companies use unique messages to their customer and give non-verbal message in the form of pleasant environment, temperature, quality of Air, customised treatment.



**Figure 9.5: Packaging of Product**



**Figure 9.6: Design of Product**

### 9.3.3 STEPS TO DIFFERENTIATION STRATEGY

As we have discussed the need and importance of differentiation in this competitive market environment. Now the question is, How to create differentiation strategically? The company incorporate systematic procedure to develop product differentiation. Following are steps suggested.

1. **Identify current image about the product, brand and company, understand the unique features that customer value in product.**

Understanding the current image of the company is very important. Here current image is how customer perceives about a company and their experience with the product. Through market research and intensive study the company can easily list out features customers consider in their purchasing criteria.

**2. Collect, compare and rate top performing company in the industry.**

A study must be conducted to understand the current image of the competitor and their products in the market. Once the data is collected top performing companies should be rated and ranked as per the preferred feature in the product.

**3. Identify the top performers in the industry and ratings your company to competitors’.**

After collecting the information about the best performing company, these must be compared and rated, each in relation to the competitors, on a scale of 1 to 10.

**4. Create a simple, unique, visible concise differentiation.**

Once the information related to companies market offering and their competitor is collected then identify the gap. On the basis of gap identification the company must develop USP that suggests a dimension for differentiation. It acts as the competitive edge for the company and medium to fight the competition. The most successful USPs is concise and difficult to copy.

**5. Confirm that sufficient efforts and appropriate time on devising the right differentiation.** Because as you start promoting your differentiation factor, the competitors will make all efforts to neutralize it. Once USP finalise, the company must put all strategy to keep the differentiation in whole industry.

**6. Be constant with your differentiation once finalised.** Once the perfect selling proposition is created, the company must ensure that they will keep this differentiation for long time period and to be consistent with its use. Customers will start recognizing company by distinct feature and this will create an edge over competitors.



***Check Your Progress-A***

**Q1. What do you mean by differentiation?**

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**Q2. Explain various types of differentiation strategy.**

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**Q3. Choose the correct alternative.**

- i) Differentiation is a process that making customer believes that:
  - a. The Product is inferior to the competitors.
  - b. The company's offer is better than those of the competitors.
  - c. Both a & b correct
  - d. None of the above.
- ii) \_\_\_\_\_ may be basis for Differentiation of the product:
  - a. features
  - b. Trade mark
  - c. Unique packaging
  - d. All of the above.
- iii) Reliability is associated to:
  - a. The design.
  - b. Model.
  - c. The performance of the product.
  - d. The name of the producer.
- iv) Which of the following is a service differentiation variable?
  - a. Ordering & delivery.
  - b. Installation & maintenance.
  - c. Customer training.
  - d. All of the above.
- v) Which is a criterion to be successful in differentiation for any company?
  - a. Affordability & Importance
  - b. Profitability & Superiority
  - c. Communicability & Distinctiveness
  - d. All of the above.

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**9.4 MEANING OF POSITIONING**

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After marketers have identified the targeted customer, the next step is to create & get the space in the customer mind to achieve long-run customer base. Strategies that assist marketers to maximize market share include adding values desired by consumers.

Positioning is concerned with, the placing of the product in the mind of customer. Developing a favorable image, that creates positive attitude towards the company and their product. Positioning is getting the space in the mind of consumer.

According to Al Ries and Jack Trout “The positioning gurus, define positioning as: Positioning is ... your product as the customer thinks of it. Positioning is not what you do to your product, but what you do to the mind of your prospects/customer”.

According to Philip Kotler:

“Positioning is the act of designing the company’s offer and image so that it occupies a distinct and valued place in the target consumer’s minds.”



The combination of product differentiation with market segmentation is called Product positioning.

Positioning is the process of creating a desired image for a company in the minds of a identified customer segment. Positioning refers to ‘**how organizations want their consumers to see their brands**’.

There are three types of images:

- A. **Current image:** The way that a company is seen by customer. Current image is the ground reality about the product and company. It is the perception of customer regarding the offers of company. Current image can be known through market research, survey, feedback and complaints from the market.
- B. **Mirror image:** The way that a company thinks it is being seen by consumer without taking any input from the market. It is observation of the company without interacting consumer.
- C. **Wish image.** The way that a company would like to be seen by customer groups. This is the image that any company desire.

In positioning the company makes strategy to convert current image into wish/desired image. Positioning is playing with the mind of customer through differentiation.

Positioning is based on two approaches either the Consumer or the Competition. Both involve the association of product features with consumer needs. In Consumer approach, the product associated with the benefits the consumer will receive or by creating a favorable brand image, like Sony, Apple, Mercedes and BMW offers in their product, whereas in competition approach, there is comparison of product/offers with the competitor like Banking, Insurance and Mutual Fund Company.

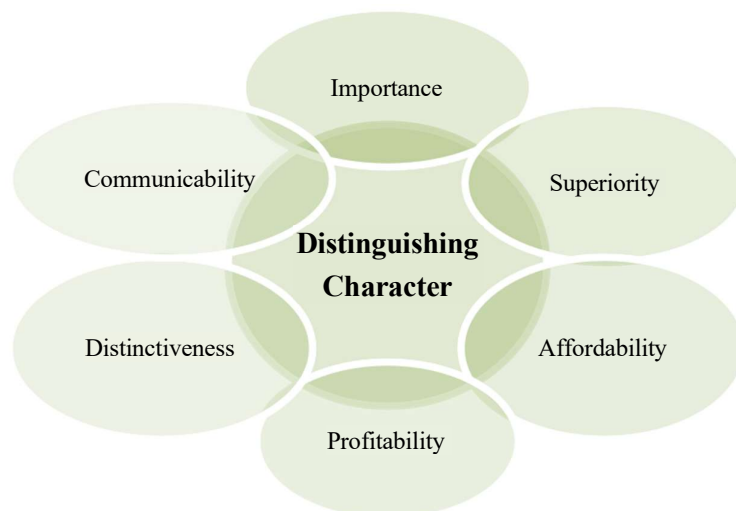
**Positioning** has been defined as “the art and science of fitting the product or service to one or more segments of the broad market in such a way as to set it meaningfully apart from competition.”

Positioning is the image that includes beliefs/opinion, feeling, attitudes, and impression of customer or consumer towards the product, brand and company. Positioning includes not only one but total impression.

Every product/service has potential to have some distinction over other. Customers are attracted to different needs as per their needs or problem which may include either one or combination of best quality, best service, lowest price, best value, safest, fastest, most customized, most convenient, most advanced technology.

The companies are selecting some unique basis for positioning which are as follow:

- a. Distinctiveness
- b. Superiority
- c. Affordability
- d. Profitability
- e. Importance
- f. Communicability



**Figure 9.7: Basis for positioning the Product/offers**

- a. **Distinctiveness:**  
The unique feature/characteristics which are distinctly superior over the other competitor in the market.
- b. **Superiority:**

The unique features/characteristics of product that cannot be easily copied by competitor.

**c. Affordability:**

The customer and consumer are able and willing to pay for the unique feature.

**d. Profitability:**

The company will attain additional profits by incorporating the distinct character.

**e. Importance:**

The unique character is highly valued and identified by the consumer.

**f. Communicability:**

The unique feature should be convincing and possible to communicate the difference in a easy and strong manner.

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## 9.5 OBJECTIVES OF POSITIONING

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1. To create space for product and service in the minds of target customer.
2. To improve consumer perceptions.
3. To have unique identity in the market and grab an unoccupied position.
4. Establishing brand equity and strengthen the current position.
5. Develop superiority over the competitor.
6. Promoting the products premier quality.
7. Develop business for the company.
8. Empowering the business partners and shareholders.

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## 9.6 VARIOUS TYPES OF POSITIONING STRATEGIES

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Marketers in a company follow different positioning strategies. Companies are using strategies on the basis of Unique Selling Proposition. Some of techniques are.

**1. Positioning by Attribute or benefit:**

The most commonly method used for positioning is on the basis of the unique feature or benefits offered. It is with a specific use or application.

For example there are many company of Toothpaste like Colgate, Pepsodent, Close Up, Sensodyne, Anchor, Oral-B, Babool, Dabur Red, Aqua Fresh. All are doing well in the market because of different benefits associated with each. Colgate is popular and most recommended by dentists for whiten teeth, strength the enamel on teeth and freshen breath. Close-Up is the brand known for including mouthwash ingredients and designed to prevent cavities. Sensodyne toothpaste is trusted by people with sensitive teeth, it is designed to reduce the pain with tooth that protects tooth enamel.

Surf Excel is positioned as stain remover. Clinic All Clear is positioned to remove dandruff.

**2. Positioning by Comparison/Competitor:**

It is an offensive positioning strategy and is often seen in comparative advertising of perfect competition market. In this approach positioning is done within the same product category.



Companies position their product by advantages over their competitors and position themselves against an entire industry. It is also called positioning as a leader.

For Example: Bangur Cement compare with other competitors, Comparison between the various News Channels. A comparison between Aaj Tak and other News channel is one of best example. An advertisement where there is comparison of two competing brand like Amar Ujala and Hindustan, Wheel and Nirma washing powder.

### 3. Positioning by user:

Another approach is positioning by associating the product with a particular group/individual users. Positioning a brand done by focusing a specific class of customer like Luxurious car Audi A3, Lexus IS, Mercedes-Benz E-Class, BMW 4 Series are designed for the white-collar employee and Businessmen.

Other examples are Instagram and Face book are exclusively positioning young population. LinkedIn is used by Professionals, Naukri.com, Shadi.com, Canteen and other facility provided by Defence to serving or retired army personnel.

### 4. Positioning by price/quality:

Marketers some time use price/quality to position their product/company. By an advertisement that reflects a high quality product and the quality benefits derived from using the product. Another technique to use price/quality features for positioning is to focus on the quality or value presented in the product at a very competitive price.

For example, the advertisement of Bangur cement they say “Sasta nahi, Sabse Accha”. Although price is an important consideration, remember that the product quality must be comparable to, or even better than, competing brands.

### 5. Positioning by Celebrity/Brand Endorsement:

Most of the companies are positioning their company/product by celebrity endorsement in order to establish Trustworthiness, Attractiveness, superiority and Expertise. Celebrity Endorsement concept helps brand/company to create its image in the market and make customer to remember their brand with the image of celebrity. It is a marketing strategy where social status or the fame/name and image of well-known personality are used for positioning the product/ company.

Example: **Amitabh Bachchan**- Dabur, Cadburys, ICICI Bank, Parker, Zen mobile, **Salman Khan**- Wheel, Revital, Scott, Thums-up, Relaxo, Audi, **M.S. Dhoni**- Reebok, Exide, Big Bazaar, TVS motors, Dabur honey, **Deepika Padukone**- Axis Bank, Fama DI, King, Yamaha Scooters, Sony, Nescafe, Tanishq. **Sachin Tendulkar**- MRF Tires, Aviva Insurance, Canon camera. Luminous.

Marketers some time uses the names of well established powerful brands for introducing their new product line or while entering another product category. Example is Hindustan Uniliver Ltd

### 6. Positioning by Corporate Identity:

Most of the company generates a unique Identity in the society by delivering quality product/ offers. These types of positioning take time and cannot be established over a night. This is the result of companies' dedication to fulfill their commitment towards the society. These are the tested and trusted brand serving the market since long time period.

For example: Sony, Apple, TATA, Wipro, Honda, BMW, Royal Enfield etc.

### **7. Positioning as an Expert:**

When a company develops some specialization, then it starts positioning them as an expert. After acquiring sound knowledge and technical control over certain process or technology the company is identified as Expert in the whole industry.

For Example:

BuzzValve ,is full-fledged content production firm helps brands and start-ups strategize, write, and design excellent web-based content. Their customers are BJP, Honda, Dr. Reddy's, Omni Active Health Technologies, Mindshare, UNICEF, Indigo 91.1 fm, Dancing Turkey, Johnson & Johnson etc.

Ethinos is one of the leading digital marketing agencies which provide all-round digital marketing services including social media, digital strategies, branding & design, SEM, SEO, content marketing, PPC, ORM, and mobile & app marketing in India. Their clients include Accenture, Ambuja Cement, Wipro, NASSCOM, KPMG, NIIT technologies, The Times of India, Kotak, etc.

Sanyo is the Japan based company known for the technological expertise which supplies maximum technical parts to all electronic company around the world.

RAW & IB is the specialized agency known for Intelligence and security in India.

### **8. Positioning through Guarantees:**

Most of the Marketers adopts the strategy of unconditional money back and Buy Back Guarantee to the customers. In order to establish loyalty with customer and deliver satisfactory product they returns money to customer with no question asked. These companies are well known for best quality service and error free product. It is one of the best strategies used in service industry to create credibility and reliability.

For Example: Flipkart, offer its unique buyback guarantee offer on purchase of product during 'Big10 Sale'.

Dawn dishwashing liquid. Money-back refunds are one thing but Dawn, manufactured by Procter & Gamble, says if you're unhappy with the cleaner's grease-fighting power, the company will give you two times what you paid for it.

Wal-Mart's warehouse membership club has a new guarantee on its perishables—fresh meat and baked goods. If customers do not like the food, the chain will give double money back or exchange the product and still refund the purchase price.

### **9. Positioning through smart Tag line:**

Smart Tag Line is a statement that resembles any company or its product and act as unique Identity for a company. These smart lines convey some benefits or message to the customer which attract the customer. Through smart tag line companies tries to explain that how better they understand the problem and needs of customer. Here are name of some company with their tag line.

Birla Sun Life Insurance Company- "Your Dreams, Our Commitment", HDFC Standard Life Insurance- "Sar Utha Ke Jiyo", Max Life Insurance – "Karo Jyada Ka Iraada", Oriental Insurance Company – "Prithvi, Agni, Jal, Akash, Sabki Suraksha Hamare Paas",

HDFC Bank-“We Understand Your World”, Aditya Birla Group- “ Taking India to the World”, Aaj Tak- “Sabse Tej”, Acer- “Empowering People”, Airtel- “Express Yourself”.

### **10. Positioning through Emotions:**

Positioning through Emotions is a commercial advertisement where marketer uses and tries to link the emotional moment (such as love, affection, fear, concern, relationship) with the product. Here the company appeals the customer that product is important their relationship which empowers the relation.

For example: A granddaughter in India decides to surprise her grandfather on her birthday by reuniting her with her childhood friend (who is now in Pakistan) after over 6 decades of separation, with a little help from Google Search.

Commercial Advertisement of MetLife Insurance company-

"My Father is a Liar" a Heart-touching video advertisement, where a girl telling about a father who lies to his daughter to make her happy.

Commercial advertisement of Bourn Vita Badam-

“Taiyari Har Exam Ki.” in which a school principal makes parents question if they are chasing after the right thing when it comes to their child’s education.

MAX NewYork Life Insurance commercial Advertisement for India-

Where the marketer tries to identify the gap and bridging with Insurance policy and give assurance to meet the need of all with tag line “Nazar ko kya chahiye, bus khwab thode Jyada”

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## **9.7 PROCEDURE OF SETTING POSITIONING STRATEGY**

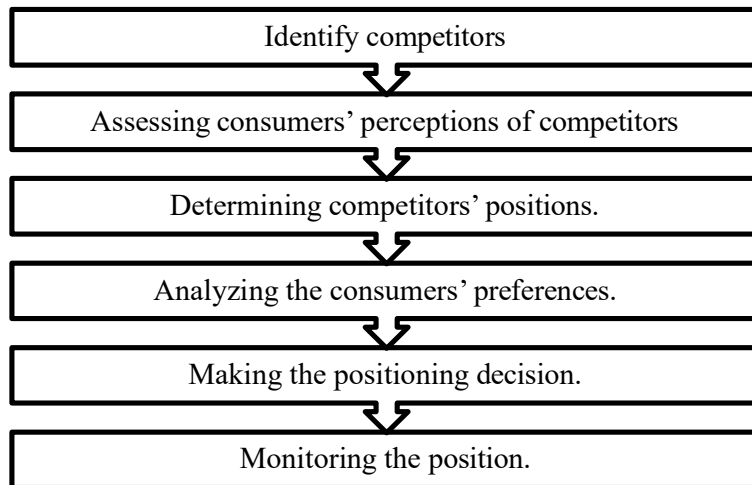
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Once the types of positioning are understood and explored the marketer must identify strategy which is best suitable for the company, brand and product and start establishing platform for developing the positioning strategy. Certain procedure is being recommended for developing the positioning platform. The step-by step process of creating positioning platform is as follow:

### **1. Identifying competitors.**

Identification of competitor is one of the prime step that is to be taken by marketer because the objective of positioning is to get the space in the minds of customer and that is only possible when company will able to differentiate from the competitor through some USP. There are few questions which are to be answered for establishing strong positioning strategy. Who is our competitor?, In which industry our company exists? The are regulatory body of the Industry? This process requires critical thinking.

For example- Mutual Fund Company offers many schemes like Equity, Debt, Hybrid, and Balanced Funds. Each of these funds has to compete with not only with each other but also with other Mutual fund company in the industry. So, it is one of the important inputs for designing the effective Positioning strategy for any company.



**Figure 9.8: Designing the Positioning Strategy**

**2. Assessing consumers' perceptions of competitors.**

After the identification of competitor, the company must understand the current image of the customer to see, how competitors are perceived by consumers. Here the company must find the solutions to certain questions like; while evaluating a product and/or brand, what attributes are important to consumers? The attribute of the competitor product helps in understanding the unique specialisation of company which helps any company in creating superiority over others.

Assessing the current image of competitor through focus groups or complete surveys clears the kind of placement and existing position of product in the mind of customer and its pros & cons. As the company prepares their positioning strategy to compete with the competitor and develop superiority over others.

For example- important attributes considered in the selection of a Mutual Fund may include easy transacting, convenient to use, secured returns, friendliness, financial security, credibility and reliability.

**3. Determining competitors' positions.**

Current image provides necessary information about competitors. The information collected should be arranged in a systematic manner and determine how all competitor is positioned with respect to each attribute. Now the all competitor including our own company should be ranked as per the market research to understand the competitors' position.

**4. Analyzing the consumers' preferences.**

Consumers' preferences can be analysed after understanding various segments of consumer, as Demographic, geographic, psychographic etc rates on different attributes of product in each segment. Identification of Ideal product or Brand is necessary as Ideal products are those which consumer prefer most over all available product. Secondly, customers expected attribute which is not available in any brand till now must be observed. Identification of ideal product can help us identify different attributes.

### 5. Making the positioning decision.

Next step is deciding the positioning method to place product in the customers mind. The marketer or the concerned management must make subjective decisions by answering the questions like.

- a) Is the segmentation strategy appropriate?
- b) Are there sufficient resources available to communicate the position effectively?
- c) How strong is the competition?
- d) Is the current positioning strategy working?

#### a) Is the segmentation strategy appropriate?

Segmentation facilitates the marketer in identification and positioning of product; the marketer must ensure that the segmentation selected is suitable and provide convenience in understanding the potential customer and market. Segmentation should be done by keeping the best interests of the company to reduce the impact of the remaining market.

Positioning is done on the basis of attributes available in product and the targeted customers need. Segmentation is done to identify the segment with high opportunity.

When product is designed to undifferentiated market then segmenting may not play a much significant role. If the company is dealing with differentiated segment then segmentation plays very important role if the segmentation is done appropriate manner.

#### b) Are there sufficient resources available to communicate the position effectively?

Secondly, the marketer must put all efforts to project and place their USP in the customers mind. Company should use all the medium of advertisement to promote products. The marketer must assess the effectiveness of resources available to communicate to targeted population.

Company must use all and most effective methods of promotions as per the changing technology and customers' reach.

#### c) How strong is the competition?

The marketer must assess and evaluate whether the positioning strategy strengthen the brand equity of company. The efforts of marketer should be based on two basic questions:

- 1. Whether company will be successful in maintain their position, if company first enter-s into market?
- 2. Whether company will able to fulfil their commitment?

#### d) Is the current positioning strategy working?

Next thing that a marketer should check that effectiveness of existing positioning strategy and if positive results are not found then as an effective measure, they must go for other alternative. If the current strategy is not performing well, it will weaken a brand's position.

Until and unless there is strong reason for change in positioning is necessary, the company must continue with the current strategy.

**6. Monitoring the position.**

After the positioning strategy has been established, the marketer needs to observe that how the positioning strategy is doing. The marketer should study and measure the image of the product over time. If the wish image of company is not converted into current image then remedial actions should be adopted.

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## **9.8 POSITIONING ERRORS**

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Positioning is one of the effective tools for the company to create brand equity for the company. It assists company in creating the wish image in the minds of the customer. The marketer must be careful while designing the positioning strategy. Any error in the positioning strategy will mislead the message and divert them from achieving the objectives.

It means the positioning should not increase the expectations beyond the company's competency. In this case customer will always be dissatisfied. Secondly, the company should project only on one attribute rather than highlighting many attribute; it will create confusion in customer mind and difficulty in differentiation.

Company can easily position the current Image to wish image avoiding following three errors and to ensure clear positioning of its product:

**a. Under-Positioning:**

If the company is unable to differentiate their product from competitors' brands, it is called under-positioning. If a company is not able to develop unique attribute and they are similar to the other brand in the market.

**b. Over-Positioning:**

Some time the projection of attribute is so highlighted that customer get doubt on the attributes of the product. The customer does not believe on the offers of the company. The consumer does not get confidence in purchasing the product.

**c. Confused/Doubtful Positioning:**

This is the situation where the company highlights many attribute ,than focusing on one attribute. It creates ambiguity among the all competitors. Due to the gap between the claims made in company's product and advertisement by the company.

**Check Your Progress- B**

**Q1. Define the term Positioning and discuss various types of Positioning strategy.**

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**Q2. Why positioning is considered as an important element as targeting consumers.**

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**Q3. Explain various positioning errors that any company should avoid while designing the positioning strategy.**

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**Q4. Examine the procedure for setting the positioning strategy.**

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**Q5. Multiple Choice Questions-**

- i) A positioning strategy is used by company to:
  - a. Differentiate a product from its competitors.
  - b. Positioning a company to serve customers in one or more product market niches.
  - c. Both a & b
  - d. None of the above.
- ii) Positioning is a marketing strategy of:
  - a. Establishing a position for a product in the consumer's mind.
  - b. Differentiating the product from others.
  - c. Both a & b
  - d. None of the above.
- iii) Which decision does not consists a positioning strategy?
  - a. The product or service offering.

- b. Welfare programme for employee family.
- c. How distribution will be accomplished.
- d. Choice of a pricing strategy
- iv) The necessity of a strong positioning strategy is:
  - a. Deliver customer satisfaction to the firm's target market
  - b. Meet the corporate and marketing objectives
  - c. International competition.
  - d. Both a & c
- v) Head-to-head positioning may be suitable when:
  - a. The price is higher
  - b. The product's performance characteristics are superior
  - c. Both a & b are correct
  - d. None of the above.

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## 9.9 SUMMARY

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In this chapter we have discussed differentiation, the topic that covered are Meaning of Differentiation, objectives and importance of differentiation. As differentiation is one of the important vehicles for any company to achieve company's goal in a smooth manner. Differentiation is a mechanism which assists company in creating unique attribute in their product. Without differentiation the positioning is difficult. There are many types of differentiation i.e. Product Differentiation, Price Differentiation, Promotion Differentiation, Personnel Differentiation, Services Differentiation, Process Differentiation, Distribution Differentiation, Packaging Differentiation. Each differentiation is explained with example. We have learnt process of developing the differentiation strategy for the company.

Second concept we discussed is positioning, where we learn about positioning, its importance. More over we discussed that Differentiation is managing the attributes of product where as Positioning is playing with the minds of customer. We also learned about types of Positioning and process of positioning. Finally we understood about the barriers in the positioning product that suggest the company to take precautionary measures while preparing positioning strategy.



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## 9.10 GLOSSARY

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**Unique Selling Proposition (USP)** - Special quality, expertise, specialization.

**Mirror Image** - Image that a company feels it is being seen by customers.

**Current Image** - The way that a company is seen by customer, Actual perception of customer about Company/Brand/ product.



**Wish Image** - The way that a company would like to be seen by customer groups. This is the image that any company desire.

**Celebrity** - The fame and public attention accorded by the mass media to an individual.

**Endorsement** - The action of endorsing someone or something.

**Perception** – It is process of receiving and interpreting the stimuli from the environment.



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## 9.11 ANSWERS TO CHECK YOUR PROGRESS

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### Check Your Progress –A

- 3.
- i. b
  - ii. d
  - iii. c
  - iv. d
  - v. d

### Check Your Progress –b

- 5.
- i. c
  - ii. c
  - iii. b
  - iv. d
  - v. c



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## 9.14 TERMINAL QUESTIONS

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1. What do you understand by differentiation? And discuss the significance of differentiation in present business world.
2. Discuss the various types of differentiation strategy.
3. Explain process of differentiation with suitable example.
4. “Positioning dealing with the consumers’ mind where as Differentiation is dealing with the attribute of product” comment.
5. Discuss the types of positioning strategy adopted by company.
6. Explain the term Current Image, Wish Image and Mirror Image with example.
7. Distinguish between product differentiation and product positioning?
8. Discuss various types of positioning strategy marketer use with example.
9. Explain the importance and scope of positioning.
10. Explain various the Positioning Error that any marketer should avoid in positioning the product with suitable example



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## 9.15 CASE LETS/CASES

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Barley is a brand that has been growing gradually over the years. The increasing in the customer base as they well addresses their customer. The new ad campaign of the Rs 1000 crore Barley brand is just hitting national networks and the message is clear to many people. Although Barley features in the top 10 of most consumer surveys this is one of its highest ratings so far, Says Mr. Sashwat Basu, managing director, Bal Dev Products (BDP), "We are delighted at the rating that Barley has got in one of the Research agency".

However, we are aware of the quality of Barley through our closeness to consumers, but it is always nice to get independent acknowledgement of the fact." The flagship of BDP, Barley has been showing consistent annual value growth of about 30 per cent in the last two years. And more may be expected. Thus, BDP is busy setting up a Rs. 250 crore dedicated Barley facility at Sonapat, Haryana. Invented in 1984 by Philip Barley, the brand has been available in India for 20 years. From being a drink taken only during period of recovery the brand has repositioned itself since the eighties as a 'great family nourished'. Mr. Vaibhav, Advisor, BDP, says, "We have continuously nurtured the equity of Barley Company very carefully over the years and this has resulted in a healthy bonding between the brand and consumers." In fact, the

company's consumer survey shows that consumers over time and experience have developed a good relationship with the brand. That's something they find more effective than an ordinary bonding. Enthusiasm has been maintained despite its maturity stage by avoiding complacency. Many big companies with huge equities tend to fall to the temptation of sitting tight. And that in return can result in a brand losing their importance.

But Barley has taken a proactive stance. Explains Bhawika Pant, Head of marketing-dietary business, BDP, "it has been our learning that if there is a giant company with a lot of equity and it does not bring changes to meet the changing need of consumer and some other brand with more consumer satisfaction comes in competition and in market segments. So before anyone else could, the company stake out some new territory. This is the reason why Barley has come out with new products such as Junior Barley, Mother's Barley and Barley bakers, Barley chips. The idea here is to lengthen the core values to new formats and benefits. And that in turn raises the market share. Take biscuits. They have meant a different distribution and marketing technique – easy availability of the brand at a low price. And this gives the brand a new way to get into smaller outlets - including the all local shop where it never could have been before. Even if products like Junior Barley support the mother brand, at least 60 percent of its users are new incremental consumers.

**Questions:**

1. Design an effective positioning strategy for the Barley Company.
2. Discuss the differentiation technique adopted by Barley Company to position their company/Brand/ Product.
3. Explain and suggest Positioning Error that Barely should avoid.
4. Suppose that you are Marketing Executive of the Barley, Mr. Sashwat Basu asked you to plan a positioning plan for their company and their product.

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## UNIT 10 CONSUMER BEHAVIOUR

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- 10.1 Introduction
- 10.2 Objectives
- 10.3 Meaning of Consumer Behaviour
- 10.4 Objectives of Consumer Behaviour
- 10.5 Significance of Consumer Behaviour
- 10.6 Consumer Buying Behaviour
- 10.7 Factors affecting Consumer Behaviour
- 10.8 Categories of consumer
- 10.9 Consumer adoption process
- 10.10 Summary
- 10.11 Glossary
- 10.12 Answer to Check Your Progress
- 10.13 Reference/ Bibliography
- 10.14 Suggested Readings
- 10.15 Terminal & Model Questions
- 10.16 Case study

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### 10.1 INTRODUCTION

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In the previous unit you learned Differentiation and positioning strategy. Differentiation is the technique of developing unique identity for company by creating Unique Selling Proposition. On the basis of proposition the company creates and get space in the minds of potential customer. Differentiation is means for positioning the offering of the business houses in the society and in customers mind. The differentiation is necessary for giving a unique image of the company which is company focussed whereas the positioning is the strategy and the art of creating favourable attitude of customer towards the company's product, here the positioning is customer focussed. So, it is very important to understand the concept of consumer, their types and everything related to customer.

Days are gone when it was a producer centric market, where everything was decided by company whether goods/ services, price, place, promotion. Due to the economic policy, Industrial growth and advancement of Information & Technology, the complete scenario has changed. Now the power has shifted from the producer to consumer, where everything is decided on the basis of consumer .

The concept of Marketing is customer oriented, which provides effective solutions for certain important questions like What to produce?, How much to produce? What attributes to produce in product? What should be the price of the product? How to distribute the product to targeted customer? Until and unless the answers are collected from the customer, it will be difficult for the company to survive and play in a long competition. It is identification of

potential customer, converting them to regular customer and establishing a long relationship with them.

Customer and competition are opportunity for the company. It is to understand the customer because they change their attitude over a time period and there are many factors that influences consumer purchase behaviour. Over a period of time it is found that demographic factor are changing, customers' economical power is changing, and social psychology is changing which is a threat as well as opportunity for the company. Finally, we may conclude that consumer is the prime interest of the company which provides the solution to various problems and gives reasons for existence to the company. After LPG (Liberalization, Privatisation and Globalisation) the world has become a small village, where large numbers of MNCs are competing not for profit but for surviving in the market by understanding and satisfying customer.

In this unit, you will study about Consumer, consumer behaviour, types of consumer, significance of studying consumer behaviour. It will also be discussed what are the factors affecting consumer behaviour and how? Finally consumer adoption process will be discussed.

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## 10.2 OBJECTIVES

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After reading this unit you will be able to:

- Concept of Consumer and consumer behaviour.
- Objectives of studying consumer behaviour.
- To understand the customer, customer behavior and factor designing them.
- Consumer decision making process.
- Buying Behaviour of consumer and types.
- Factor affecting Consumer Behaviour.
- Designing Marketing strategy.

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## 10.3 MEANING OF CONSUMER BEHAVIOUR

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Consumer behaviour is one of the functions of marketer where company study actions of consumer and the factor that affect the consumer purchase behaviour. We must understand the difference between Consumer and Customer.

In 1890, Mahatma Gandhi gave a made a visionary statement at South Africa:

“A customer is the most important guest for every company. Customer is not dependent on company but Companies are dependent on customer. Customer is important part of

companies' premises, he is not an interrupter. Company exist because of them. Customer is favouring company by providing opportunity to serve them".

Consumers are individual or group of people that are ultimately disposing the utility of product. Consumers are end user of the product. Customers are individual or group of people who all act as an intermediary between Producer and final user. All consumers are customer but not necessarily that all customers may be consumer. Anyone who buys product are customer if the purchase is for other then he/she is customer but, if the product is purchased for own use it is called customer as well as consumer.

There are basically two types of consumer- Retail consumer and Organisational consumer. Retail consumers are those consumers who buy the product for their personal use. When the product is purchased by end users for final consumption is called Retail consumer or Individual consumer.

Example- If any customer purchases car, mobile, laptop or any other consumable product for their personal use or family purpose they are called Retail consumer.

Organisational consumers are the institutional buyers who purchase the product for the industrial purpose. Organisational consumer purchases the product in bulk as per their manufacturing requirement where as retail consumer purchases the product in small quantity.

Consumer behaviour is the study of consumer, about their purchasing habits, types of decision and factors affecting their purchase decisions. It is that subset of human behaviour that is concerned with decisions and acts of individuals in purchasing and using products.

Consumer behaviour refers to the behaviour that consumer display while making a purchase decision, searching for purchasing using evaluation and disposing of product & services that they expect will satisfy their needs, it includes the study of what they buy?, when they buy?, where they buy?, how often they buy? And how often they use it?

Consumer behaviour is more than just how a person buys. Consumer behaviour is dynamic interaction of affect, behaviour, cognition, decision process, emotional process and environment.

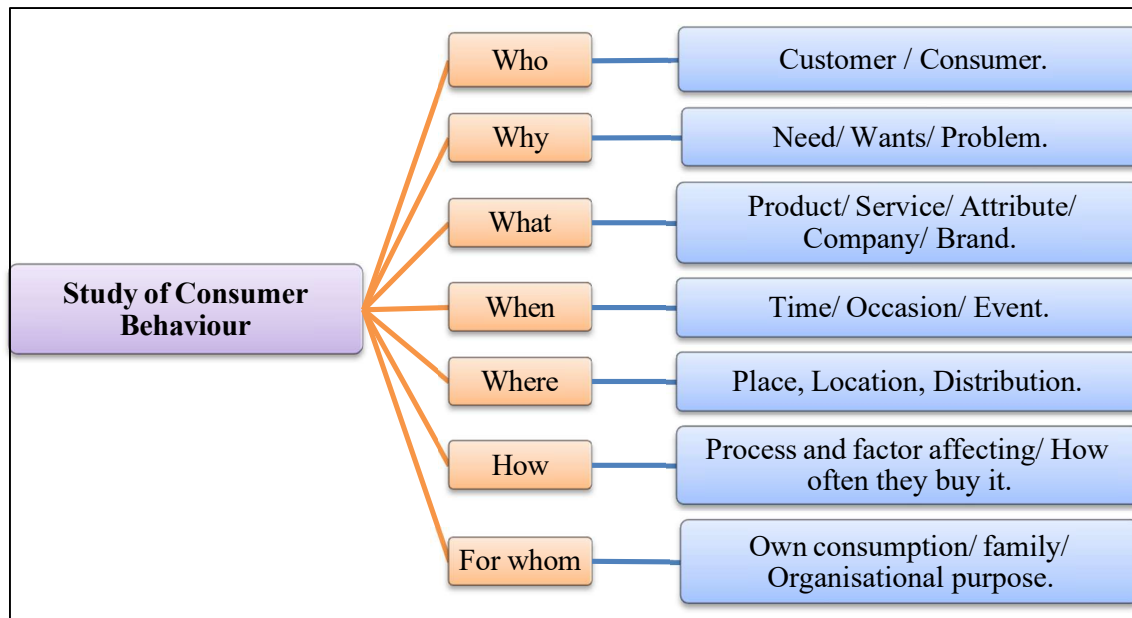
According to American Marketing Association consumer is defined as, "The dynamic interaction of affect and cognition, behaviour, and the environment by which human beings conduct the exchange aspects of their lives".

Consumer Behaviour is periodical study by marketer about consumer behaviour, their taste, purchase pattern and the factor influencing consumer behaviour. The researchers believe that by identifying, studying the factor which influences consumer to choose a product over the other, it become easy to know the customers taste, preferences and attitude towards the product and company. On the basis of the facts collected in the study, effective marketing strategies are designed to create market leadership.

Study of Consumer behavior has become prerequisite for every company. It has become a prerequisite necessity for the companies for making suitable strategic decisions. The marketer can easily predict the response of consumer once he has knowledge about consumer taste and

preferences. Consumer behaviour is necessary for company to serve the consumer better. It helps the company in segmenting, positioning, pricing, scheduling, advertising and designing the activities.

Consumer Behaviour is a specialised marketing field that study all the stages a consumer experiences before purchasing the goods and services for ultimate use.



**Figure 10.1: Study of Consumer Behaviour.**

## 10.4 OBJECTIVES OF CONSUMER BEHAVIOUR

Consumer behaviour is having very significant role in the present scenario of competitive environment. Now the challenge is not to earning profit but to survive.

1. Identify the existing, potential and ex-customer.
2. Creating effective marketing strategy.
3. Facilitating and satisfy customers by adding value.
4. Creating brand equity for the company.
5. Developing a customer focused marketing mix.
6. Creating favourable business opportunity for the intermediaries.
7. Design effective solution for customer's problem.
8. Survive and have consistent growth of company.
9. To observe and analyse consumer response.
10. Understand new business opportunity with new product length.
11. Creating an effective advertisement and promotion strategy.
12. Providing training and enhancing the skills as per the dynamic nature of consumer.



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## 10.5 SIGNIFICANCE OF CONSUMER BEHAVIOUR

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Consumer behaviour plays significant role in designing competitive marketing strategy. Marketer develops solutions to the consumers' problem. Company need to continuously update and innovate as per the dynamic nature of consumer. Until and unless the company understand the relevance of consumer behaviour, it will be complicated for company to enjoy market leadership.

Consumer behaviour suggests key input for carving the companies fortune. Presently it is consumer era where customer plays centre role in the companies governance.

**1. To survive and achieve goals:**

In the modern era customer-oriented market, customer plays central role in the growth of any company. In this highly competitive environment only those company will be surviving who will understand and satisfy the customer. By achieving the satisfaction of customer the company can survive and attain their objectives. Companies are priority is not to earn profit but to survive. Satisfied customers are means of success for the customer.

**2. Facilitates channel partner:**

Consumer behaviour is also useful for the various channel intermediaries who plays vital role in the facilitating the product from the company to the final user. Awareness and knowledge about consumer changing taste & preference helps the distributor and retailer to serve customer in a wise manner. It enhances the performance of all distribution system.

**3. Effective marketing strategy:**

The study of consumer behaviour assists company in designing marketing policy for the company which explores important input in deciding the attribute customer searches in the product. Consumer behaviour share the expectation consumer is having from the company to serve them better. Company makes various important decisions like pricing, on the basis of the consumer purchasing power. Company can easily understand the purchase behaviour of consumer, their life style and factors influencing the purchase decisions. All the marketing decisions are prepared with an objective of market leadership.

**4. Continuous development of the company:**

Consumer behaviour is a continuous exercise by any consumer-oriented company. As consumer are dynamic in nature, where consumer change their taste and preferences over a time. The company needs trap the momentum of change in order to stay long in the competition. There are various factor both controllable as well as uncontrollable factors which influences the consumers. Company adopts changes as per the current market trend to develop and grow consistently.

**5. Identifying the emerging opportunities:**

Consumer behaviour acts as barometer to identify and to measure the quantum of future trends. The practitioner can easily predict future trend on the basis of the past market trend to enjoy the emerging market opportunities and dealing with threats. Consumer behaviour assists company to equip with necessary technique in the upcoming amendment to serve the customer.

**6. Facilitates segmentation and positioning:**

There is large degree of heterogeneity in the customer behaviour. If the company designed their product on the basis of common needs of, general consumer as a whole then it is fine but when the product is for the specific attribute or unique need. The consumer behaviour helps a company to identify the potential consumer by segmenting them into homogeneous group to understand and serve them better.

**7. Customer Relation Management:**

Managing customer relationship has become the challenge for the company. Organisation had identified the relevance of retention and now instead of focusing on new consumer the companies are putting efforts to retain their existing consumer. The growth and success of company depends on how long the consumer stays with company. Consumer behaviour guides company to develop loyalty programme, satisfaction and quality.

**8. Market leadership:**

Consumer behaviour provides important input for developing competitive edge to fight and survive in the market at global level. Consumer behaviour harnesses unique feature in the company and product which creates differentiation with rest of the competitors. Differentiation provides an advantage over other companies in the industry. It helps the company in creating superiority over the other brands and enjoys leadership.

**9. Expanding new product length:**

After assessing the needs and expectation the company can expand the product under their company umbrella. Consumer behaviour discloses the current needs and unsatisfied problem that gives clue to marketer to increase the product in their brand which leads to growth and new business opportunities.

**10. Optimum utilisation of resource in dynamic environment:**

As the consumer behaviour is dynamic in nature which updates and alerts company and assists marketer to make companies efforts consumer-focussed. It helps in predicting the possible challenges in the upcoming environment and to prepare company to achieve maximum returns.

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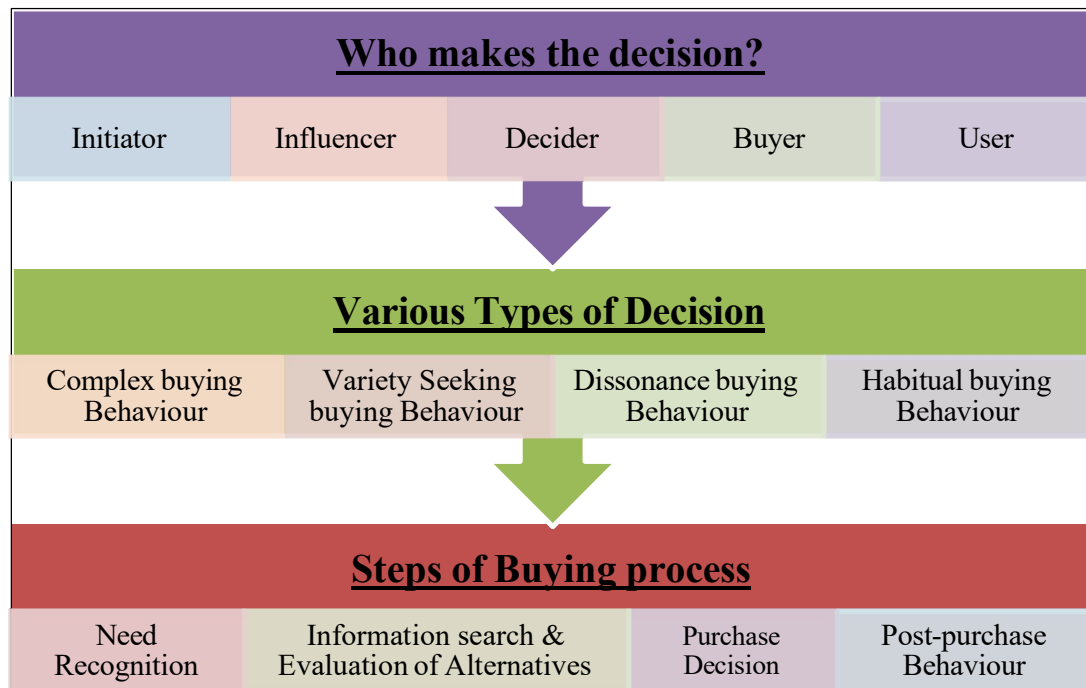
## 10.6 CONSUMER BUYING BEHAVIOUR

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Consumer buying behaviour is the mechanism which explains how decision is made to purchase the product, various types of decisions and steps in buying process. It refers to behaviour and decision making by the final consumer. Consumer buying behaviour involves answers of three questions.

1. Who makes the purchase decision?

2. What are various types of decisions taken by customer?
3. What is the buying process adopted by customers?



**Figure10.2: Consumer Buying Behavior**

1. The first thing that is of interest to companies is, who makes the purchase decision?
  - a) Initiator- The person who first suggests or thinks of the idea of buying particular product.
  - b) Influencer- A person who views or advice to influence the buying decision.
  - c) Decider- The person who ultimately makes a buying decision and decides whether to buy and from where to buy.
  - d) Buyer- The person who make an actual purchase.
  - e) User- The person who consumes or uses a product or finally disposes the attributes of products.

While purchasing the Car, Insurance policy, House, washing machine Initiator, influencer, decider, Buyer and user may differ.

2. The various types of decision are:

**a) Complex buying Behaviour:**

When the consumers are highly involved in purchase and there is a significant level of difference between available brands. Consumers are highly conscious because product is of expensive brand, not purchased frequently, risky and highly self expressive. The customer does not know much about the products and wants to collect a lot of information about various brands.

For example- Purchase of House, Luxury product, Software for company, investment in Mutual fund and share market

**b) Variety Seeking buying Behaviour:**

When the consumers are low involved in purchase of product and there is a low level of difference between brands available. In this consumer is having low involvement as the product is not expensive and it is frequently purchased. Secondly, there is a significant level of difference between brands. The consumer is having some belief; chooses a brand without much evaluation.

For example - Purchase Chips, salt, pen, and shoes.

**c) Dissonance buying Behaviour:**

It is like complex buying behaviour where consumers are highly involved in purchase of product because product is expensive and risky but, there are low differences between brands available. So the customer is confused and wants to collect a lot of information.

For example- purchase of diamonds, Jewellery, furniture, aqua guard.

**d) Habitual buying Behaviour:**

When the consumer is having low involvement in purchasing the product and there is low level of difference between the available brands. These products are neither expensive nor risky and purchase frequency is high. For example- Toothpaste, purchase of grocery products, FM channels.

Degree Difference between brand	High Involvement	Low Involvement
High difference between brand	Complex buying Behaviour	Variety Seeking buying Behaviour
Low difference between brand	Dissonance buying Behaviour	Habitual buying Behaviour

**Figure 10.3: Types of Purchase decision**

3. Steps in Buying process are

**a) Need recognition:**

The buying starts with need recognition, as we know that the person is motivated to act only when he has some unsatisfied needs. If someone's needs are not in activated stage then he can be made activated by providing the information about the product. Need recognition occur because of dissatisfaction from existing product or services, problem observed over course of time, consistent depletion,

For example- A working women feels the need for washing machine. The recognition of need will activate her search for any washing machine and it will result in some decision.

**b) Pre-purchase information search:**

After recognition of the need, the person is involved in gathering the information about the product or service. Search may be of two type internal search which refers to recalling the relevant information stored in the memory. External search refers to seeking of new information from relative, friend and literature available.

**c) Evaluation of alternatives:**

Once the interest in the product is around, the consumer makes the final decision using certain alternatives like product attributes brand image, price etc.

**d) Purchase decision:**

After the evaluation the consumer develops the intention either to purchase or reject the product. The final purchase will however depend on the strength of positive intention to buy.

**e) Post-purchase behaviour:**

Once making the purchase decision, the person shows the response of the purchase. It may be positive or negative. If the learning is positive then it results in repeat purchase and if it negative then it result in no-purchase.

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## 10.7 FACTOR AFFECTING CONSUMER BEHAVIOUR

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Factors affecting consumer behaviour can be classified into four categories which are discussed as follows:

- A. Cultural factor
  - i. Culture
  - ii. Sub-culture
  - iii. Social class
- B. Social factor
  - i. Reference group
  - ii. Family
  - iii. Roles & Status
- C. Personal factor
  - i. Age & Life cycle stage

- ii. Occupation
  - iii. Economic determinant
  - iv. Life style
  - v. Personality & self concept
- D. Psychological factor.
- i. Motivation & involvement
  - ii. Perception.
  - iii. Learning
  - iv. Attitude & belief

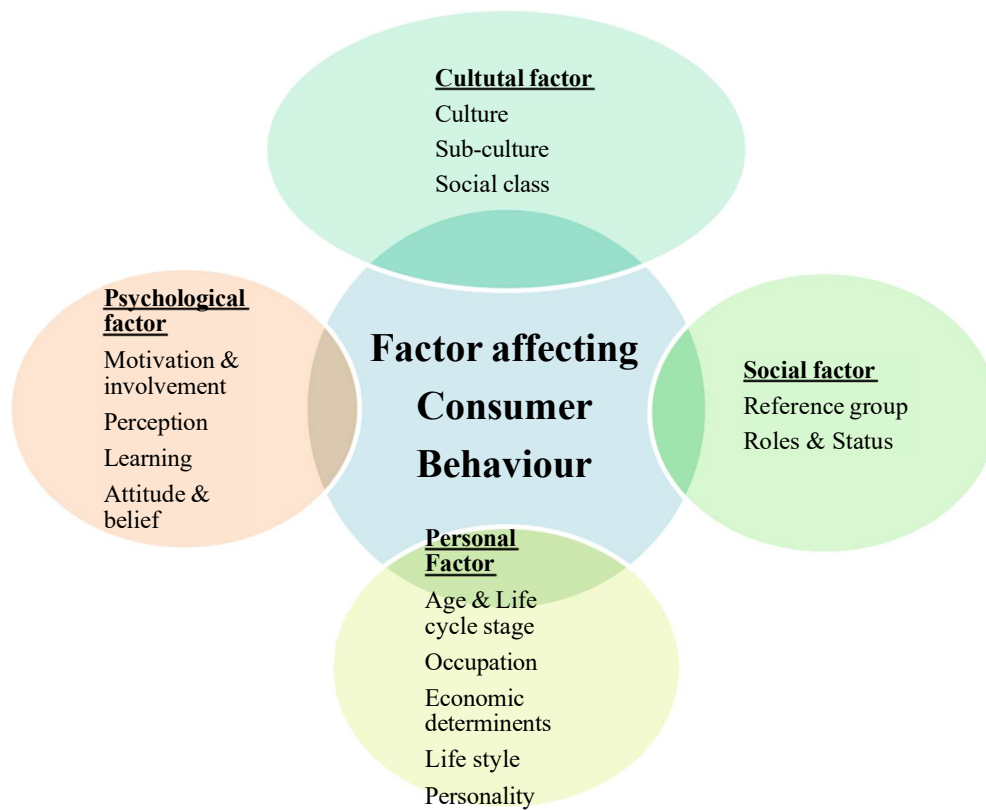
**A. Cultural factor:**

Cultural is factor includes Culture, sub-culture and social class

**i. Culture:**

Culture is the unique identity of society, country or region which acts as basis of differentiation. Culture is a set of custom, belief, attitude, perception and preference commonly shared, accepted and followed by group of people in a territory. Culture is the ritual of society that is seriously followed and learned from parent, teachers and society. When we classify culture on the basis of nationality or citizen of a country it could be understood as culture shared in a territory.

In India saving for the daughters' marriage has been the culture. The lifestyle of Indian and American is different, which defines their culture.



**Figure 10.4: Factor affecting Consumer Behavior**

**ii. Sub-culture:**

Each culture consists of sub-culture that gives them separate identity like religion, caste, language. North Indian culture and south India culture is different like their taste, preference, thought.

South-Indian people use coconut oil and coconut in every dish, whereas North-Indians do not. Bengali's like maximum sea food whereas Punjabi love chicken, *sarsau ka saag & makki di roti*.

**iii. Social class:**

These are those homogeneous groups which evolved from the Sub-culture. Social-class is enduring divisions in the society which are arranged according to hierarchy where individual identify as occupying superior or inferior positions as per social class and whose member share common interest and behaviour.

Almost, every human societies show social stratification which takes the form of caste based roles that can't be changed by their member. Stratification sometimes takes the form of a caste system where the members of different caste are reared for certain roles and cannot change their caste membership. Social class can be indicated by education, income, wealth, occupation.

## B. Social Factor

Social factor include Reference group, roles & status.

### i. Reference group:

Reference group are group that affect the consumer behaviour. According to Philip Kotler – “A person’s reference group consists of all groups that have direct or indirect influence on the person’s attitude or behaviour”. Reference group are membership group, Aspiration group, Dissociative group, Disclaim group, Primary group and Secondary group.

**Membership group** are the group to which a person belong and feel delighted to be member of. **Aspiration group** are group to which a person is not member but would like to be part of that group, like purchasing a brand, which is endorsed by any celebrity. Student wants to study in IIMs. **Dissociative group** are those groups to which the individual have negative attitude and don’t want to be member. **Disclaim group** are group to which individual is part of group but don’t want to associated longer and wants to leave the group as soon as possible. **Primary group** are those groups with which a person interact continuously and directly like, Family, friend. **Secondary group** are formal and professional group to where doesn’t interact regularly. Sports club, Bank, Telecom Company.

### ii. Roles & Status:

A role consist of activities that a person is expected to perform according to the person around him. The role and status played by the individual also affect the consumer buying behaviour. The purchase behaviour of white collar employee will be different from blue collar employee. Women plays different role in life, like role of mother, wife, daughter In-law, sister which influence their purchase behaviour.

## C. Personal factor

### i. Age & Life cycle stage:

People come across various stages at their different life time. There are nine stage of family life cycle and people behave differently at different stage. Below are stages that create and affect the buying behaviour.

- Bachelor state: At this stage young single people not living at home, enjoy vacations and parties.
- Newly married couple: At this stage of life cycle young couple with no children purchases durable product for their household.
- Full Nest I: Married couple with child under 6 years age.
- Full Nest II: Married couple with child over 6 years age.
- Full Nest III: Old couple with dependent child.
- Empty nest I: Old couple with no children living at home.
- Empty nest II: Old couple with no children living at home and head of family retired.
- Solitary survival: One of the spouses is dead.



- Solitary survival retires.

**ii. Occupation:**

Consumer buying behaviour is also influenced by his profession. A blue collar employee will purchase cloths, daily family needs whereas white collar employee prefers club membership.

**iii. Economic determinant:**

Economic parameters of consumer also affect the buying behaviour. It depends on the individual's purchasing power, savings and borrowing.

**iv. Life style:**

People coming from same sub-culture, social class and occupation have different life style apart from the person of other occupation.

**v. Personality & self concept:**

Personality is the sum total of unique individual characteristics that make each one of us what we are.

Self concept is the way we perceive our self in social frame work. Individual always tend to buy those product which we think will make his personality.

**D. Psychological factor.**

**i. Motivation & involvement:**

Motivation is that force which stimulates some needs and provides direction of behaviour towards fulfilment of the need. Involvement refers to the personnel relevant or importance of a product, which a consumer perceives in a given situation. For example: For a professional photographer the camera is his main tool, he can be motivated to buy best possible camera without seeing the price tag. For an ordinary consumer a camera is just a means and just any camera which is convenient to handle and of low price will be purchased.

**ii. Perception:**

It is the way of looking for a situation by different consumers differently. It is how a consumer perceives the product and how he reacts on it. In perception people are exposed to huge number of advertisement but it is not possible to give attention to all and a person pay attention to limited advertisement as per his needs.

**iii. Learning:**

Learning is the change in an individual's behaviour from the information and knowledge. It is result of reasoning, thinking and information.

**iv. Attitude & belief:**

It is our learned dispositions towards any object, event and people. Attitude influence how we respond to different product. It is not inherent but learned from academic institutions and society. The consumer buying behaviour is the result of learning and experience in life.

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## 10.8 CATEGORIES OF CONSUMER

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Researchers have identified and classified the consumer in to five categories such as Innovators, Early adopter, early majority, late majority and Laggards. All are discussed below:

**a) Innovators:**

Innovators are those consumer who take initiative and as a leader they are first to purchase the new product from the market, not because of need or dissatisfaction from existing product but due to their desire for using new, latest, trendy, different. They are fascinated towards new available product, risk taker, full of confidence and eager to use the some new. They purchase product without waiting because they have interest, purchasing power, access to information and product. These are consumers who watch first show of every new launch movie. The marketer must invite innovator in designing their products.

**b) Early adopters:**

Early adopters are that purchases the product not because fascinated nature but due to their need for product and social prestige which act as effective drivers. Early adopters are economically sound; they spend time in purchasing product and socially respected. The marketer must recognise, reward and maintain lengthy relationship with customer with consistent feedback.

**c) Early majority:**

These are consumers who are economically healthy and purchases product because they have need but they take time to make purchase. These customers are collecting lot of information, compare and then take decisions.

**d) Late majority:**

Late majority are those consumers, who purchase the product after the success rate of the product. The consumer purchase product at last after seeing success ratio and performance of the product. They are highly influenced by the society, peer group and reference group for purchase. They spend very wisely and consciously while purchasing the product. They are the last in the society, friends and relative who buys the product.

**e) Laggards:**

These consumers are those, who don't wants to change and purchase the product when they do not have alternate option to satisfy their problem. They are economically, socially weak and wait for price fall. They expect credibility and accessibility for product. Generally marketer does not rely on laggards.

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## 10.9 CONSUMER ADOPTION PROCESS

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Consumer adoption process is the stages that every consumer moves for making purchase decision. There are five stages which all consumer experiences discussed below:

**i. Awareness:**

This is first stage where individual is exposed to new offering from the company. Here marketers' goal is to inform and educate people about the new product and services. This is first step that is always initiated by company where they communicate through advertisement and promotion regarding new set of attributes.

**ii. Interest:**

Once the consumer is aware about the offers of the company then, the company focuses on interest generation. Here consumer consciously involve in the assimilation of knowledge about the product. Consumer develop attitude towards the product on the basis of product performance in the market.

**iii. Evaluation:**

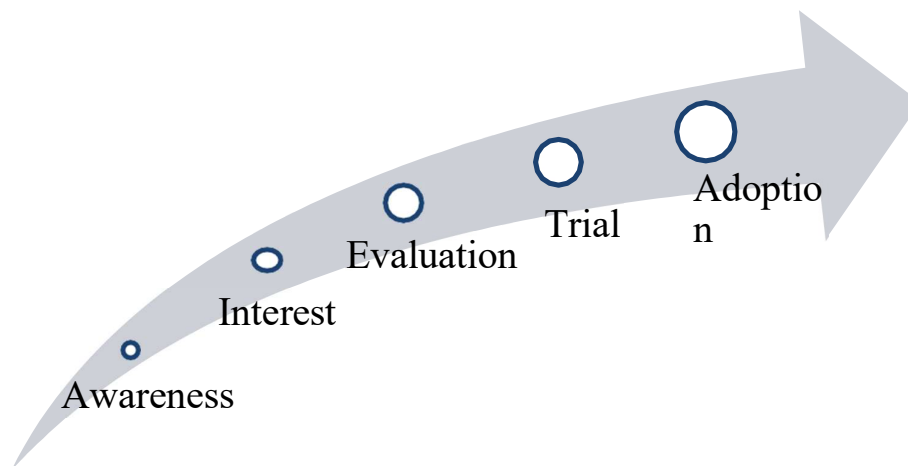
At this stage, after the interest is generated the next important thing is comparing the product and its attribute with other alternative with respect to price, features. If the consumer observes that the offers and services are value for their money, he moves to next stage otherwise consumer quit at this stage.

**iv. Trail:**

Once the consumer is satisfied with the evaluation, then consumer wants to check, wants a demonstration, takes a trail, taste/ test the product. If consumer is successfully satisfied that he will move to next stage otherwise quits if not satisfied.

**v. Adoption:**

This is the stage where consumers decide whether to purchase the product. If the consumer is satisfied then it will result in adoption process where consumer purchases the product consistently.



**Figure 10.5: Consumer Decision Making Process**

**Check Your Progress-A**

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**Q1. “The study of consumer behavior is the study of how individuals make decisions on consumption-related items.” Discuss.**

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**Q2. What are Reference group? How do they influence buyer behaviour?**

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**Q3. What are the main characteristics of Institutional buying? In what ways the Organizational consumer is different from Retail consumer?**

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**Q4. Define consumer behaviour. How the field of consumer behavior is evolved?**

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**Q5. Why marketer requires knowledge and information about consumer behavior? Explain with suitable example.**

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**Q6. How environmental factors influences consumer behavior? List out and justify with a suitable example.**

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**Q7. Illustrate the emerging trends in Indian market with reference to changing consumer behaviour. Discuss interrelationship between consumer behaviour and marketing strategy?**

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**Q7. Choose the correct alternative.**

- i. Consumer behaviour is concern with:
  - a. A study focussing on market.
  - b. A study focussing on consumer.
  - c. A study based on promotional activity.
  - d. A study focussing on psychology.
- ii. Consumption analysis means:
  - a. Why and how consumer uses products.
  - b. When, where, when consumer use products
  - c. Why, when and how consumer uses goods.
  - d. a and b
- iii. Researchers & Marketer believe that:
  - a. Consumer behaviour is dependent on marketing activity.
  - b. Marketer is dependent on consumer behaviour.
  - c. It is difficult to get Consumer satisfaction on product.
  - d. Consumer behaviour cannot be changed.

- iv. Consumer decides and becomes loyal with the product in this stage:
  - a. Interest
  - b. Evaluation
  - c. Adoption
  - d. Awareness
- v. “Consumer-oriented market” mean:
  - a. Campaign for consumer awareness.
  - b. Marketing strategy is designed by consumer.
  - c. Company are completely following consumer.
  - d. Promoting quality to consumers.
- vi. A company that is consumer-oriented include all except:
  - a. Producing product as per need of consumer.
  - b. Conducting study to understand consumer.
  - c. Offer value for the satisfaction of consumer.
  - d. Facilitating consumer by providing financial assistance.
- vii. Consumer’s buying behaviour is effected by primary or secondary factors directly or indirect:
  - a. Sub-culture
  - b. Reference group.
  - c. Life cycle stage.
  - d. Attitude.
- viii. A decision of consumer, where consumer is less involved and there is significant difference between the available brands:
  - a. Complex buying behaviour
  - b. Variety seeking buying behaviour
  - c. Dissonance reducing buying behaviour
  - d. Habitual buying behaviour
- ix. Types of decision, where consumer is highly involved and there is no significant difference between the brands:
  - a. Complex buying behaviour
  - b. Variety seeking buying behaviour
  - c. Dissonance reducing buying behaviour
  - d. Habitual buying behaviour

- x. “All Consumer are customer but all customer are not consumer” means:
- Consumer are important than customer.
  - Customers are important consumer.
  - Consumer disposes the utility of product.
  - Consumer can be customer but customer may not be consumer always.

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## 10.10 SUMMARY

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In this chapter we discussed, Consumer behaviour, its meaning and importance in the current scenario. Customers oblige company by entering in the organisations premise and approaching the company. Consumers are important key for the success and survival of company in this competitive business environment. Consumer behaviour is the medium to understand the marketers' demand. Today's market is consumer oriented and marketer believes that those companies exist & survive who put all efforts to understand the consumer. Study of Consumer behaviour has some objective such as Identify the existing, potential and ex-customer, Creating effective marketing strategy, Facilitating and satisfy customers by adding value, Creating brand equity for the company, Developing a customer focused marketing mix, Creating favourable business opportunity for the intermediaries, Design effective solution for customer's problem, Survive and have consistent growth of company, To observe and analyse consumer response, Understand new business opportunity with new product length, Creating an effective advertisement and promotion strategy.

Consumer behaviour plays significant role in designing competitive marketing strategy. Marketer develops solutions to the consumers' problem. Company need to continuously update and innovate as per the dynamic nature of consumer. Until and unless the company understand the relevance of consumer behaviour, it will be complicated for company to enjoy market leadership.

Consumer behaviour suggests key input for carving the companies fortune. Presently it is consumer era where customer plays centre role in the companies governance.

In the modern era customer-oriented market, customer plays central role in the growth of any company. In this highly competitive environment only those company will be surviving who will understand and satisfy the customer.

Consumer behaviour is also useful for the various channel intermediaries who plays vital role in the facilitating the product from the company to the final user. Awareness and knowledge about consumer changing taste & preference helps the distributor and retailer to serve customer in a wise manner. Consumer behaviour share the expectation consumer is having from the company to serve them better. Company makes various important decisions like pricing, on the basis of the consumer purchasing power. Company can easily understand the purchase behaviour of consumer, their life style and factors influencing the purchase decisions. The company needs trap the momentum of change in order to stay long in the competition. There are various factor both controllable as well as uncontrollable factors

which influences the consumers. Company adopts changes as per the current market trend to develop and grow consistently. As the consumer behaviour is dynamic in nature which updates and alerts company and assists marketer to make companies efforts consumer-focussed. It helps in predicting the possible challenges in the upcoming environment and to prepare company to achieve maximum returns.

We have also discussed what makes the purchase decision? Like Initiator- The person who first suggests or thinks of the idea of buying particular product, Influencer- A person who views or advice to influence the buying decision, Decider- The person who ultimately makes a buying decision and decides whether to buy and from where to buy, Buyer- The person who make an actual purchase, User- The person who consumes or uses a product or finally disposes the attributes of products. There basically four types of decision that consumer faces such as Complex buying Behaviour; when the consumers are highly involved in purchase and there is a significant level of difference between brands available. Variety Seeking buying Behaviour; when the consumers are low involved in purchase of product and there is a significant level of difference between brands available. Dissonance buying Behaviour; It is like complex buying behaviour where consumers are highly involved in purchase of product because product is expensive and risky. Habitual buying Behaviour; when the consumer is having low involvement as the product is neither expensive nor risky and the product is purchased frequently.

Researchers have identified and classified the consumer in to five categories such as Innovators, Early adopter, early majority, Late majority and Laggards.

Consumer adoption process is the stages that every consumer moves while making a purchase decision which are Awareness, Interest, Evaluation, Trail, and Adoption.



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## 10.11 GLOSSARY

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**Consumer** - The individual who finally disposes the utility of the product.

**Customer** - Any individual who may purchases the product is called customer.

**Retail consumer** - These are individual household consumer who purchases for personal or family use.

**Institutional consumer**- Those groups of consumer who purchases the product in huge quantity. They are also called organisational consumer.

**Culture**- Culture is the custom, value and traditions learned and acquired from parents.



**Family life cycle-** It comprises different stage of human being as growing older, plays different role.

**Learning-** It is a process of updating the information and knowledge..

**Complex buying Behaviour-** When high involvement and high significance difference between the brands.

**Variety Seeking buying Behaviour -** When Low involvement and high significance difference between the brands.

**Dissonance buying Behaviour-** When high involvement and low difference between the brands.

**Habitual buying Behaviour -** When Low involvement and low difference between the brands.

**Initiator-** The person who first suggests or thinks of the idea of buying particular product.

**Influencer-** A person who views or advice to influence the buying decision.

**Decider-** The person who ultimately makes a buying decision and decides whether to buy and from where to buy.

**Buyer-** The person who make an actual purchase.

**Membership group** are the group to which a person belong and feel delighted to be member of the group.

**Aspiration group** are group to which a person is not member but would like to be part of that group, like purchasing a brand, which is promoted by any celebrity. Student wants to study in IIMs.

**Dissociative group** are those groups to which the individual have negative attitude and don't want to be member.

**Disclaim group** are group to which individual is part of group but don't want to associated longer and wants to leave the group as soon as possible.

**Primary group** are those groups with which a person interact continuously and directly. Family, friend,

**Secondary group** are formal and professional group to where doesn't interact regularly. Sports club, Bank, Telecom Company.



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## 10.12 ANSWERS TO CHECK YOUR PROGRESS

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### Check Your Progress –A

- i. b
- ii. d
- iii. b
- iv. c
- v. c
- vi. d
- vii. b
- viii. b
- ix. c
- x. d



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## 10.15 TERMINAL QUESTIONS

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- Q1. Explain the demographic and psychological factors affecting consumer behaviour with suitable examples.
- Q2. What do you mean by consumer behaviour? Discuss the interrelationship between Marketing Mix Strategies and Consumer Behaviour with suitable examples.
- Q3. Examine the rising trends in Indian market with special reference to changing consumer behaviour. Discuss the implications of studying consumer behaviour in marketing decisions.
- Q4. How would you define culture? Discuss important characteristics of culture that reflects its nature? Why is the study of culture important to marketers?
- Q5. What is 'reference group'? Explain its significance to consumer behaviour.
- Q6. Explain the psychological, Personal and social factors influencing consumer behaviour.
- Q7. Explain with suitable examples how buying behaviour varies with stages of family life cycle?
- Q8. Describe various adopter categories.
- Q9. "An industrial goods buying is a very complex process" Explain. Examine Industrial buying process.
- Q10. How does Institutional buying behaviour differ from individual buying behaviour? Explain with suitable examples?
- Q11. What are the factors that influence the extent of pre purchase information search by consumers? How can marketers of consumer durables utilize this information?
- Q12. How does the family influence the consumer socialization of children? What role does television advertising play in consumer socialization?



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## 10.16 CASE LETS/CASES

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Bhawika Dairy products private manufacture Skimmed milk, Baby foods, Milk biscuits, chocolates and drinking chocolate. They started their business some forty years back with a few cows and some people to assist them in milking. In the initial phase, the people at Bhawika Dairy used to sell milk to other vendors either for direct consumption or to be used into various dairy products. Slowly and gradually, the company started taking its shape. It was immense hard work and dedication of the employees and the founders of dairy that led to

the conversion of a small dairy into a major regional player in dairy products. The company has reached the present level of turnover at Rs.5 cores.

The company faces tough competition from major players like 'Parle' 'Britannia' 'ITC' and Cadbury' and some of the local players like 'Cremica' and 'Bonn'. The prime consideration is given to the quality of the product. The company hasn't adopted the concepts of professional management. Because of this, the company is unable to find the perfect markets for its products.

Mr. Vaibhav Gupta, Marketing Manager of the company was planning to enter into the potential market of 'malted food drinks'. He collected the sales trend of previous year region wise of Dairy Business. After watching advertisements of many brands and analysing them thoroughly, he came to a conclusion that understanding consumer behaviour of potential consumer will create a platform for perfect launch of his own brand and will increase the probability of its acceptance & success.

Mr. Gupta, approached Sachin Saxena, R&D manager and he asked Mr. Saxena to design an exercise to know about consumer behaviour and their response. Mr. Gupta gave a time of three month. Mr. Saxena, after various consultations and meetings, put all his efforts to get valuable input for making effecting strategic policy for the company.

### **Questions:**

1. Discuss the key area that Mr. Saxena needs to explore while conducting the activity.
2. What are various types of decision is involved in the consumer behaviour.
3. Identify various factors affecting the consumer behaviour.
4. Explain the consumer buying process with reference to above case.

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## UNIT 11 PRODUCT AND PRODUCT LIFE-CYCLE

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- 11.1 Introduction**
- 11.2 Objectives**
- 11.3 Meaning of Product**
- 11.4 Objectives of Product**
- 11.5 Significance of Product**
- 11.6 Classifications of Product**
- 11.7 Levels of Product**
- 11.8 Product Mix**
- 11.9 New Product Development**
- 11.10 Product Life Cycle and stages of PLC**
- 11.11 Various types of PLC**
- 11.12 Summary**
- 11.13 Glossary**
- 11.14 Answer to Check Your Progress**
- 11.15 Reference/ Bibliography**
- 11.16 Suggested Readings**
- 11.17 Terminal Questions**
- 11.18 Case study**

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### 11.1 INTRODUCTION

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In the previous unit you learnt Consumer Behaviour, where we discussed the consumer, objectives of studying consumer behaviour, scope of studying consumer behaviour and the beneficiaries. Concepts like Consumer, Customer, Retail customer and Institutional customer were also studied. Study of Consumer buying behaviour includes three important things; who makes the decisions? Different types of decisions involved in buying behaviour, process of buying. The factors affecting consumer behaviour like cultural factor, social class, reference group, occupation, lifestyle and psychological factor. As after knowing about consumer and various factors affecting them a company gets strong position and develops confidence in designing suitable strategies to serve their consumer better.

Organisations are created for producing some product. No company exist without producing anything, each and every company is engaged in producing some product as per their

objective and specialisation of the company. Anything that is produced by an organisation to provide solution and satisfaction to customer with a purpose of earning profit and survive in the market is called product.

The company in the marketplace producing any product, they produce as per the need, wants and demand of the market. Without producing a product of value, no company can exist, now the questions arise that what to produce, why to produce, how to produce, where to produce, for whom to produce and when to produce. Getting the answers to these questions is objective of this unit. This unit will assist academicians to have better understanding about the concept of product.

The scale of production and quality of product may be different but every firm in operation undergoes production function. It is very essential to study product as companies are established for producing product for fulfilling the demand in the market. All the business functions are designed to get the right product manufactured as per their abilities.

In this unit you will study about product, its objective and importance. There are various types of products. Product Life Cycle of is explained further in this unit.

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## 11.2 OBJECTIVES

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After reading this unit you will be able to:

- Concept of Product and its components.
- Objectives of product.
- Importance of product
- Classifications of Product.
- Levels of product
- Product mix
- Various stages of Product Life Cycle
- New Product Development

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## 11.3 MEANING OF PRODUCT

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Product is bundle of attributes offered by company to their consumer in exchange with value for it. Anything that is been produced by a company to provide solutions to the problem of customer is called product.

A product is the set of tangible and intangible attribute that satisfy the hope of seller and the value for a product to potential customer. Product is the output of efforts and exercise perform to produce with an intention to deliver convenience and satisfy. Product may be value that is created in an available resource by targeting consumer and exchange with the monetary value.

Product is one of the components of marketing mix which plays significant role in companies marketing' policy. Product is so important that every decision concern with Price, Place, Promotion, Process and Physical evidence are dependent on features of product.

Anything that a company produce and sell to customer against the price is called product. The product may be goods or services where goods are tangible and services are intangible in nature. Product is collection of quality, feature, value developed to offer comfort to targeted consumer.

Any creation of company that not only meets the expectations of company, customer and their employee but also the expectations of society, government and other stakeholders is called product.

For manufacturer, a product is means for establish their business operations and expansions. Product helps to earn profit and generate revenue for the organisation. For consumer, a product is set of offering that make the consumers' life easy to live. A product is solution to consumer to overcome obstacles in daily routine.

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## 11.4 OBJECTIVES OF PRODUCT

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Consumer behaviour is having very significant role in the present competitive environment. Earlier the organisations were fighting for profit but now they are struggling to survive. Following are some of objectives of the product and product development.

1. To satisfy the needs and wants of consumer.
2. Business Developing and expansion.
3. Fulfil the demand of product in the market.
4. To offer comfort, convenience and facilitate to consumer.
5. Providing alternatives to solve the routine problems in the society.
6. For satisfactory convincing customer and retention of consumer.
7. Developing brand Equity for a company.
8. Generating business solutions to various channel intermediaries.
9. To enhance to standard of living of the society.
10. To give a memorable and quality experience by creating unique offers to users.

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## 11.5 SIGNIFICANCE OF PRODUCT

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As product is one of the important elements of marketing mix which plays vital role in the establishment and growth of the company. Product plays a significant role as stated below:

1. As every company is profit oriented and wants to increase profit by designing some unique attributes through quality product.
2. Quality product helps company in survival and growth.
3. All the strategy of a company is based on features and quality of the product.



4. Product planning assist company to fight in competitive environment.
5. New products are highly exposed to high rate of risk as new products are having high mortality rate.
6. Product helps company to enhance their skills and competency.

## 11.6 CLASSIFICATION OF PRODUCT

Marketer has responsibility to design and develop strategic plan for their entire product range. In order to create a competitive strategy, it is necessary to understand the nature of product. The products may be classified into three categories. Products can be categorised on the basis of Durability, Tangibility and Use.

### 1. According to Durability of the product:

- a. Durable products
- b. Non-durable products

### 2. According to Tangibility of the product:

- a. Tangible products
- b. Intangible products

### 3. According to Users of the product:

- a. Consumer products
- b. Industrial products.

Each category of products is discussed below:

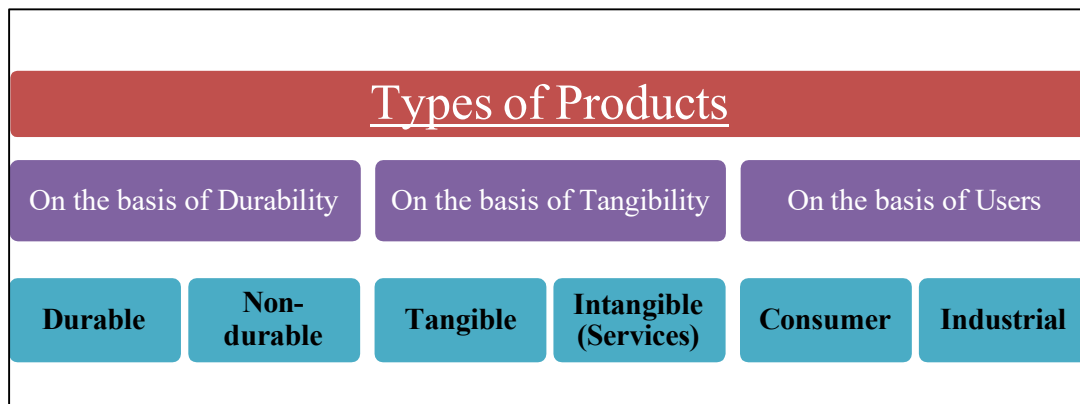


Figure11. 1: Types of Products

### 1. According to Durability:

Classifications on the basis durability are time period for which the product is consumed.

#### A. Durable products:

Durable products are those tangible goods which are having long term usage. In other words durable products are all those products that are used for long time period. Durable goods are having normal used for 3 to 5 years. These products are regularly used and plays vital role in the routine work of consumer. Durable goods are normally expensive and not purchased frequently. In this guarantee and warranty by seller plays significant role in sale of product.

For example: Car, motorcycle, furniture, Refrigerator and Laptop etc.

**B. Non-durable products.**

Non-durable products are those tangible goods that are consumed in one or two uses. Non-durable goods are having limited usage and finishes in few usages. These are those consumable goods which are purchased frequently and normally cheaper than durable goods. Marketer must design an effective marketing strategy because these products are frequently purchased and these should be made easily accessible to the targeted customer.

For example: Bread, toothpaste, cosmetic item, vegetable, species, petrol etc.

**2. According to Tangibility of the product:**

Classification of product on the basis of tangibility is visibility of product where product may be categorised as tangible and intangible. Tangible products are also called goods whereas Intangible goods are called services.

**A. Tangible products**

Tangible products are all those goods that can be seen, felt, touched, tested and demonstrated. Any product that is having some physical appearance, colour design and weight is called Tangible goods.

For example: Mobile, books, furniture etc.

**B. Intangible products**

Intangible products or services. Services are those products of any company which cannot be seen, touched, no colour, no design and no weight. It may be concluded that services are intangible, perishable, heterogeneous, inseparable etc. Services are promises, memories, experiences, concept and thoughts offered by the company to satisfying the needs and demand in the market.

For example :services of a doctor, Lawyer, and Insurance company, Airline, Telecom, consultancy and Teaching etc.

**3. According to Users of the product:**

**A. Consumer products:**

Consumer are also called final users of the product. Consumer products are goods that are produced for household consumer who finally disposes the utility of the products.

Consumer products are meant for retail user. These may be of different types like Convenience, Speciality, Shopping, and Unsought goods. Each type is discussed below with suitable example.

**i. Convenience**

Convenience goods are those products which are mostly purchased frequently as a routine without making any delay. These products are low-priced and consumer purchases these goods straight away with minimum efforts, time without delaying and without comparing. Consumer purchases the product as per his convenience, conformability and availability of product. For example: Newspaper, salt, vegetable, chips, pen and juice.

Convenience product may be of three types Staples goods, Impulse goods and Emergency goods.

Staples goods are purchased on routine basis, like sugar, vegetable, spices etc. Impulse goods are purchased without planning and buy on the spot like chips, toffee. Emergency goods are purchased as when problem or need arise like medicine.

**ii. Speciality**

Speciality goods are those products with special feature or brand image. These goods are preferred just because of the unique attribute in it. This unique quality in product generate loyal consumer. For example: Consumers preference towards certain brand like Sony, Apple in electronic company. Consumer prefer different toothpaste brand as per the special features like Sensodyne, Dabur Red toothpaste, Close-up, Babool and Colgate.

**iii. Shopping**

Shopping goods are those products which are not purchased immediately after purchase decision, but customer takes time to make final purchase. These products are generally expensive and complex. The customer performs lot of exercise to compare and evaluate the product on the basis of quality price and availability. In other words these products are not frequently purchased and consumers are very conscious. The consumer puts all efforts to collect information regarding the product and comparing it.

For example: Software, Investment decision, DSLR camera.etc.

**iv. Unsought**

Unsought goods are those ordinary products, about which targeted consumers doesn't know that these product exist. The customer neither knows about the existence of the product nor he/ she wants to purchase that.

The consumer generally does not think of purchasing the product but circumstances create necessity for the product.

For example: fire extinguishers, funeral services, encyclopaedias, third party insurance.

**B. Industrial products:**

Industrial goods are also called Institutional goods or organisational product. These are those finished goods of a company that are used as raw material by other company. Industrial products are the goods produced for the industrial consumption only. These products may be of following types like Installations, Accessories, Raw material, Supplies and Components part & materials.

**i. Installations**

These are large expensive capital item that determine the nature, scope & efficiency of the company. They are huge and very expensive last for many years and do not change their physical property"

For example: blast furnishes, generators, boiler in sugar mill, installation of satellite in space etc.

**ii. Accessories**

These equipments are movable, last for a number of years and do not become part of the final product or change its form.

For example: storage racks, almirah, computer, and furniture and Xerox machine.

**iii. Raw material**

These are those industrial products which a company purchases with an objective of producing other goods. All the raw materials are processed in the manufacturing activity and become the part of finished goods. The physical attributes changes in the finished product of the company.

For example: Iron ore, Coal ore, minerals, sugarcane and petroleum

**iv. Supplies**

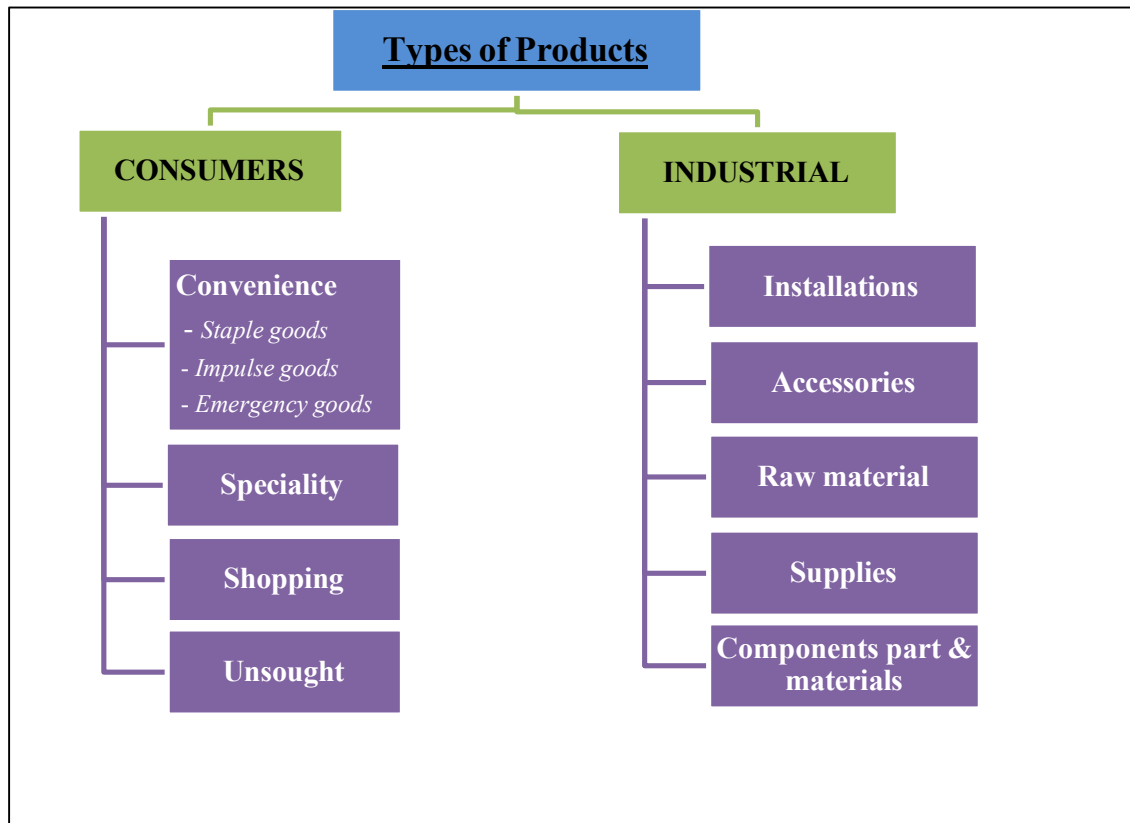
Supplies are those industrial goods, which are necessary for normal organisational function. These goods do not become the part of the final product but it just facilitates the normal routine of the business activity.

For example: Fuel to run a machine in the factory, repair & maintenance, stationary.

**v. Components part & materials**

These are those goods which become the part of the finished goods. These are semi- finished goods that undergo further changes in their physical properties.

For example: Steel, cement, chemicals etc.

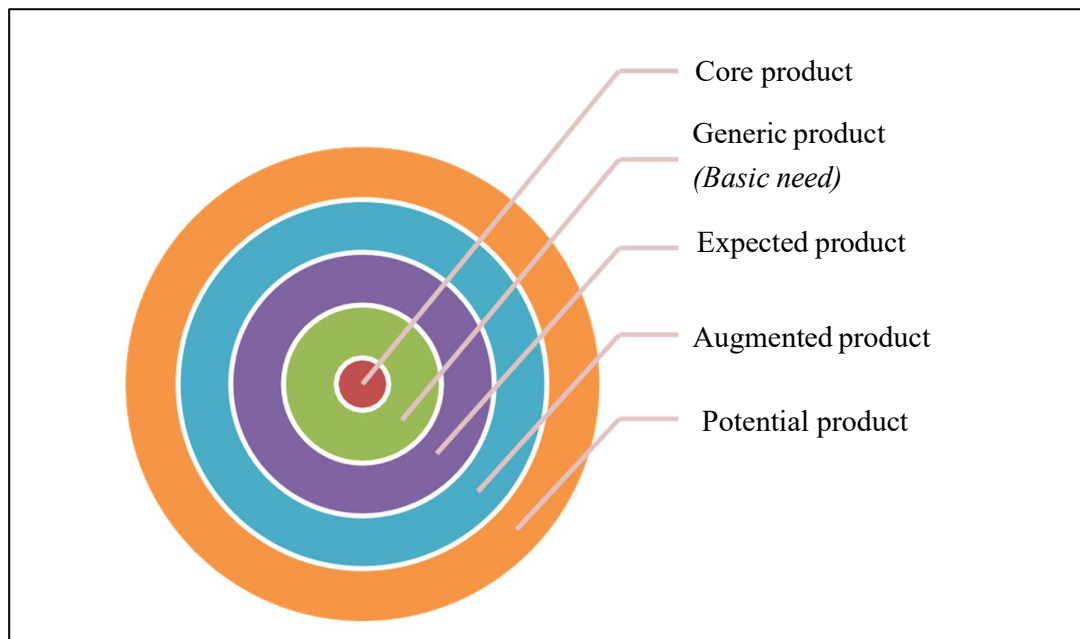


**Figure 11.2: Types of Products on the basis of Users**

## 11.7 LEVELS OF PRODUCTS

It is more important for a company to satisfy the needs of the customer than designing effective marketing strategy. By satisfying customer, the product would be sold in the market and can generate revenue. The consumer searches and seeks different benefits from product offered by company. Customer generally purchases the product which meets the perceived value of it. As there is a huge complex market with heterogeneity in consumer group, different consumer purchases varied product as per their need. It is not possible for a company to satisfy a huge market with different needs.

Philip Kotler had suggested the five levels of products which assist company to identify the needs at different level and develop suitable value for it. A level of product is also called Customer Value Hierarchy because as the level increases, the value also increases.



**Figure11.3: Levels of Products**

**1. Core product:**

Core product defines core feature and fundamental characteristics of the product. These are generally benefits which are intangible in nature. Core product is value customer expects from companies product. Core benefit explains about the category of industry to which the product belongs. This is the basic need or difficulty that creates need and consumer urge for the product.

For example: A man purchasing Car is actually purchasing convenience & comfort and not engine, seats and Iron. Amusement parks are in leisure and entertainment business.

Sleep and rest is the core product of Hotel for traveller. The core product of schools and college is education, literacy, expertise and skill development.

**2. Generic product:**

Generic product is also called basic product. This represents all the physical qualities of the product. These are Basic product without which services can't be performed. Generic products are medium of distributing the value. Without Generic product core benefits cannot be produced. It is necessity for offering core value of the product.

For example: Convenience, comfort and transportation are core value that Core product offer to a consumer like from a Car, Bike etc, where as the Car is generic product.

Room is generic product for a traveller searching for rest and sleep.

### 3. Expected product:

Expected product are those goods that fulfils the standard expected by customer. These are the minimum set of expected standards by the consumer. These are hygiene factor which is included just to protect from dissatisfaction. This is maintained to furnish the minimum purchase conditions. Hygiene, safety & security. These are expected features from the product at the time of purchasing the product.

For example: While purchasing movie ticket in a Multiplex cinema theatre, a customer expect proper & comfortable seat, friendly and prompt customer service, quality of snacks with fair price, safety & security, pleasant ambient, good temperature and air quality.

### 4. Augmented product:

Augmented products are the attributes that differentiate the product from its competitors. After some time period the augmented product becomes expected product. These are additional benefits offered along with the product. Extra value offered by the company on the basis of Unique attribute in entire industry. These benefits are over and above or by-product of the core products. The customer may be charged for availing augmented products.

For example: Extra facilities in Hotel like; Swimming pool, gymnasium, nightclub and Jacuzzi are Augmented product.

### 5. Potential product:

Potential products are those added values in the product that surprises consumer and feel delighted while purchasing. The company offer superior quality goods which are beyond the expectation of customer. These products are offered free and creates loyal consumer.

For example: Free starter and dessert dishes offered to the consumer in Hotel. Free water distribution in

Free alcohol distribution in International flight. Extra extended warranty & guarantee.

<i><b>Basis</b></i>	<i><b>Hotel for traveller</b></i>	<i><b>Camera</b></i>	<i><b>Insurance</b></i>
<b>CORE BENEFIT</b>	Rest & Sleep	Capturing experience & memory.	Safety & Security
<b>BASIC PRODUCT</b>	Bed, Bathroom, light, Table, Fan	Display, lens, easy to operate	Policy Documents, premium receipt
<b>EXPECTED PRODUCT</b>	Clean Room, Clean Bed sheet, hygienic wash room, proper	Good quality picture, easy to operate.	Courtesy & warm behaviour, prompt response

	ventilation.		from agent
<b>AUGMENTED PRODUCT</b>	LED TV, daily music concert (Unique features of the product that differentiates from other competitors)	Lens quality, features and design, free services & repair, free demonstration	Unit Linked Investment Plans ( <b>ULIPS</b> ), Pension plan, online premium payment
<b>POTENTIAL PRODUCT</b>	Free swimming facility, Gym, complementary meal	2 year extended Guarantee and 7 years extended warranty.	Three year extra life cover. Free medical claim.

Table 11.4 Levels of product

## 11.8 PRODCUT MIX

Product mix is collection all product offered by company to consumer. It is also called Product Assortment. Total number of product produced for consumer under a company's umbrella. In simple words Product mix is combination of Product Length, Product width and Product Depth is called Product Mix. Companies are offering large range of product in diversified industry. Product mix is the combination of ingredient designed to achieve the company's objective in which companies are producing multiple product in diversified industry.

Organisations are now wants to serve their existing customer rather than find new customer. Companies are creating new utility for the current consumer because they know their customer well since long and it cost effective as well as profitable for company as whole. It is easy to work in the existing market with current consumer. Product mix is the number offering by a company. The company design and distribute products to current customer on the basis of Brand equity. Once company attains brand equity then they makes an efforts to encash the opportunities of acceptance among the satisfied consumer.



The objective and significance are given below:

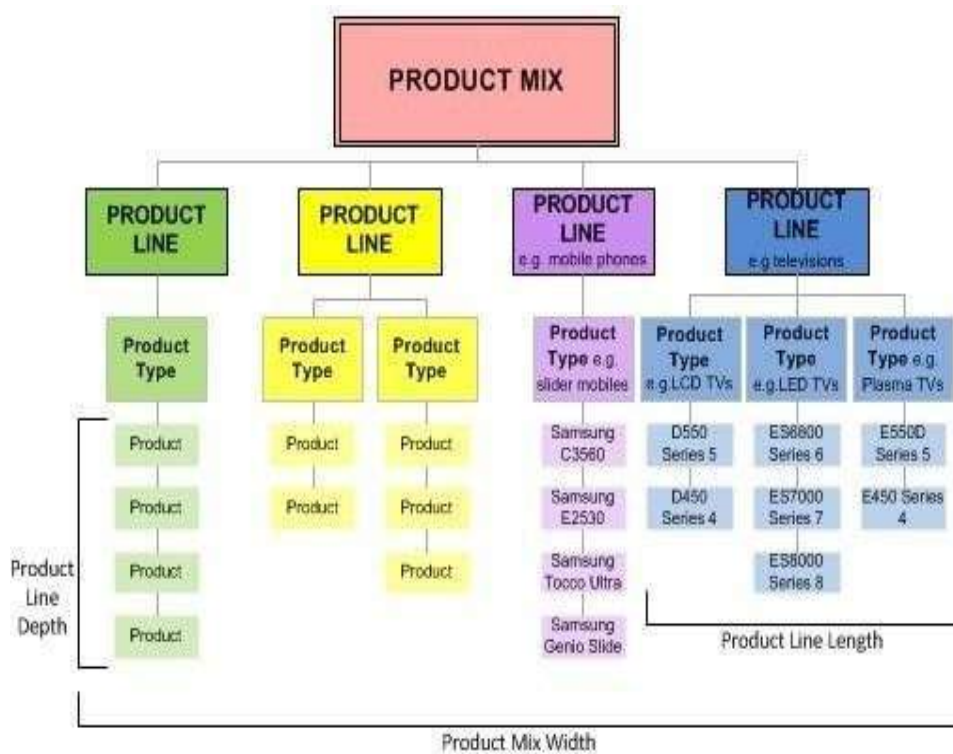


- a) To expand business operations.
- b) Providing alternatives or competing products to customer.
- c) Retaining customer with the brand.
- d) Creating brand image for the company.

For example: Airtel, Videocon, Reliance Industries Ltd, Proctor & Gamble (P&G), Hindustan Uniliver Limited (HUL), Godrej, Sony, Adidas.

**a) Product length:**

Product length is also called Product line which is diversity of companies operations in different product.



**Figure 11.5: Product Mix**

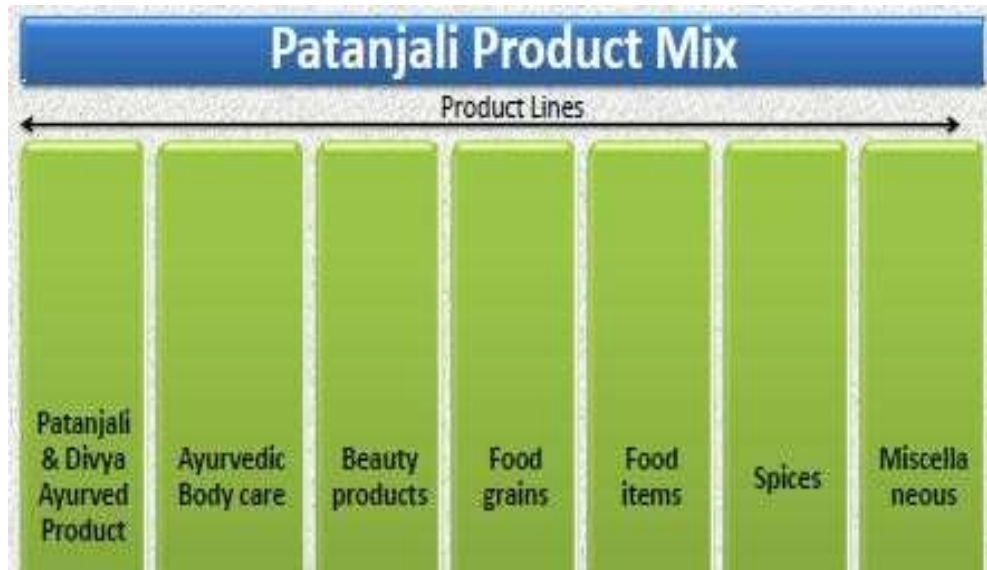


Figure 11.6: Patanjali Product length

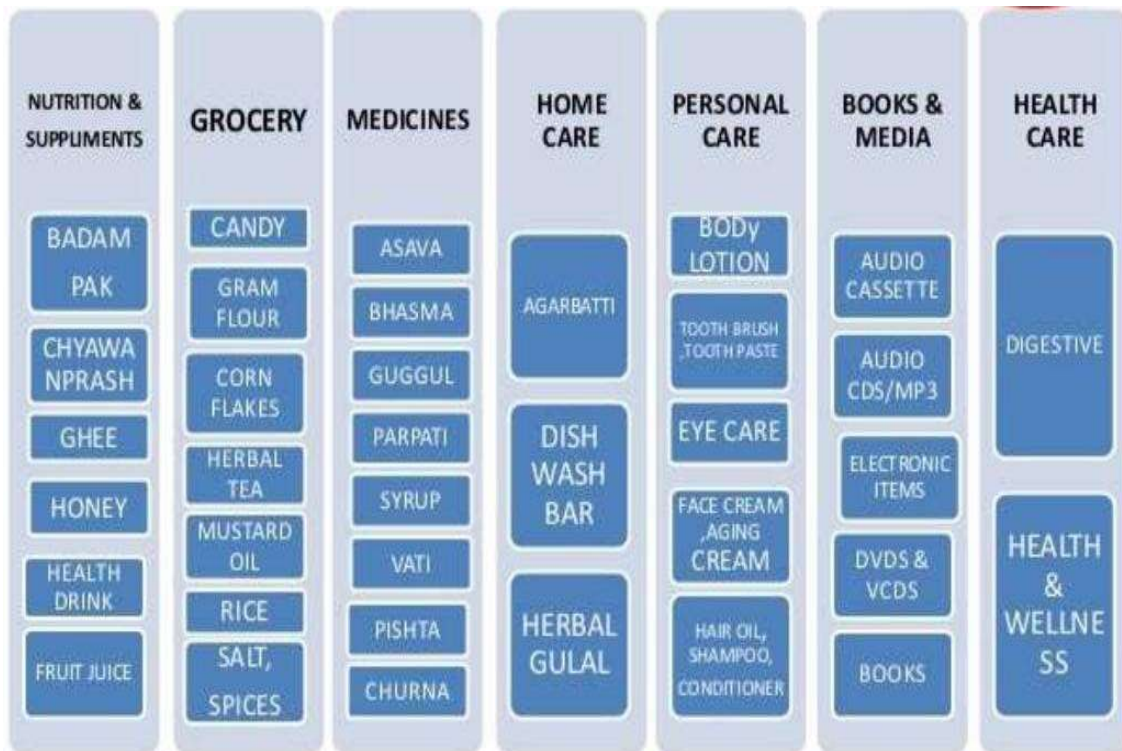


Figure 11.7: Patanjali Product Mix

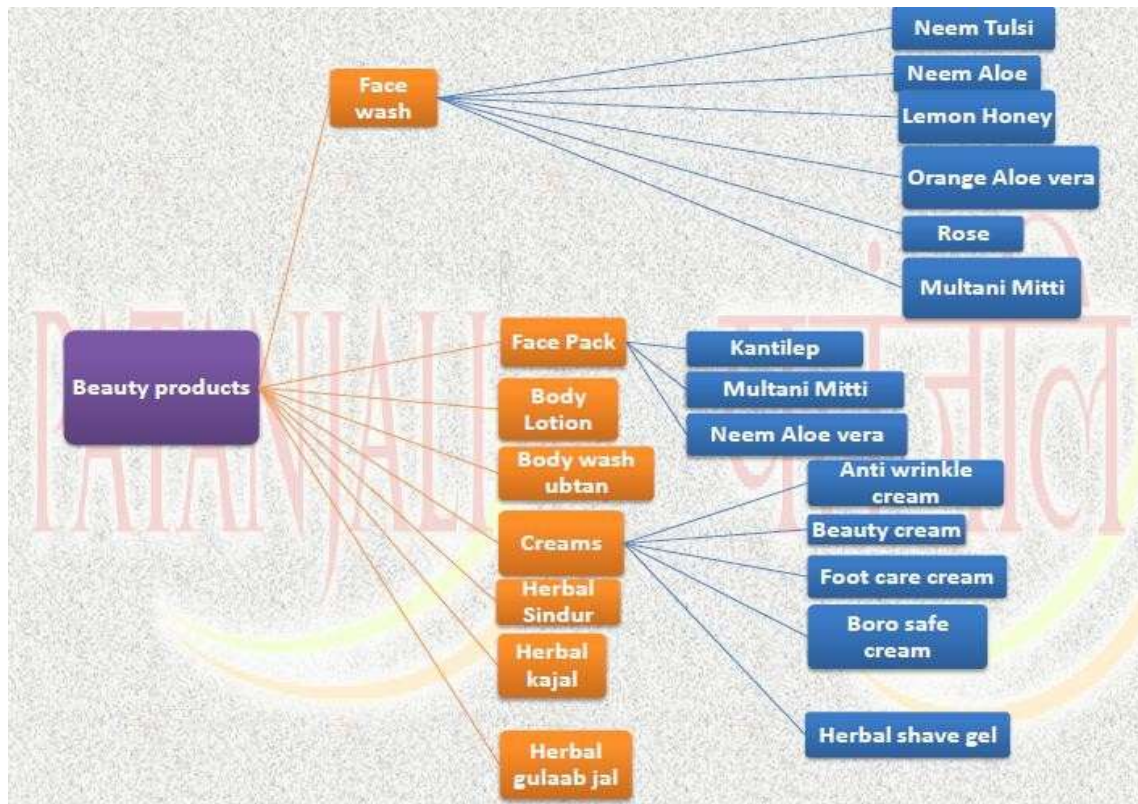


Figure 11.8: Patanjali Product – Beauty Products width & Depth

**b) Product width:**

Product width is types of alternative options product with different attributes to satisfy maximum consumers.

**c) Product depth :**

Product depth is the diversification in each product width as per the taste and preference of consumers.

**d) Product consistency:**

Product consistency means less variation between the products offered by the company.





**Figure 11.9: Patanjali Product – Ayurvedic Beauty Products width & Depth**

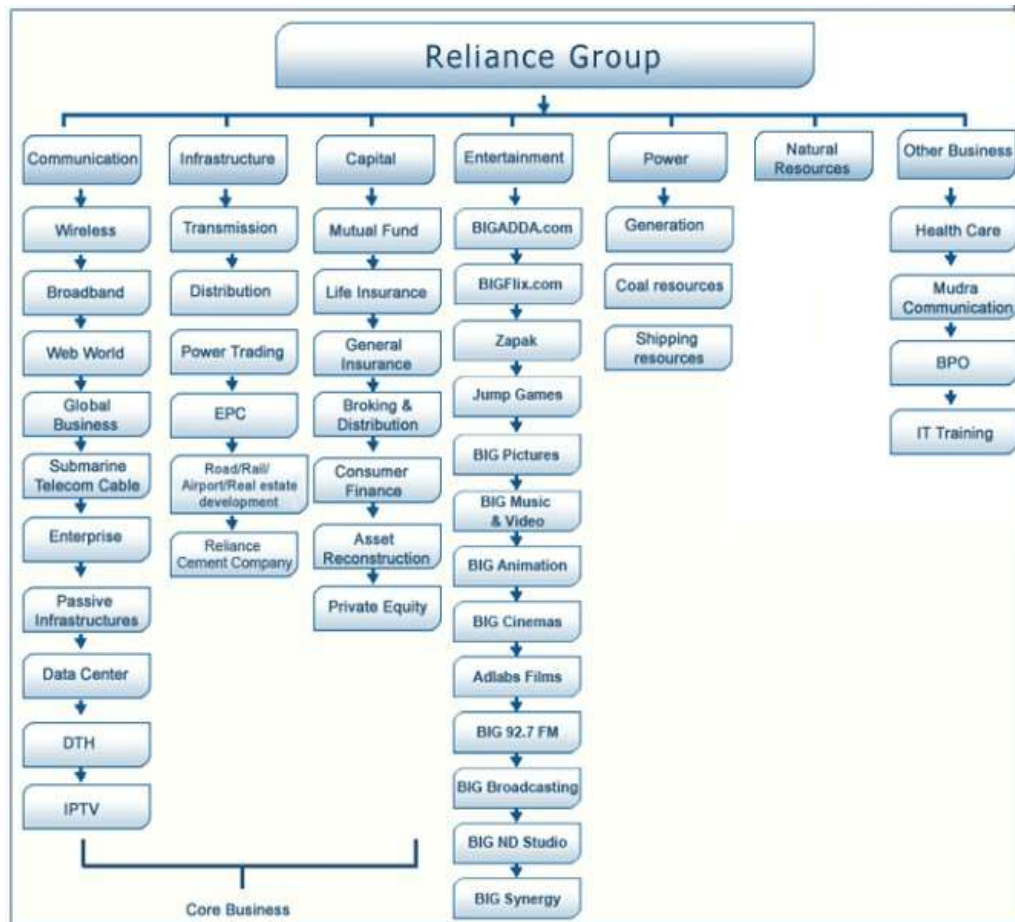


Figure 11.10: Product Mix of Reliance Group

ITC Group				
Length of Products				
Width of Product	FMCG	Hotels	Paper Board & Packaging	Agribusinesses
	Food	Welcome Group	Specially Paper	Rural Services
	Cigarettes	Welcome Heritage	Packaging	Leaf Tobacco
	Life Style Retailing	Fortune		Spices
	Education & Stationary	The Luxury Collection		Agri-Input
	Personal Care			
	Safety			

Matches
Agarbatti

Figure 11.11: Length of the ITC Product Mix

ITC Group						
Width of Product						
Foods	Cigarettes	Lifestyle Retailing	Education & Stationery	Personal Care	Safety Matches	Agarbatti
Kitchen Of India	Insignia	Wills Lifestyle	Classmate	Essenza D'wills	I-Kno	Mangaldeep
Aasirwaad	India Kings	John Player	Papercraft	Fiana D'wills	Mangaldeep	Expression
Sunfeast	Gold Flake	Miss Player	Expression	Vivel D'wills	Aim	
Mint-O	Silk Cut			Superia		
Candyman	Navy Cut					
Bingo	Capston					
	Scissors					
	Berkeley					
	Flake					
ITC Group						
Depth of Product						
FOODs-Kitchen Of India						
Curry Pastes	Conserves	Chutneys	Biryani	Desserts		
Butter Chicken	Strawberry & Mint	Shredded Mango	Noormahal	Jodhpuri Moong Dal Halwa		
Fish Curry	Pineapple & Green Pepper	Mango & Jeera Mango & Garlic	Yakhni Pulao	Awadhi Badam Halwa		

Figure 11.12: Width of ITC Product &amp; Depth of ITC- Kitchen of India

ITC Group			
Depth of Product			
FOODs-Aashirwaad			
Flour	Salt	Spices	Instant Mixes
Aashirwaad	Aashirwaad	Chilli Powder	Gulab Jamun
Select Atta		Turmeric	Rava Idli
Chakki Atta		Coriander	Rice Idli
		Pickle Mirch	Rice Dosa
			Khaman Dhokla
			Rasmalai
			Vada Mix

Figure 11.13: Depth of ITC, Foods- Aashirwaad

ITC Group							
Depth of Product							
FOODs-Sunfeast							
Biscuits							Pasta
Special	Snacky	Glucose	Dream-Cream	Marie	Golden Bakery	Fit-Kit	Masala
Butter	Chilli Flakes	Orange	Choco	Orange	Choconut	Vitamin	Cheese
Cashew		Milky Magic	Vanila		Butternut	Multigrain	Pizza
Crunchy		Nice	Orange		Butter Scotch		Chicken
Coconut			Milk Cream				Benne Vita

Figure 11.14: Depth of ITC, Foods- Sunfeast

ITC Group	
Depth of Product	
FOODs	
Mint-O	Candyman
Minto Cool Blue	Fruit Fun
Minto Fresh	Butter Scotch Licks
Orange Mint	Eclairs
Lemon Mint	Cofitino
	Natkhat Mango
	Natkhat Guava
	Mango Links
	Maha Mango
	Lacto

Figure 11.15: Depth of ITC, Foods Mint-O &amp; Candyman

ITC Group		
Depth of Product		
Foods - BINGO		
Potato Chips	Mad Angles	Hatke Jhatk
Salted	Tomato Mischief	Funky Masala
Masala	Chilli Dhamaka	Tomato Twist
Tomato	Achaari Masti	
Chatkila Nimbu Achar		
Tandoori Paneer Tikka		

Figure 11.16: Depth of ITC, Foods Bingo



<b>ITC Group</b>
<b>Depth of Product</b>
<b>LIFE STYLE RETAILING</b>
Wills Life Style
Wills Classic
Wills Sports
Wills Club life
Wills Signature

**Figure 11.17: Depth of ITC -LIFE STYLE RETAILING**

## **11.9 NEW PRODUCT DEVELOPMENT**

New product development is either modifying the existing product or introducing a new product with more value. New product development is the strategy where company develop a new model of product to satisfy the targeted consumers. It is a process of collecting ideas from various sources and producing value in the commercial product.

Once the company have enjoyed maximum market share and achieved market leadership in the targeted territory, where the company was selling their existing product in existing territory, the company make effort to expand their business operation further.

The company have two options either to adopt Market Development or New Product Development strategy. Market Development is the strategy where the company expand its business functions to new potential territory with market Growth Avenue. Product Development is the strategy, where company develops and offer a new set of attribute to the existing customers.

It depends on the companies competency and vision, whether they choose Market Development decision or Product Development decisions. Because it is more cost effective to serve existing customer rather than new consumer. In Market Development, company offer their existing product to the new consumer in a new market. The marketer will have to conduct lot of efforts to identify and understand new consumer in new market. It is convenient and effective for a company to adopt Product Development strategy. Because the company understand their existing customer since long span and they already have database of consumer, well established management and distribution system.

<i>Basis</i>		<b>PRODUCTS</b>	
		<b>Existing Products</b>	<b>New Products</b>
<b>MARKET</b>	<b>Existing Market</b>	Market Penetration	New Product Development
	<b>Existing New</b>	Market Development	Diversification

Figure 11.18: Ansoff Model

New product development is strategy where company improve and modify product through a systematic process. There six stages of product development.

1. Idea Generation
2. Idea Screening
3. Concept development & Testing
4. Marketing Strategy
5. Business Analysis
6. Product Development
7. Testing Market
8. Commercialization



**Figure 11.19: Stages of product development****1. Idea Generation:**

The process starts with the search for ideas. It would state how much effort should be devoted to develop the product, modify the existing product and observing the competitors' product. A large number of ideas can be generated by the help of individuals and groups by various techniques.

**a. Attribute listening-**

This technique calls for listening the major attributes of a existing product and then modifying each attributes in the search for an improved product. The sources of idea generation include customer, Sales staff, R&D, competitors, employees, distributors and environmental analysis.

**b. Forced relationship-**

It means that several objects are considered in relation to each other and are complementary.

**c. Brain storming-**

Group creativity can be stimulated through brain storming techniques. A group of about six to ten members come together and discuss specific problem.

**2. Idea Screening:**

The purpose of idea generation is to generate a large number of ideas to an attractive viable idea. The rationale of screening is to eliminate all infeasible ideas as soon as possible. Few concepts are selected and some are screened out as per the company's feasibility and available resources.

The ideas evaluated by the team through rigorous screening to ensure reliability and uniformity of selected idea. Selection of wrong and unsuitable concepts will lead to negative consequences in long term which may create unnecessary expenses and challenges.

**3. Concept development & Testing:**

Selected ideas must be developed into valid product concepts. Concept testing determines customer thoughts before product development to see which market to target, who are prospective buyers and who all are your competitors.

Once the concept is developed then it is to be tested among the targeted consumer. Response of the consumer is collected for attributes offered and to enhance the value in the product.

**4. Marketing Strategy Development:**

The planner must now develop a marketing strategy for introducing a product in to the market. It describes the size, structure and behaviour of the target market. It also outlines market share, possible sales and revenue from the planned product in the initial years. It also highlights the marketing mix and budget for the forthcoming year.

**5. Business Analysis:**

It involves the detail review & projection of relevant market factors, revenues, cost & trend for a proposed new product. In this stage sale is estimated so that management may calculate approximately whether sales will be high enough to yield a satisfactory product. After preparing the sales forecast management can estimate the possible cost and profit of the project. The costs are estimated by R&D, manufacturing, marketing, finance department. This process assesses financial and marketing feasibility of a product. It helps to measure and understand the market potential. Market potential is the maximum revenue or the sale in unit achieved through marketing exercise in a targeted territory.

**6. Product Development:**

If the product concept passes the business test, it moves to the R&D to develop into a physical form with an objective of safe, quality and economical product . Till now it was just paper works which have to be changed into a final product to the customer. The R&D department will develop one or more physical copy of the product. It finds a prototype which will satisfy the consumer need. At the same time marketing personnel are engaged in finding the appropriate brand name and making sure that supreme quality product is designed.

**7. Market Testing:**

It is the stage at which the product & marketing programme are introduced into more realistic market setting. Test marketing involve placing a fully developed product for sale in some selected territory and observing performance. The purpose is to evaluate the product & pre-test marketing efforts in a real setting prior to commercialisation. Test marketing helps marketer to identify the flaws in the product

**8. Commercialization:**

After the successful market testing of the product, the company is ready to introduce the product which is called commercialisation. Commercialisation is introduction stage of PLC. The company must understand when to launch a product (timing), where to launch (Geographical setting), How to launch a product (media), and to whom (Target market).

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## 11.10 PRODUCT LIFE CYCLE

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The product life cycle is a concept that attempts to describe a products sales, profits, customers, competitors & marketing emphasis from its beginning until it is removed from the market. The PLC refers to stages a product progressing through while in the market. The start of the first stage is the introduction of the product to the market, its birth followed by the growth, maturity, decline and finally its death.

### Characteristics of Product Life Cycle (PLC)

The life cycle is nothing more than the pattern of demand for the product over time. The basic Product Life Cycle consists of four stages for which have following characteristics.

1. Every product does not goes through every stage but many product just enter introduction stage & have their death.
2. All products have a limited life.
3. The length of time a product spends in any one stage may differ. Some products may move through the entire cycles in weeks.
4. Repositioning of a product can led to a new life cycle.

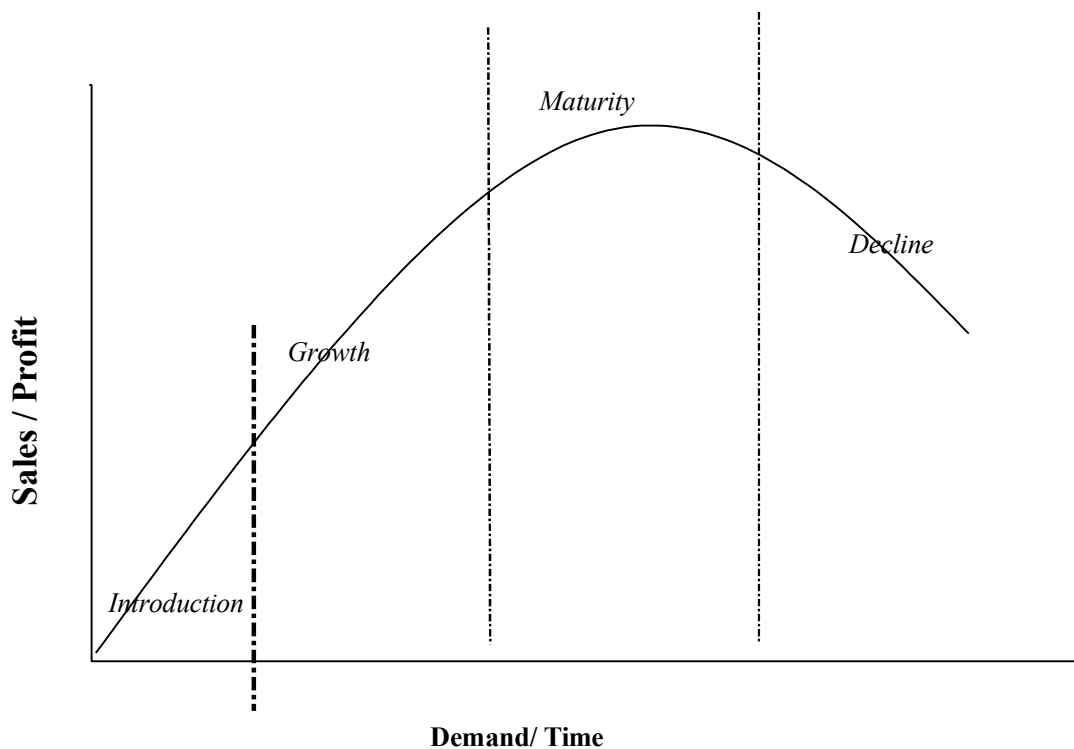


Figure 11.20: Product Life Cycle

**Assumption of Product Life Cycle (PLC)**

1. Products have limited life.
2. Product sales passes through distinct stages, each having different challenges to seller.
3. Profits rise & fall at different stages of the PLC.
4. Products require different marketing, human resource, finance, product strategies in each stage of their life cycle.

**Stages of Product Life Cycle (PLC)**

There are four stages of Product Life Cycle (PLC):

**1. Introduction stage:**

At this stage of introducing the product into the market characterised by slow sales and negligible profit because of heavy expenses of introduction & production.

**2. Growth stage:**

The most profitable stage for the marketer is growth stage, a period of rapid acceptance & substantial profit improvement. At this stage the company enjoy market leadership and collects, revenue as increasing rate. This stage is supposed to be shortest stage.

**3. Maturity stage:**

At this stage, there is constant sale and slowing declining profits. A period with slow down of sales growth, because the product had achieved acceptance by most potential buyer. Profit stabilises because of increased expenses to defend the product in the market against the competition. This span of period is also called boom period.

**4. Decline stage:**

This is a stage of declining sales & product. The marketer wants to come out with this stage as soon as possible. Either company have to introduce a new product or developing the existing product with more attribute which will start new PLC

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## **11.11 VARIOUS TYPES OF PRODUCT LIFE CYCLE**

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There are basically six types of Product Life Cycle. Each one is discussed below.

- a. Growth slump maturity.
- b. Cycle, Recycle
- c. Scalloped.
- d. Style
- e. Fashion
- f. Fad

**a. Growth slump maturity**

In this model the sales of the product mature quickly after it is introduced & then unexpectedly chop down to certain level. For example: Food processor.

**b. Cycle, Recycle**

In this the sales increases aggressively in the initial phase and afterwards start diminishing but after some promotional push it again starts increasing. For example: Pharmaceutical industry.

**c. Scalloped**

It is a collection and combination of series of Life cycle in progression form. When a company introduces or bring some changes in their product on the continuous basis, it lead to scalloped product Life cycle.

**d. Style**

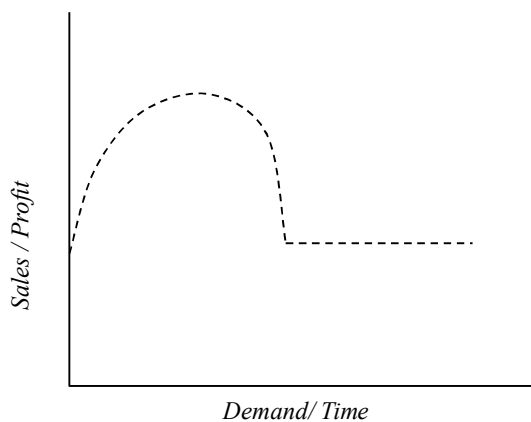
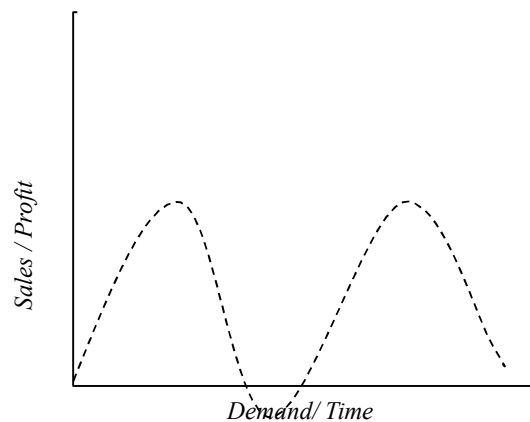
It is a basic distinctive mode of expression appearing in a field of human nature. For example: In clothes we wear formal, causal, funky dresses.

**e. Fashion**

It is currently accepted or a popular style in a given territory. For example: Tattered , ribbed (distorted), Jeans is in fashion and Hindi-pop.

**f. Fad**

These are trend that come rapidly into the public eye and adopted with great enthusiasm, summit early & decline very quick. For example: design in various clothes, Body Piercing and Tattooing.

**a) Growth Slump Maturity****b) Cycle Recycle**

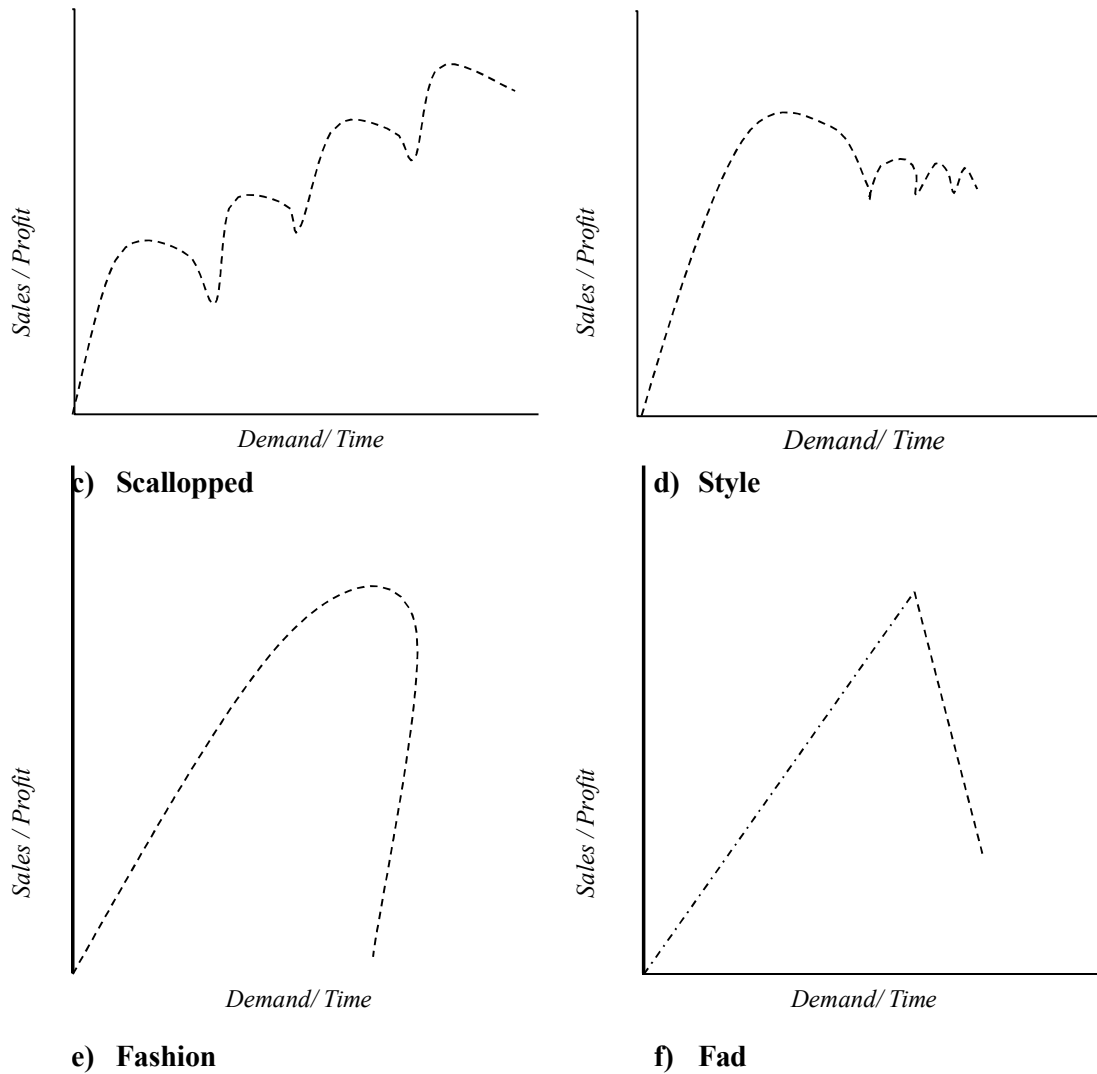


Figure 11.21: Various types of Product Life Cycle

Srl. no	Basis	Introduction	Growth	Maturity	Decline
1	Revenue	Low	Rapidly increasing	Peak	Declining
2	Costs	High cost per customer	Average cost per customer	Low cost per customer	Low cost per customer
3	Profits	Low	More	High	Declining



4	Customer	Innovators	Early Adopters	Early Majority And Late Majority	Laggards
5	Competitor	Few	More	Fixed Number Of Competitor	Declining
6	Product	Offer core product & expected value	Offer expected value	Offer augmented product	Offer potential product
7	Price	Rapid skimming & slow penetration	Slow skimming	Price bundling	Rapid penetration and odd pricing
8	Place	Selected locations	Intensive distribution	Deeply penetrated & well planned.	Selective outlets
9	Promotion	High among the Early Adopters	Mass Marketing	All channel of marketing	Sales promotions

Figure 11.22: Comparison of stages of PLC

**Check Your Progress-A**

**Q1. How can industrial products be classified? How can this classification be beneficial for marketers? Discuss marketing implications of each-division in detail.**

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**Q2. Write a note on idea generation in new product development.**

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**Q3. Explain the significance of new product management. Explain the reason for failure and give your suggestion for improvement to India manager.**

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**Q4. How goods may be distinguish from services?. Explain with suitable example.**

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**Q5. What is the role of Levels of Product in making marketing strategy of product?**

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**Q6. Discuss the relationship between Product mix and Product Life cycle with appropriate example.**

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**Q7. Multiple Choice Questions:**

- i. From the following industrial marketing is treated in which manner ?
  - a. B2B
  - b. Business Marketing
  - c. Organisational Marketing
  - d. All the above
- ii. B2B marketing is fundamental different from Consumer goods or services marketing because:

- a. Distribution channels for business products are significantly longer.
  - b. Customer relationship for business products tends to be short-term transactions based.
  - c. Organisational buyers do not consume the products or services themselves.
  - d. Customer service plays a smaller role in the distribution of business products.
- iii. What do we call a strategy that results in customers demanding your product from retailers?
- a. Pull strategy.
  - b. Push strategy
  - c. Increased derived demand
  - d. Dictated demand
- iv. "Product" refers to:
- a. Physical goods with all its related services.
  - b. The need-satisfying offering of a company.
  - c. Companies all producing and distribution activities.
  - d. A well-packed item with well-advertised brand name.
- v. All are consumer product except:
- a. Convenience
  - b. Unsought
  - c. Installation
  - d. Unsought
- vi. Which is not industrial product?
- a. Accessories
  - b. Raw materials
  - c. Supplies
  - d. Specialty
- vii. What is the correct sequence of Level of Product?
- a. Core, Generic, Expected, Augmented and Potential
  - b. Expected, Core, Generic, Potential and Augmented
  - c. Core, Generic, Expected, Potential and Augmented
  - d. Potential, Augmented, Expected, Generic, and Core

- vii. This level of product creates differentiation from the competitors products.
  - a. Potential
  - b. Augmented
  - c. Expected
  - d. Generic and Core
- ix. The convenience product marketing strategy includes:
  - a. More than ordinary prices.
  - b. Low promotion
  - c. Extensive distribution of goods
  - d. Limited outlets

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## 11.12 SUMMARY

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In this unit we have discussed Product, its meaning and its significance. There are various types of products, which may be classified on the basis of Durability, Tangibility and Users. On the basis of Durability, product may be durable and non-durable, on the basis of Tangibility, product may be tangible and intangible. On the basis of Users, product may be consumer's product and Industrial product.

The types of Products on the basis of Users can be divided into consumer and industrial product which may be further sub-divided into Convenience, Speciality, Shopping, Unsought, Installations, Accessories, Raw material, Supplies, Components part & materials.

Level of product is a device which assists a company in developing effective marketing measures for product growth. The levels of product are Core product, Generic product (*Basic need*), Expected product, augmented product and potential product. Product mix is sum total of solution offered by a company under single umbrella. New Product Development helps company to introduce innovative product which starts a Product Life Cycle. There are six types of PLC such as Growth slump maturity, Cycle & Recycle, Scalloped, Style, Fashion and Fad.



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## 11.13 GLOSSARY

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**Product mix:** It is total number products offered by company.

**Product line:** It is the diversification of company in different category of product. It may or may not be complementary.

**Convenience goods:** These products are usually purchased frequently, immediately, and with a minimum of effort by the customer.

**Shopping goods:** Those goods that the customer, in the process of selection and purchase, characteristically compares on such bases as suitability, quality, price and style.

**Style:** It is a necessary and unique manner of expression appearing of human being performing a task.



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## 11.14 ANSWERS TO CHECK YOUR PROGRESS

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### Check Your Progress –A

Q7. i) d

i. ii) d

ii. iii) a

iii. iv) b

iv. v) c

v. vi) d

vi. vii) a

vii. viii) b

viii. ix) c



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## 11.17 TERMINAL QUESTIONS

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- Q1. Define the term product.
- Q2. Discuss important characteristics of product.
- Q3. Explain significance of Product to all stakeholders.

- Q4. Describe the various types of product with suitable example.
- Q5. "There is a wider difference between Industrial product and Consumer Product". Discuss.
- Q6. What do you understand by Levels of Products?
- Q7. Define the term "Product mix". Explain with an example.
- Q8. Differentiate between Product mix and Marketing mix.
- Q9. Explain the term Length, Width, Depth and consistency in product mix.
- Q10. "New Product Development is very crucial decision for every business organization". Elaborate with its significance.
- Q11. Explain the process of New Product Development in detail.
- Q12. What you understand by Product Life Cycle (PLC).
- Q13. "Product is also having Life Cycle like any Human Being" comment.
- Q14. Discuss the important characteristics of different stages of PLC.
- Q15. Examine various the sources of new product idea generation with its pros and cons..
- Q16. What do you mean by concept testing and why is it a crucial stage in new product development?
- Q17. Write a short note on below given types of product with suitable example:
- Convenience
  - Speciality
  - Shopping
  - Unsought
  - Installations
  - Accessories
  - Raw material



## 11.18 CASE LETS/CASES

M/s Kumar India Pvt Limited was launching its Litchi juice with special precaution. It first undertook two year test marketing run in Dehradun and then followed it up by a test market launch in July 2012. For the meantime, the company in just six months launched its Litchi Juice Dehradun. The ready-to-use juice is made from fresh Litchis. The milky white colour and flavour are 'natural', as the product does not contain artificial colour or preservatives. Priced at Rs 15 for a 250 gm tetra pack, it was available in Uttarakhand. The product life was of one year, till it is opened once, after opening the tetra packet this has to be stored under refrigeration and used within one week. 'The concept of juice was the same as for both, lemon and mango juice' says Dr. Sapna, Production Head. Though buransh juice is used in fairly large quantities in the Uttarakhand, housewives in other parts of India, under pressure of time, have also stated substituting it for soft drinks. The company's pre-launch research

also revealed that the respondents (working women and housewives) were positive in product attributes like ease of use, storage and time saving.

QUESTIONS:

If you had undertaken the pre-launch survey for Litchi Juice in Uttarakhand

- 1) Why it is necessary to conduct research or final commercialisation?
- 2) What is the role of test marketing in preparing the strategy for product?
- 3) Design prospective Product Mix for the company.
- 4) How company can develop new product? Suggest some of the measures to sustain and lead in the perfect competition.



**Block III**  
**Product Packaging and Pricing**

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## UNIT-12 BRANDING

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- 12.1 Introduction
- 12.2 Objectives
- 12.3. Meaning of Brand, Role and its Significance
- 12.4 Categorisation of Brands
- 12.5 Brand Equity
- 12.6 Strategic Brand Management Process
- 12.7 Brand Development Strategies
- 12.8 Summary
- 12.9 Glossary
- 12.10 Reference/ Bibliography
- 12.11 Suggested Readings
- 12.12 Terminal & Model Questions

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### 12.1 INTRODUCTION

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Brand represents everything that a product or service means to consumer. They are a valuable asset to a company. It plays an important role in differentiating one product offering from other. Managing a brand is one of the major tasks of marketing. With the change in time, we have seen an increment in the importance branding. Brands are powerful assets that must be carefully developed and managed. In this unit we will discuss what brand is, key strategies for building and managing a brand.

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### 12.2 OBJECTIVES

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After reading this unit you will be able to:

- Role and Significance of Brand.
- Characteristics of Strong and Successful Brand.
- Task involved in Brand Building.
- Different issues involved in Brand Extension.
- Challenges in Maintaining a Healthy Brand Portfolio.
- Issues Concerning Brand Equity.

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## 12.3 MEANING OF BRAND, ROLE AND ITS SIGNIFICANCE

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Brand has been used for centuries for distinguishing one product offering from other. Word brand is derived from old Norse word *Brandr* means to burn as it is used as a means by which owners of livestock mark their animals to identify them. According to the American Marketing Association (AMA), a brand is a “name, term, sign, symbol, or design, or a combination of them, intended to identify the goods and services of one seller or group of sellers and to differentiate them from those of competition.” Technically speaking, then, whenever a marketer creates a new name, logo, or symbol for a new product, he or she has created a brand. For example, Coca Cola, Microsoft, Apple, Amazon and Facebook are few brands that have been successful in creating an image in the minds of the customers and thus differentiating its product offerings. In present scenario branding has become quite strong that finding unbranded goods is quite difficult. Even commodities like salt, nut and bolts are packaged and branded.

Brand at a very basic level is a mark of ownership and identity. This is quite narrow manner of defining what a brand is. Brand, in present scenario has become much bigger than what it was thought before. It is now-a-days used something that has actually created a certain amount of awareness, reputation, prominence, and so on in the marketplace.

Brand tends to have different significance for different set of users. For analysing the role of a brand, we must look it in terms of the role it plays for buyer and for sellers. For both the parties’ role of brand is going to be quite different.

Let’s begin with the role that the brand plays for its customers:

- I. Role as an Identification of source of the product: Customer tend to have information regarding the well-known brands and its origin. This assures customers about its purchase decision. It is seen that if a consumer is able to recognize a brand and is having some knowledge about it, then he will not have to engage in a lot of time for putting of additional thoughts or processing of information that he receives for make a product decision.
- II. Assignment of responsibility to product makers: Purchasing a well-known brand helps in transferring the responsibility to the producers. A person buying a recognised brand feels assured that the product will be as per the specifications laid by the producers, thus will not bother much about the quality compliances.
- III. Risk Reducer: While making a purchase decision a buyer faces many risks. Few common risks associated with purchase of a product are: Functional risk that the product will not perform as per the specification, Physical Risk that the product may possess threat to the health of the customers., Financial Risk that the product will not match the expenses made in buying the product, Social risk that the product will lead to social embarrassment of the consumer and Psychological risk that the product will affect the mental well-being of the consumer. When a

customer goes for buying a well-known brand these types of risk can be reduced drastically, thus reducing the pre and post purchase dissonances.

- IV. Search Cost Reducer: A customer looking to buy a well-known brand tend to spend very less time in making a purchasing decision as he is aware about the features and performance of the product as compared to a less known brand.
- V. Symbolic Device: Brand name tends to have a positive impact in the minds of the customer. Brands take on unique, personal meanings to consumers that facilitate their day-to-day activities and enrich their lives.
- VI. Signal of Quality: A brand name is considered as name of trust as well as a signal of quality of the product. Customers can easily trust a product with respect to its quality on the basis of its brand name.

Apart from customer producer also get benefit by knowing a brand name.

- I. Means of identification to simplify handling or tracing: Brand name helps in identification and tracking a particular product. It helps in organizing inventory and maintaining accounting records.
- II. Means of legally protecting unique features: Brands can be protected through registered trademarks, manufacturing processes can be protected through patents, and packaging can be protected through copyrights and designs. These intellectual property rights help in ensuring that the firm with full safety can invest in the brand and reap out the benefits of that valuable asset.
- III. Signal of quality level to satisfied customers: Brands can ascertain a level of quality so that satisfied buyers can choose the product easily. This brand loyalty helps in ensuring the continuous demand of the product thus creating barriers of entry for the rival firms.
- IV. Source of competitive advantage: A strong brand name acts as a tool for providing competitive advantage to the firm with respect to its rival's offerings.
- V. Source of financial returns: An established brand name tends to attain a stable position in the market. This helps the firm selling that particular brand in reaping out the financial benefits of that particular brand.

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## 12.4 CATEGORISATION OF BRANDS

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There are different types of Brand that the company builds. If we talk in terms of Value Offered to the customers, we can easily see that there are broadly three categories in which the brands can be categorized: a) Functional Brand b) Image Brand c) Experience Brand.

- I. Functional Brand: This is the category of brands that are typically bought to satisfy the functional need that the customer has. Functional brands are those that are tied in minds of the consumers to specific product categories and they share association with other brands that lie in the same category. For example, in case of automobiles

everyone has basic functionality. Each is designed to transport passengers from one point to other and they all do the same thing in essentially the same manner. Thus, all the functional brands must differentiate from their competitor's brands by stressing either better performance or better economy. Success of functional brands is dependent on the product related efficiencies and cost effectiveness.

- II. **Image Brand:** This is the category of those brands who offer image value to the users. The consumers are made to believe that by using or owing these brands, they will become part of a league which they aspired for. For example, Parker pen, never talked about its writing, smoothness and durability rather they have projected Parker as a pen that is used by people successful in their fields and are considered legends. For projecting this image, they used legendary actor Amitabh Bachhan for the campaign. One of the important ways of building image brand is using marketing communication in general and advertising in particularly.
- III. **Experience Brands:** In this category lies that brand that emphasizes on the unique experience that they provide to the customers. These brands rely on delivery of the personal experience to the customers. For example, Walt Disney world bargains on the experience that they provide to the visitors. In case of experience brands it's the people, place and processes that become important in delivering the desired service to the customers.



### ***Check Your Progress-A***

**Q1. Define the term brand?**

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**Q2. Discuss different benefits that the brand provides to a consumer and to a producer?**

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## **12.5 BRAND EQUITY**

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Brands are much bigger concept than names and symbols. They are an important element in the company's relationship with the consumer. Brands tend to represent the feeling and perception that the consumer have towards the product and its performance. An important

saying in the field of marketing is that the products are created in the factory, but the brands are created in the minds of the customers.

A popular and potentially important marketing concept that came to existence in the 1980s was brand equity. Brand equity is defined as the differential effect that knowing the brand name has on customer's response to the product or its marketing. Branding is all about creating a difference. A brand can be perceived to have a positive brand equity when the perception of the customers towards the brand is more favorable than the generic or unbranded product, whereas as it is perceived to have a negative brand equity if the consumer has less favorable response than unbranded products.

Ad agency Young and Rubicam's Brand asset valuator measure brand strength on the basis of four consumer perception dimension. These four dimensions are (a) Differentiation (b) Relevance (c) Knowledge (d) Esteem. The first and foremost is identifying those things that makes a brand different for others or makes them stand out. This means that the brand must be distinct and the customers do not have any reason to choose it over other brands. But differentiation alone can't make brand powerful. The brand apart from being distinct should be relevant in meeting the customer's needs and wants effectively. Value enhancement of a brand is directly associated with the amount of knowledge that the customers have for a particular brand. Before making a purchase-decision consumer must have knowhow and understanding about the brand. This know-how about the brand leads to familiarity which is important for developing strong, positive, consumer brand connection. Having an understanding about the brand and its offerings is important for brand valuation. Last but not the least, there is esteem. Buyers of a brand, must have a proud feeling about owning a product. More respect that the consumer attains in owning a brand more is the value that customers place about the brand in their minds.

A brand with high brand valuation is a valuable asset. It is important to understand and measure the value of a particular brand. Brand valuation is the process of estimating the total financial value of a particular brand. Brand with higher brand valuation lie high on all the four parameter that are discussed above.

Branding as we have discussed before is all about creating differences. Most marketing experts have given few basic principles of branding and brand equity:

- Differences in outcomes arise from the "added value" endowed to a product as a result of past marketing activity for the brand.
- This value can be created for a brand in many different ways.
- Brand equity helps in providing a common denominator for assessing marketing strategies and analyzing the value of a brand.
- There are many different ways in which the value of a brand can be manifested or exploited to benefit the firm (in terms of greater proceeds or lower costs or both).

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## 12.6 STRATEGIC BRAND MANAGEMENT PROCESS

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Brand building is time taking process. It is a strategic process that a firm follows for creating strong brand. *Strategic brand management process* involves creating a design and then implementing the marketing programs and activities that helps in building, measuring, and managing the brand equity. The steps involved in this process are as follows:

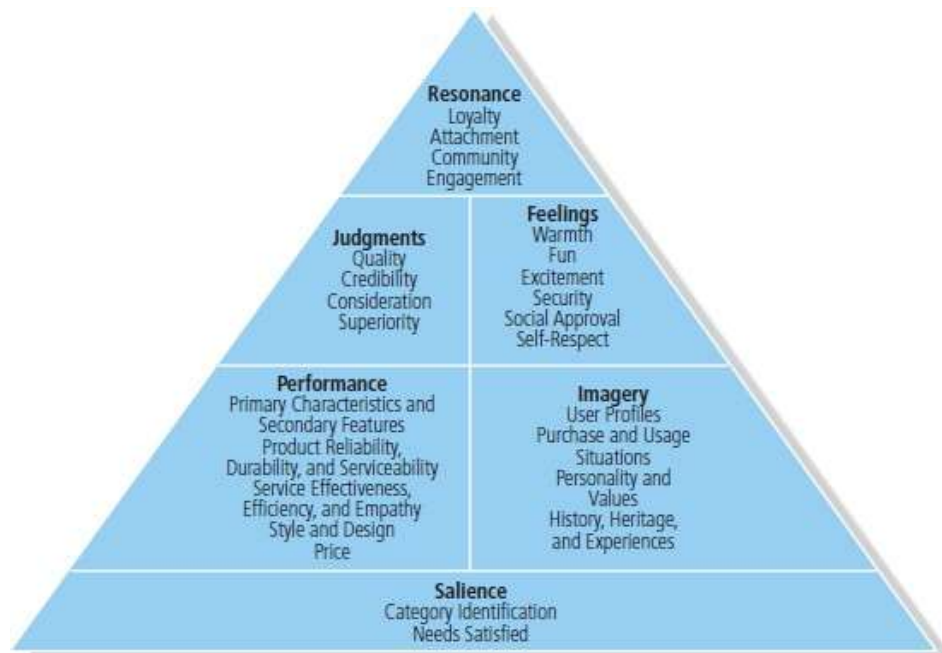
- I. Identifying and Developing Brand Plans.
- II. Designing and implementing Brand Marketing programs.
- III. Measuring and interpreting Brand Performance
- IV. Growing and sustaining Brand Equity

Details of following steps are given as below:

**Identifying and Establishing Brand Plans:** Strategic Brand management as a process start with identifying and developing brand plans. First and foremost step in brand planning is understanding what brand stands for and later on the basis of this understanding creating a program that can help in positioning the brand in the minds of customers. Three basic models that play an important role in establishing brand planning are brand positioning, brand resonance and brand value chain model. We will discuss each of them in detail. **Brand positioning** lies at the core of marketing strategy. It is defined as the “act of designing the company’s offer and image so that it occupies a distinct and valued place in the target customer’s minds.” While taking a call on brand positioning, firms must act on determining a frame of reference, the point of parity and point of difference. This means that the marketers are supposed to know the target consumers, main competitors of the brand, similarity of the brand with respect to competitors’ brand and the differences that the brand have with respect to competitor’s brand. Identification of the target customers is done in a systematic manner. Firstly, the firms design and decide the basis of segmenting the consumers market. Segmentation is the process of dividing the heterogeneous market into homogenous lot. Segmentation is done on the basis of different parameters like Behavioural, Demographic, Psychographic, Geographic etc. After identifying the target customers next step is to list down major brands that compete with the firm’s brands for the same set of customers. This is done to create a strategy for catering the customers in a better manner as compared to that of competitors. Firms need not to be myopic in identifying the competitors and fail to recognize the most compelling threats and opportunities. For example, sales in the apparel industry often have been stagnant in recent years as consumers have decided to spend on home furnishings, electronics, and other products that better suit their lifestyle. On the basis of competitor’s firms decide their frame of reference. Firms may choose to have single frame of reference or multiple frames of reference. After discussing the frame of reference, the firms must choose upon the *point of parity and point of difference*. The target and competitive frame of reference chosen will dictate the breadth of brand awareness and the situations and types of cues that should become closely related to the brand. **Point of Difference** is defined as attributes or benefits that customers associate with the brand, evaluate them positively and thus believe that they cannot be find in the competitors’ brand. Point of difference may arise out of performance attributes, performance benefits and imagery associations. A lot of top brands tend to have a point of difference on the basis of overall superior quality, whereas on

the other hand, other firms tend to create the point of difference on the basis of low cost service providers. **Point of Parity** on the other hand are not unique to the brand but may be shared with other brands. There are three types of point of Parity association. They may be either category, competitive and cocreational. **Category points-of-parity** means that they are necessarily but not a sufficient condition for brand choice. This point of parity exists minimally at the generic product level and is most likely at the expected product level. **Competitive points-of-parity** are those associations designed to negate competitors' points of difference. These points of parity associations are designed so that the brand can mitigate the strong point of difference that the other brand have. **Correlational points-of-parity** are those potentially negative associations that arise from the existence of other, more positive associations for the brand. In many cases the brands attribute that the customers identify may be negatively associated. For example, "cheap and best quality" is highly negatively correlated statement. Customers finds it tough to believe in these statements thus the firms have to create marketing programs in such a manner that it makes customer believe that its true. On the basis of competitive frame of references, point of parity and point of difference firms finalise their positioning strategy.

Another model that plays important role in developing brand plan is resonance model. Brand resonance model describes how to create intense, loyal relationships with customers. The model discusses how brand positioning plays an important role on what consumers think, feel, and do. This also tend emphasize on to the degree to which they resonate or connect with a brand.



**Fig 12.1 Strategic brand management process** Source: *Strategic Brand Management; Building, Measuring and Managing Brand Equity; Forth Edition; Kavin, Lane & Keller*



The above picture gives an idea about the brand resonance model. Four basic questions that the brand answers in this model are

Who are you (Brand Identity)

What are you (Brand Meaning)

What about you (Brand Response)

What about you and me (Brand Relationship)

These four questions are answered in a sequential manner to achieve to the level of brand resonance. Now if we look in resonance model left side stands for rational criteria's and right side is for emotional appeal.

First question is about brand identity and lies at the bottom of the model and talks about brand salience. **Brand salience** measures various aspects of the awareness of the brand and how easily and often the brand is evoked under various situations or circumstances. It talks about the category in which a brand lies (for example, cornflakes lie in breakfast category) and the basic need that the brand satisfies (for example, cornflakes satisfies the basic need of hunger). The next question is about the meaning of the brand, that is what it stands for. This question is answered on the basis of brand performance and Brand imagery. **Brand performance** describes how well the product or service meets customers' more functional needs. This can be identified on the basis of different factors. These are, primary and secondary characteristics of the brand, level of reliability, durability, serviceability and effectiveness and efficiency of the brand. On the right of brand performance is the emotional aspect of **Brand Imagery**. Its refers to more intangible aspects of the brand, and consumers can form imagery associations directly from their own experience or indirectly through advertising or by some other source of information, such as word of mouth. For example, Venus razors have a feminine association whereas Gillette razors have more of masculine imagery. After answering the second question firms answer the next question about how the customer respond to a particular brand. On one hand, it generates a rational response of brand judgement and on the other hand it leads to brand feelings. **Brand judgments** are customers' personal opinions about and evaluations of the brand, which consumers form by putting together all the different brand performance and imagery associations. The major consideration about the brand judgement are based on quality of the brand, credibility of the brand, consideration while purchasing the product and superiority of the brand with respect to competitors' brand. On the emotional front lies brand feeling. **Brand Feelings** are customers' emotional responses and reactions to the brand. Brand feelings may either be of warmth (as is case of some heritage brands), fun (as in Disney fun park), excitement (that is evoked by MTV), security (as is towards LIC of India), Social approval \*as seen in Mercedes) or of Self-respect (like towards Tide detergent with campaign like doing best for the family). The first three feelings are experiential and immediate, increasing in level of intensity; the latter three types of feelings are private and enduring, increasing in level of gravity.

After accomplishing these lower hierarchical aspects in resonance model the last question that the brands answers are of Brand relationship. Brands, that are able to satisfactorily answer the questions of identity, meaning and response reaches to last level of relationship

(resonance). **Brand Resonance** describes the nature of this relationship and the extent to which customers feel that they are “in sync” with the brand. The four categories of brand resonance are Behavioural Loyalty (as is seen in case of repeat purchases), Attitudinal Attachment (having a positive attitude towards a particular brand), Sense of Community (sense of affiliation towards a brand user as in case of Harley Davidson where the owner of the bike have a strong connection with other owners of the bike) and Active engagement (when a person is willing to invest time, energy and money for brand apart from purchases, like joining a club centred around brand).

The last aspect in this is of brand **Value Chain** which means to trace the value creation process for brands, to better understand the financial impact of brand marketing expenditures and investment.

**Designing and Implementing Brand Marketing Programs:** The second step in developing a strong brand is designing and implementing brand marketing programs. The three basic steps of brand building process are as follows:

- a) Choosing the right mix of brand elements.
- b) Integrating brand marketing activities.
- c) Leveraging secondary brand association.

Now we will discuss all these steps in detail.

**Choosing Right Mix of Brand elements:** **Brand elements** are also called brand identities. They are those trademarkable devices that help in identifying and differentiating the brand. The main brand elements are Brand Names, URLs, Logos, Symbols, Characters, Spokespeople, Slogans, Jingles, Packages, and Signage. In the customer-based brand equity model it is suggested that marketers should use brand elements for enhancing the brand awareness; in facilitating the formation of a strong, favourable, and unique brand associations; or generate a positive brand judgments and feelings. For testing the brand-building ability of a brand element, firms must identify what consumers would think or feel about the product if they knew about only that particular brand element and nothing else about the product. A brand element that provides a positive contribution to brand equity conveys or implies certain valued associations or responses. There are six criteria's for choosing a brand element. They are Memorable, Meaningful, Likable, Transferable, Adaptable and Protectable. **Memorable** means that the brand must be easily recognised and recalled. For example, image of half eaten apple of Apple products is easily recognised. **Meaningful** means that the brand element must convey some sort of meaning be it descriptive or persuasive. **Likability** means that whether the brand element is aesthetically appealing. It means that whether they are visually, verbally or in any other way likable to the customers or not. **Transferability** talks about measuring the extent to which the brand element adds to the brand equity for new products or in new markets for the brand. For example, usage of word Amazon by the bookseller was easily transferred to each and every business in which the firm entered. **Adaptability** means suitability of the brand element over time. It means that whether the brand element is able to adjust to the changing consumer values and opinions over time. This means that the brand name is able to adjust to the changing time and situations. For example, When Pepsi started marketing its products in

China, it translated the slogan “Pepsi Brings You Back to Life” pretty literally. In Chinese it really meant, “Pepsi Brings Your Ancestors Back from the Grave.” This shows that this slogan was not at all adaptable. **Protectable** means that the brand must be protected both in legal and competitive sense.

**Integrating Brand Matching Activities:** Choosing the right set of brand elements no doubt helps in building brand equity but for building a strong brand the biggest contribution comes from marketing activities related to the brand. This basically deals with the contribution of Product, Price, Distribution and Promotion strategy in building strong brand equity. It is seen that successful brands tends to create strong, favorable, and unique brand associations to both functional and symbolic benefits. We know that the marketers are personalizing their consumer interactions through experiential and relationship marketing. On one hand, experiential marketing tends to promote a product not only by communicating its features and benefits but it also does it by connecting the product with unique and interesting consumer experiences. Relationship marketing includes those marketing activities that helps in deepening and broadening the manner in which consumers think and act toward the brand. Different means of getting consumers more actively engaged with the product or service are Mass customization, one-to-one, and permission marketing. Other ways that help in creating holistic, personalized buying experiences are after marketing and loyalty programs. In terms of pricing strategies, marketers should fully understand consumer perceptions of value. Now days, it is common for firms to adopt value-based pricing strategies for setting prices and on the other hand everyday-low-pricing strategies that can guide their discount pricing policy over time. Value-based pricing strategy is the best way for maintaining the balance between product design and delivery, product costs, and product prices. Every day-low-pricing strategies tends to set low prices regularly and introduce price discounts very selectively. For channel strategies, firms need to match brand and store images that can maximize the leverage of secondary associations. They must work on creating a channel of distribution that can enhance the level of satisfaction in the minds of customers. The designed channel must meet the objectives of the firm effectively. Firms may choose either direct channel or indirect channel. They can go for using one channel or may adopt multiple channel strategy to meet the firm’s objective. Last but not the least, the communication options must be chosen strategically so that they can contribute to brand equity. For the same, marketers need to have some theoretical and managerial guidelines by which they can determine the effectiveness and efficiency of various communication options available to them. These channels must be weighed both singularly and in combination with other communication options so that the best communication program can be created.

### **Leveraging Secondary Brand Association**

Secondary Brand association means “borrowing” some brand knowledge and brand equity from other entities that are associated with the brand. As the brand is identified with another entity even though this entity may not directly relate to the product or service performance the consumers can easily make out that the brand shares associations with that entity, thus producing indirect or secondary associations for the brand. These secondary brand association can arise from (1) the company making the product( Benefit that i-phone has

because of its maker, “Apple”) (2) the country or some other geographic location in which the product originates (the association of France for making premium quality wine; French Wine) (3) retailers or other channel members that sell the product (high quality perception of the goods sold by “Nordstrom”) (4) other brands, including ingredient brands (Laptop are considered good when then have Pentium processor) (5) licensed characters (firms selling kids product using the name of Disney) (6) famous spokespeople or endorsers ( Sachin Tendulkar in “Boost” ) (7) events (Paytm sponsoring IPL) and (8) third-party sources (Online blogs and opinions of people saying good about some product). This secondary brand association tends to enhance the image of the brand and strengthen the existing brand equity of the product.

The above mentioned three steps help in developing and implementing the desired marketing plan for enhancement of brand equity.

**Measuring and Interpreting Brand Performance:** The success of a marketing program lies in bringing the profitability to the organisation. For verifying whether the brand is successful in meeting its objectives or not, a firm must implement a proper brand equity measurement system. A **brand equity measurement system** is a set of research procedures designed to provide timely, accurate, and actionable information for marketers so that they can make the best possible tactical decisions in the short run and the best strategic decisions in the long run. The three steps for brand equity measurement are (a) Conducting Brand Audits (b) Designing Brand Tracking Studies (c) Establishing Brand-equity Management System.

A **brand audit** is a comprehensive examination of a brand. This is done to assess the health of the brand, to uncover the sources of brand equity and for suggesting the ways to improve and leverage the brand equity. For carrying out brand audit effectively one must work for understanding the sources of brand equity from the perspective of both consumers and the firm. After the marketers have determined the brand positioning strategy, they can now put in place the actual marketing program that can help in creating, strengthening and/or maintaining the brand associations. **Brand tracking studies** work for collecting information from consumers on a routine basis over a long period of time using different means typically quantitative tools of brand performance. The dimensions that are used for tracking are identified via brand audit or other means.

The techniques used for data collection can be classified as either quantitative or qualitative. Qualitative research techniques are those that can be used as a means to identify possible brand associations. On the other hand, there are Quantitative research techniques that can be used as a means to better approximate the breadth and depth of brand awareness, the strength, favourability, and uniqueness of brand associations; and the nature of brand relationships. Since qualitative data is unstructured in nature, it is well suited for situations that can provide an in-depth glimpse about the feelings that consumers have towards the brands and products. But for obtaining some precise and generalizable information marketers typically use quantitative scales.

A brand equity management system is defined as the set of organizational processes that are designed for improving the understanding and enhancing the usage of the brand equity concept within a firm. The three major steps that help in implementing a brand equity

management system are creation of brand equity charters, assembling of brand equity reports, and defining brand equity responsibilities.

**Growing and Sustaining Brand Equity:** Creating Brand equity is not an easy task. Firms invest huge amount of time and money in creating and nurturing a brand. This whole exercise will become useless if the brand is not able to maintain the desired performance for a long time. Brand equity management system talks about the broad and more diverse perspective of the brand equity. It talks about understanding how the branding strategies should reflect corporate concern and be adjusted with time and geographical locations.

**Defining Brand Architecture.** Brand architecture helps in providing the general guidelines about the branding strategy of a firm. It also provides an insight about those brand elements that the firm uses across all the different products that are sold by them. Two basic concepts that are used in defining brand architecture are *brand portfolios and the brand hierarchy*. Brand portfolio is defined as the set of different brands that a particular firm sells to buyers in a given category. On the other hand, brand hierarchy is defined as the number and nature of common and distinctive brand components across the firm's set of brands.

**Managing Brand Equity over Time:** Brands can be managed effectively by having a long-term view towards marketing decisions. It must be kept in mind that if there is any change in the supporting programs for a brand than it will lead to change in the customer knowledge thus affecting the success of that marketing program. Long term view also takes into account creation of those proactive strategies that are designed to maintain and enhance the customer-based brand equity. It also deals with implementation of reactive strategies that can re-vitalize a brand so that it can effectively encounter difficulties and problems.

**Managing Brand Equity over Geographic Boundaries, Cultures, and Market Segments:** A successful brand management program also helps in creating marketing programs and strategies so that the brand becomes easily acceptable across geographical boundaries. It is able to adopt to social and cultural changes that it encounters in different places and among different marketing segments. For example, Amul girl has been speaking about social issues from decades and her views have been acceptable from a long time as they have been updated with changing situations.

These above-mentioned steps are important for creation of a strong brand.



### *Check Your Progress- B*

**Q1. Explain the steps in strategic brand management process.**

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**Q2. Write a short note on Brand Resonance Model**

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**Q3. Discuss different criteria's for choosing Brand elements.**

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**Q4. What do you mean by secondary brand association? Discuss different things that help in leveraging secondary brand association.**

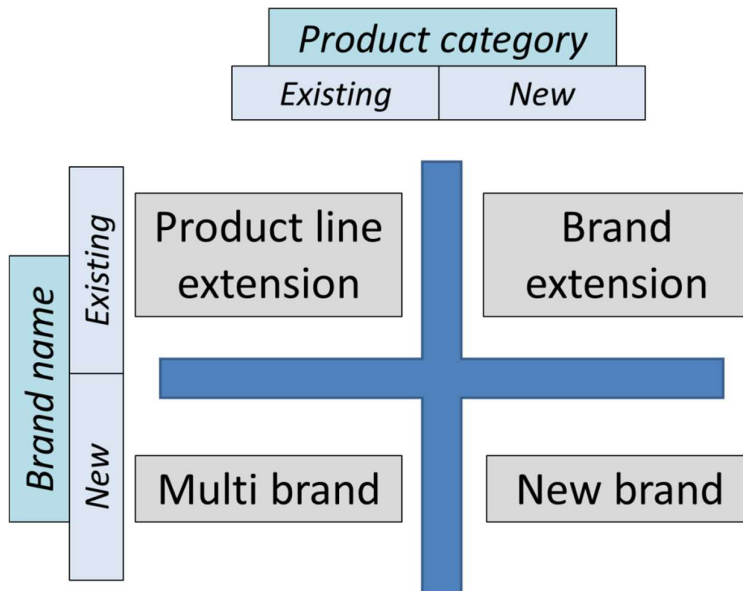
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## 12.7 BRAND DEVELOPMENT STRATEGIES

There are four choices that the company has for developing the brands. These strategies are Line extension, Brand extension, Multi Brands and New Brands.



**Fig 12.2 Brand Development Strategies**

Source: <http://www.marketingstudyguide.com/four-brand-strategies/>

**Line extension:** Line extension is a strategy that occurs when the firm uses its existing brand name for launching products with new forms, colours, sizes flavours etc. within the existing product category. The benefit of brand extension is that brand is well known in the existing product category so the firms don't find it tough to place the product in the minds of the customers. But there is risk associated with this strategy. If the firm overextends the brand it may lose its meaning. Example of successful product line extension is Geo news venturing to Geo Sports and Geo Entertainment.

**Brand Extension:** Brand extension is defined as the strategy where the firm uses the current brand name to the new and modified product category. Firm takes this decision to take benefit of the well-known brand name. This gives new product instant recognition and fast acceptance. This also helps in reducing the advertising cost drastically as the firms need not to invest in making people aware about the brand name. For example, when Nestle used the Brand name Maggie for launching the products like noodles, soups, Ketchup etc. In case of Maggie brand extension was quite successful but this is not true in every case. Ponds that one of the famous names in fairness creams category, came up with toothpaste and it failed drastically. The customers of the product were not able to link the link ponds with toothpastes. Firms must plan to extend only on those categories that don't confuse the customers.

**Multi- Brands:** It is defined as the scenario where the firms introduce additional brand in the existing product category. For Example, Hindustan Unilever makes different brand in each of their product category. This helps firm in establishing different sets of features thus appealing to different sets of motives. But the flipside of it is that, each brand will obtain a quite small market share and few might become unprofitable for the company. This also leads to wastage of resources.

**New Brand:** This is the strategy when a firm comes up with a new brand name in a new product category. This strategy is appropriate when the firm is willing to enter into those product categories where none of the brand name is acceptable.

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## 12.8 SUMMARY

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Brand is “name, term, sign, symbol, or design, or a combination of them, intended to identify the goods and services of one seller or group of sellers and to differentiate them from those of competition.” Technically speaking, then, whenever a marketer creates a new name, logo, or symbol for a new product, he or she has created a brand. Brand building is time taking process. It is a strategic process that a firm follows for creating strong brand. ***Strategic brand management process*** involves creating the design and then implementing the marketing programs and activities that helps in building, measuring, and managing the brand equity. Firms can go for brand development using different strategies. They can either go for line extension, brand extension, multi-brands or new brand development.





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## 12.9 GLOSSARY

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**Brand :** It is a “name, term, sign, symbol, or design, or a combination of them, intended to identify the goods and services of one seller or group of sellers and to differentiate them from those of competition.”

**Functional Brand:** This is the category of brands that are typically bought to satisfy the functional need that the customer has.

**Image Brand:** This is the category of those brands who offer image value to the users.

**Experience Brands:** In this category lies those brands that emphasizes on the unique experience that they provide to the customers.

**Brand positioning:** It is defined as the “act of designing the company’s offer and image so that it occupies a distinct and valued place in the target customer’s minds.”

**Point of Difference:** It is defined as attributes or benefits that customers associate with the brand, evaluate them positively and thus believe that they cannot be finding in the competitors’ brand.

**Brand elements:** These are those trademarkable devices that help in identifying and differentiating the brand. The main brand elements are Brand Names, URLs, Logos, Symbols, Characters, Spokespeople, Slogans, Jingles, Packages, and Signage.

**Line extension:** Line extension is a strategy that occurs when the firm uses its existing brand name for launching products with new forms, colours, sizes flavours etc. within the existing product category.

**Brand Extension:** Brand extension is defined as the strategy where the firm uses the current brand name to the new and modified product category.

**Multi- Brands:** It is defined as the scenario where the firms introduce additional brand in the existing product category.

**New Brand:** This is the strategy when a firm comes up with a new brand name in a new product category



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## 12.10 REFERENCES

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[http://ebooks.lpu.de.in/management/mba/term\\_2/DCOM405\\_DMGT408\\_MARKETING\\_MANAGEMENT\\_DMGT203\\_ESSENTIALS\\_OF\\_MARKETING.pdf](http://ebooks.lpu.de.in/management/mba/term_2/DCOM405_DMGT408_MARKETING_MANAGEMENT_DMGT203_ESSENTIALS_OF_MARKETING.pdf)
- Chapter ii. Review of literature  
[http://shodhganga.inflibnet.ac.in/bitstream/10603/10139/10/10\\_chapter%20ii.pdf](http://shodhganga.inflibnet.ac.in/bitstream/10603/10139/10/10_chapter%20ii.pdf)
- Brand Management, <https://quizlet.com/70206995/brand-management-flash-cards/>



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## 12.11 SUGGESTED READINGS

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- 1- Strategic Brand Management; Building, Measuring and Managing Brand Equity; Forth Edition; Kevin, Lane & Keller



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## 12.12 TERMINAL QUESTIONS

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- Q1. What is Branding? Discuss different benefits of branding
- Q2. Discuss Brand Resonance Model in detail.
- Q3. What is Brand Audit? Discuss the importance of Brand Audit and Brand Tracking studies.

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## UNIT13 PACKAGING

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### 13.1 Introduction

### 13.2 Objectives

### 13.3. Packaging and its Role

### 13.4 Importance of Packaging

### 13.5 Type of Packaging

### 13.6 Summary

### 13.7 Glossary

### 13.8 References/ Bibliography

### 13.9 Suggested Readings

### 13.10 Terminal & Model Questions

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## 13.1 INTRODUCTION

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Packaging involves the process of designing and producing the containers as well as the wrappers for a given product. Traditionally, packaging was used for the basic purpose of holding or protecting the product, but with the change in times it has become one the important marketing tools. In this unit we will try and study the basics of packaging, its types function and importance.

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## 13.2 OBJECTIVES

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After reading this unit you will be able to understand:

- about Packaging.
- Types of Packaging.
- Function and Importance of Packaging.

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## 13.3 PACKAGING AND ITS ROLE

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Packaging is defined as the process that is involved in designing and producing the container or wrappers for a product. Packaging plays an important role in marketing of the product and it is used as an effective tool for encouraging consumers for buying the product. Packaging is also taken as an effective medium for sales promotion.

Different authors have defined packaging in different manners.

According to W.J.Stanton, “Packaging may be defined as the general group of activities in product planning which helps in value designing and producing the container or wrapper for a product.” On the other hand, according to Pride and Farell, “Packaging involves the development of container and a graphic design for a product.”

In both the definition we can see that the basic functions of packaging i.e. storage of the product is emphasised. Packaging apart from storage has many other functions. In the next section we will try and discuss as many functions of packaging as possible.

- I. **Protection of the Product:** The first and foremost function of the packaging material is to protect the product. It helps in protecting the product from damages, dirt, leakage, contamination etc. Product when kept in open tends get contaminated by the surroundings. Proper packaging can help in storing a product for a longer time in safe, contamination free environment. A good packaging is necessary for protecting the product from getting damaged. For example, in case of electronic goods bubble raps are used as inner layering in the packaging for protect the product from damaged.
- II. **Provides the Product Density:** Packaging plays an important role in providing density to the products. The main idea behind it is to select the packaging material that has effective design and shape for storing the product in an effective manner within a limited space. This on one hand helps in proper storage, on the other hand helps in carrying the product from one place to other.
- III. **Acts as Promotional Tool:** Good, proper packaging helps in selling the product in the more effective manner. Packaging plays an important role in self advertising of the product. An attractive packaging, carrying all the relevant information about the product and tends to attract customers more. It has been seen that a lot of buying decision take place at the point of purchase. So, an effective packaging material has the capacity of attracting the customers and compelling them in buying the product. Attractive designs, size, colours and graphics of the packaging material are essential for generating interest among the customers.
- IV. **Provide User Convenience:** Packaging material has another important function to fulfil. It plays an important role in enhancing the usage convenience. A well-designed packaging material tends to facilitate in storing, carrying and transporting the product from one place to another. It also plays an important role in enhancing the usage of the product. A good packaging material like in case of tetra packs of Amul Milk makes it convenient for the user to use and store the product.
- V. **Facilitates Product Identification:** Packaging material acts as an identification mark of the product. It helps in differentiating the product offering. A costumer can easily recognise the product with the help of its packaging material. A proper packaging acts as the personality of the product. For example, colour and shape of the Real juice differentiates the product offering from its competitors.
- VI. **Allows easy Product Mix:** Packaging is an integral part of Product mix. Product mix is associated with the product line and width. A lot of researchers and

marketing experts are counting packaging as one of the P's of marketing. The reason behind the same is importance of packaging in facilitating the product acceptance in the minds of the customer. A good product packaging is important for allows customers to easily remember and recall the product.

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## 13.4 IMPORTANCE OF PACKAGING

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In this section we will discuss the importance of having a proper packaging material.

- I. Helps in generation of Demand: A lot of purchase decisions in present times are made at the point of purchase. Impulse buying plays an important role in making purchases at retail outlets. In this case packaging places an important role. An attractive packaging that is able to grab attention of the customers can help in moving the goods from shelves. Also, the details mentioned in labels of packaging material act as an important source of information for the customers, thus compelling them to buy the product.
- II. Helps in Transportation: Packaging material act as an important source of protecting the goods while transporting them from one place to other, without getting damaged. It helps in ensuring that the product is handled in a better manner. It plays an important role in carrying the goods in transit and from one place to another. Product packaging is done in various sizes thus facilitating provisions for easy and open carrying.
- III. Provide Guidelines to the Customers: Packaging material contains the details of product, its expiry date, direction of use, ingredients etc. These things help customers in using the product correctly.
- IV. Proper Storage: Packaging material helps in storing the product in a proper manner. Goods with proper packaging can be stored safely without utilizing much of the space.
- V. Reducing the cost: No doubt packaging is a costly affair. But it helps firms in reducing a lot of other costs. Proper packaging helps in reducing the damages and wastage of the product thus saving a lot of money. It acts as a point of purchase promotional tool thus reducing a portion of burden from other promotional tools.

**Check Your Progress-A**

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**Q1. What is packaging? Discuss its role in attaining the customers interest**

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**Q2. Explain the benefits of packaging?**

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**Q3. Discuss in detail the importance of Packaging.**

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## **13.5 TYPES OF PACKAGING**

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There are different types of packaging. In this section we will discuss those packaging in detail.

Packaging in the basis of level:

- I. **Primary Packaging:** It is the packaging material that is the first one to envelope the product and holds it. This packaging is usually the smallest unit of use. This form of packaging is in directly touched with the contents of the product. The main function of this packaging is to protect and preserve the product.
- II. **Secondary Packaging:** This packaging is done usually outside the primary packaging. The main purpose of this packaging is to display the brand, storing and protecting the product. This is sometimes referred as group or display packaging.
- III. **Tertiary Packaging:** This type of packaging is helpful in facilitating the protection, handling and transportation of the product. This is done outside the secondary packaging, where lots of secondary packages are stacked together in tertiary packages.



### Check Your Progress- B

**Q1. Discuss different types of packaging at its uses.**

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## 13.6 SUMMARY

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Packaging plays an important role in marketing of goods. On one hand it helps in storing the product in a proper manner, on the other hand it plays an important role in sales promotion. Attractive packaging tends to generate customers interest and facilitates buying. Firms give due importance in designing the packaging material so that they can attract customers towards buying their product.




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## 13.7 GLOSSARY

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**Packaging:** Packaging is defined as the process that is involved in designing and producing the container or wrappers for a product.

**Primary Packaging:** It is the packaging material that is the first one to envelope the product and holds it.




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## 13.9 SUGGESTED READINGS

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## 13.10 TERMINAL QUESTIONS

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- Q1. Discuss the role of packaging in promoting the product?
- Q2. Discuss in detail different types of packaging?
- Q3. Write a short note on functions of packaging.

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## UNIT 14 PRICING

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### 14.1 Introduction

### 14.2 Objectives

### 14.3 Price and Different Factors Affecting Pricing Decision

### 14.4 Different Pricing Objectives

### 14.5 Pricing Strategies

### 14.6 New Product Pricing Strategy

### 14.7 Product Mix Pricing Strategy

### 14.8 Price Adjustment Strategies

### 14.9 Changing the Price of the Product

### 14.10 Summary

### 14.11 Glossary

### 14.12 References

### 14.13 Suggested Readings

### 14.14. Terminal & Model Questions

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## 14.1 INTRODUCTION

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One of the important aspect for a customer while making a purchase decision is price. If we look it in terms of marketing mix, we can easily identify that of all the four mixes, price is the only one that helps an organisation in attaining the revenues directly. In a narrow term, price is defined as the amount of money that is charged from a consumer for availing any product of service, while in a broader sense it is regarded as sum of all the values that a customer gives up in order to attain benefits of using a given product. Managers tend to have divergent views with respect to pricing of the product. A section of managers treats pricing as an additional burden thus focuses more on the others aspects of marketing mixes while smart managers take it as an important strategic decision that can help them in serving the customers in a profitable manner thus enhancing the overall profitability of the organisation.

In this unit we will try and understand the different factors that play an important role in determining the prices of a product, also we will try and look to the different pricing strategies that are adopted by organisation to enhance their bottom line.



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## 14.2 OBJECTIVES

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After reading this unit you will be able to:

- Understand the meaning price
- Explain the reason how firm takes decision regarding price.
- Factors that affecting pricing of the product.
- Different pricing strategy followed by firm

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## 14.3 PRICE AND DIFFERENT FACTORS AFFECTING PRICING DECISION

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As per Philip Kotler, Price is defined as the amount of money charged for a product or service, or the sum of values that the customer exchange for the benefits of having and using product or service. Price tends to play an important role in purchase decision of customers. It helps in attainment of revenues thus contributing to the bottom line of an organisation. While taking a decision regarding pricing of goods and services it must be kept in mind that it is neither too high that it is not able to generate any demand (price ceiling) nor too low that it becomes a loss-making scenario for the organisation (price floor). Prices of the product must lie between these two extremes.

- 1- **Customer Perception of Value:** It is the customer that decides whether the prices charged by the company are right or not. Pricing decision like other important marketing decision must start with the customers. The pricing decision must be based on the value of the product rather than any other factor. Setting the prices based on the buyer's perception of the value rather than the sellers cost is called **value-based pricing**. In this pricing strategy, the foremost thing that a company tries to access is, the needs and value perception of the customers and uses it as the basis of pricing the product rather than the sellers cost. This strategy considers pricing along with other marketing mix variable before setting the marketing program. Value based pricing is reverse of cost-based pricing strategy, which is more of a product driven marketing strategy. In **cost-based marketing strategy**, companies first design the product than adds up the total cost of manufacturing the product, after that the company tries to add up the percentage of profit to that cost for setting up the price of the product. The customer lies as the end of the cost-based pricing and the company tries to convenience the customers about the purchase of the product at the stated price is worth the value. This strategy is considered a wrong way of pricing the product.

There are two types of value-based pricing: Good-Value Pricing and Value-Added Pricing.

**Good Value Pricing:** This pricing strategy deals with setting the right combination for quality and services at a fair price. Organizations that have adopted good value

pricing are involved with introducing the less expensive version of established brand name products. The examples of the same is “Value Menu” of McDonald and Nano car launched by Tata Motors. The concept of the good value pricing has also find its place in retail business. A type of good value pricing that is used by retailers is Every Day low Pricing (ELDP). For example, Wal mart one of the giants in retail business uses ELDP pricing strategy. This pricing strategy talks about charging low prices on a constant continuous basis. This mode of pricing is in contrast with High Low Pricing (HLP) strategy, where the prices are kept bit higher on everyday basis, frequent promotions are used to lower the prices temporarily on few selected items.

**Value Added Pricing:** It is that pricing strategy, where companies attach value added features and services with their products that helps them in differentiating a company offering. This facilitates a company in charging higher prices. Companies following the value-added pricing strategy don’t go for cutting the prices to match it with the competitors’ price, rather they tend to attach value added features and services that can differentiate their offering and thus they can ask for higher prices.

- 2- **Cost of Production:** Cost of Production tends to have an impact on the pricing of a product. The price floor (minimum price below which it becomes non-profitable for the organisation to sell the product) is set on the basis of cost involved in different activities of manufacturing and selling a product. Cost based pricing involves setting prices based on the cost for producing, distributing and selling the product plus the fair rate of return for its efforts and risks. Low cost producers like Indigo Airlines sets lower prices leading to lower margins but generating higher volumes and high overall profit. On the other hand, few companies like Bentley tend to spend higher cost thus claiming higher prices and margins.
- 3- **Overall Marketing Strategy, Objectives and Mix:** Price is an important part of company’s broader marketing strategy. The decision regarding price must be taken by giving due consideration to the other marketing strategies/activities. If a company has clear cut idea about its target audience and their position strategy, that they are going to adopt, it becomes quite easy for them to decide on the prices of the product. For example, when it comes to BMW cars, they have a well-defined target audience that have high paying capacity and consider buying BMW as a luxurious vehicle that is associated with their status. Customers from high income group are their target audience. This makes it easier for BMW to price their cars at a higher rate than the normal luxurious cars that are sold in the market. On the other hand, Maruti Alto in India has a strategy of catering to the needs and requirement of the middle class. The strategy is to provide low price variant to the emerging middle class that looks for a cheap, affordable and low maintenance alternative for meeting their requirement. Many a times companies tend to position their product on the basis of price they are going to charge for the product and then design the marketing strategy that can help them in justifying those prices. This strategy is known as target costing. In this the firms tend to set the target price on the basis of the customer value and then do the reverse engineering in deciding on cost that can be set for achieving the target price.

For example, when Tata decided to bring Nano, they initially set the prices as one lakh and then went on to do the reverse engineering in arriving at the cost of the manufacturing of the product.

- 4- Organisational Consideration:** Organizations have variety of ways for setting the prices. In small companies the decision regarding the prices is taken by the top management, the role of marketing and sales department is not that important. On the other hand, most of the bigger companies tend to hand over the responsibility of pricing to their divisional managers. In some companies that are mostly involved in B2B selling it is the company that takes decision regarding the price range and the sales people are giving the liberty of setting the price within this range and charge it from the customers.
- 5- Type of Market and Demand of the Product:** Companies' must give due consideration to the market condition and demand of the product. Organisations operating in the perfect market situation, where the number of sellers is large and the product is homogenous in nature, prices are decided by the forces of demand and supply. Individual firms are price takers rather than price makers. In case of monopolistic market, the number of firms' is higher and the product is differentiated in nature. This differentiation can be on the basis of quality, product design, style or the services that are associated with it. This differentiation in the offerings gives liberty to the sellers for operating at a range of prices rather than charging similar prices as in case of perfect market. In case of Oligopoly, the number of sellers is less and product is either homogenous or are close substitute of each other. Firms tend to have huge amount of competition between them. Sellers give huge importance to the competitor's strategy and tend to respond as per the changes in the competitor's strategy. In case of a monopoly there is only one seller. In case of government regulated monopoly, the prices are fair for both sellers and customers. In case of unregulated monopoly, the sellers tend to decide the prices but they don't charge very high prices as it may not be able to attract the customers.  
In case of products that are unique, or of high quality or prestige products consumers tend to have less sensitivity towards the prices.  
In those cases where the demand of the product is elastic in nature sellers can attain higher revenue by reducing the prices of the product.
- 6- Other External Factors:** Organisations tend to price their product keeping in mind the competitor's strategy. Consumers, who think of buying one product, tend to evaluate the product offering with respect to competitors offering. Pricing is one of the marketing mix factors that is considered while making a purchase decision. Economic condition like recession, boom etc. tends to affect the pricing of the product. Government policies, regulations and social concern tend to play an important influence in pricing decision.

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## 14.4 DIFFERENT PRICING OBJECTIVES

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While deciding on pricing alternatives a firm takes into consideration different objectives behind it. Objectives are those goals that the company needs to achieve with the prices of the product. Companies realize that the prices are an important tool for cementing their strategic position. They decide upon the prices of the product by giving due consideration to the objectives that they want to achieve by fixing the prices. Different objective behind pricing of the product are as follows:

**a) Survival:** This is one of the fundamental objectives of pricing the product. Many a times companies face problems like change in consumer preferences, enhancement of competition. These situations are quite difficult to overcome and companies try very hard to come up ideas that can help them in coping with the changing situation. They tend to overcome this hardship and difficult situations by selling as much units as possible so that they can attain desired resources for surviving in the industry. Prices play an important role in survival. Firms are willing to enhance their sales volume by pricing the goods and services so that they are able to meet out their expenses.

**b) Profit:** Another objective that the organisation can set is profit maximization. Profit maximization is set for long term, as in short term, many a times firms have to settle with minimal profits or sometimes even losses. Identifying and calculating maximum profit is almost impossible. Firms rather than profit maximization establish a profit figure on the basis of previous profits and take it as an optimum profit for the given accounting year.

**c) Return on Investment:** In this pricing objective firms tend to achieve a price level that help companies in achieving pre-decided return on investment. Firms following this pricing strategy utilize hit and trial method for setting the prices. This is done because, attaining all the relevant data regarding actual cost and revenue is not possible. In this pricing strategy, no importance is given to the ongoing competitive price as well as perception of consumers towards the price.

**d) Market Share:** In this pricing objective the major aim of the firm is to enhance the market share of the firm. Sellers are more interested in capturing the market share that is profitable for the company. Organisations can either maintain their existing market share or can look for enhancing the percent of market share with respect to their currently holding. Companies want to maximize market share believing that a higher sales volume will consequently bring down unit cost and lead to higher profits in the long-run. Prices are set at the lowest possible level to generate higher sales and larger market share. As the unit costs dip, prices are further reduced.

**e) Product Quality:** Another major objective for a firm while setting the price is establishing the product on the basis of quality. Consumers tend to associate quality of the product on the basis of price. Firms that want to use pricing as a tool for signifying the quality of the product use this strategy. Such companies consistently strive and maintain

high quality and accordingly set higher prices to cover quality and high cost of research and development.



### *Check Your Progress-A*

**Q1. What is price? Discuss the importance of pricing in changing business environment?**

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**Q2. What is price floor and price ceiling?**

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**Q3. Discuss different factors affecting a firm pricing decision.**

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## **14.5 PRICING STRATEGIES**

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After discussing what pricing is and understanding different factors that affect pricing we will discuss different strategies that the companies adopt for setting the prices of the product. The different pricing strategies available to the marketers are new product pricing strategy, product mix pricing strategy, price adjustment strategy and price reaction strategy.

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## **14.6 NEW PRODUCT PRICING STRATEGY**

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Products that are introduced in the market are priced keeping different aspects in mind. Companies face huge challenge for pricing the product for the first time. They have to make a choice between two broad strategies that are Market Skimming and Market Penetration.

**Market Skimming Pricing:** In this pricing strategy, firms launching the new product must set the initial prices high. Setting the initial prices very high, helps them in skimming the revenue from the market. This strategy helps sellers in attaining higher revenues by keeping

the prices higher. For example, when Sony launched HDTV in 1990 they deliberately kept the prices quite high. The television initially was meant for those customers who actually were interested in advance technology and had the capacity of paying higher prices. This helped the company to skim higher returns in a very short span of time. With time new entrants came up with their offerings. This led Sony to reduce their prices for attracting new buyers. This helped them in attaining higher revenues in different segments of market. Market skimming strategy is feasible in following condition: Firstly, the product, brand and image quality must support higher prices and the customers are comfortable in purchasing the product at that higher price. Another important aspect is the cost of production of smaller volumes. The cost of producing must not be so high that it cancels the advantage of charging more price from the customers. Last but not the least is the ease of entry in the market. The competitors must not enter into the market easily thus leading to under cutting of the prices.

**Market Penetration Pricing:** This pricing strategy is opposite of the market skimming strategy. In this strategy the prices are initially kept quite low thus helping the company in penetrating the market. This strategy helps company in attracting the customers and capturing the larger market share. For example, when the telecom market in India was in the initial phases, Reliance telecom came up with their offerings in market that were revolutionary in many aspects. They entered market with very lucrative low price offering that attracted a larger segment of customers. This led to enhancement of market share in a very short span of time.

There are different conditions that are pre-requisite for this low-price strategy.

First condition that is important for penetration pricing to succeed is having a price sensitive customer so that low prices can attract customers and can lead to market growth. Second condition is that with increase in sales production and cost must go down. Another important aspect associated with penetration pricing is that the firm must maintain its low-price strategy so that the firms may retain their market position.

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## 14.7 PRODUCT MIX PRICING STRATEGY

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Individual products are part of larger product mix and thus the prices of it are fixed according to product mix strategy. In case the product is part of the larger product mix the firms look to set the prices of individual product that maximize the profit of the total product mix. Different product mix pricing situation are explained below:

**Product Line Pricing:** A product line is a group of related products under a single brand sold by the same company. Companies tend to sell multiple product lines under various brands. In case of product line pricing the organisation sets prices across the entire product line. They must decide upon the prices that are set between various products in a line. For example, Samsung offers different types of mobile handsets at various price level. On one hand they have Samsung guru for those who are looking for a basic headset at a very low price and on other hand they have premium Galaxy series for those customers who are interested in buying

high end mobile sets. Between these two extremes there are different mobile handsets that cater to different customer needs.

**Optional-Product Pricing:** In this pricing strategy the organizations tend to sell optional or accessory products along with their main product. Main product is sold to the customers at a fix price and apart from it they are offered different optional product that can be used along with the main product. For example, an automobile company may come-up with a base product at a given price. Apart from the basic product there are multiple accessories that the customer can think of buying for their vehicle. All these optional products are available with the car dealers and are sold along with the main product.

**Captive Product Pricing:** In this pricing strategy, firms sell those product/ accessories that are used along with the main product. Producers in this case tend to sell the main product at a low price so that the customers can purchase it and set higher prices for the supplies. For example, pricing of video games and cassettes, razor and blades are in the category of captive product pricing. Gillette sells razor at low price to the consumers and charges higher prices when the consumer goes to purchase cartridge. In case of services the captive product pricing is regarded as two-part pricing, fixed fee and the variable usage rate. For example, in case of telecom industry, a consumer gets a base plan with 600 minutes free plan than the consumer will be charged a fixed rate for the first 600 minutes and when the customer crosses this limit, he is charged separately for minutes over and above the base plan. The plan for captive product pricing must be designed so that the base rates are low enough to attract the customer and the extra profit can be generated by variable fees.

**By Product Pricing:** Production of final and goods services often leads to creation of by-products. If the by-product is of no use than firms have to spend extra amount in disposing it safely, thus enhancing the cost of production. In case, the company is able to sell the by-products, they can reduce the prices of final goods and make them competitive. For example, in dairy industry the by-product is cow dung. If the farmers are able to sell this cow dung, he can, without compromising the profit, easily reduce the prices of milk in the market to make it competitive.

**Product Bundle Pricing:** In this pricing strategy, the firms tend bring together multiple products and sells a bundle of product offerings. The selling price of the bundle is less than that would be charged if the customers bought them together. For example, value meals at restaurants and bundling of channels by cable operators.



### *Check Your Progress- B*

**Q1. Explain new product pricing strategy.**

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**Q2. Write a note on product mix pricing strategy**

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**14.8 PRICE ADJUSTMENT STRATEGIES**

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With change in business scenarios companies tend to change their prices. They need to evaluate the change in consumer preferences, competitor strategies and other factors that affect the prices and then adjust these prices for meeting the changing business scenario. Different price adjustment strategy that are used by the companies are *Discount and Allowance Pricing, Segmented Pricing, Psychological Pricing, Promotional Pricing, Geographical Pricing, Dynamic Pricing and International Pricing*.

**Discount and Allowance Pricing:** A lot of companies tend to adjust their prices for rewarding the customers for certain responses. These responses may be early bill payments, high volume purchases and buying in off-seasons. For example, garment retailers tend to give huge discount to the customers buying in off season clearing sales. These adjustments can either be in the form of discounts or allowances.

Discounts are straight reduction in prices on purchase of an item. There are many forms of discounts:

- a) **Cash Discounts:** It is price reduction to the buyers for making the prompt payments. For example, if the bill amount is Rs X and the time for payment is one month, the seller offers a scheme to the buyer that if they make the payment within 10 days than the they will get a discount of 10 percent on the bills payed.
- b) **Quantitative Discounts:** It is the form of discount that is offered to the buyers for buying in huge volumes. These discounts act as an incentive for the buyers who prefer to buy from one given seller.
- c) **Functional Discounts:** Also known as trade discounts. It is offered to the channel members who assist sellers in specific functions associated with selling of the goods.
- d) **Seasonal Discounts:** This form of discount is offered to the buyer who purchase goods and services during off season.

Allowances are a form of price reduction where the promotional money is paid to retailers in return of an agreement to feature manufacturer's product in some way. For example, promotional allowances are payment that are given as rewards for participating in advertising and sales support.

**Segmented Pricing:** Segmentation is defined as dividing the heterogeneous market in homogenous lot. In segmented pricing the seller of the product or service sells the product at different prices to different sets of customers. Different form of segmented pricing is given below:



- a) **Customer-segment Pricing:** In this form of pricing structure the customers are segmented to different group and are charged different prices. For example, the charges for kids and adults are different in roadways and railways.
- b) **Product form Pricing:** In this form of pricing different versions of a product are charged differently. For example, price of two litters of Coca-Cola is rupees 79 while 600 ml bottle cost rupees 37. If we look per ml cost of 2-liter bottles is much less than 600 ml bottle and the difference is just on the basis of quantity.
- c) **Time Pricing:** In this pricing strategy the prices vary according to either seasons, months, week days and weekends or even hourly. For example, happy hours in restaurants to bring customers in the lean hours.

**Psychological Pricing:** This is a pricing approach where the prices are fixed on the basis of psychology of the consumers rather than any economic consideration. For example, consumers tend to perceive that expensive products are higher in quality as compared to cheaper products. Price becomes an important criterion of judging the quality when the consumers don't have desired information and skills.

**Promotional Pricing:** This is a price adjustment strategy where the companies temporarily reduce the prices of their products below the list prices for enhancing the short run sales. Promotional pricing is quite famous among retailers for attracting new customers. This pricing strategy has some adverse effect too. Frequent reduction of prices may adversely affect the brand image and will also compel the customers to wait for such promotional pricing for buying the product.

**Geographical Pricing:** This is a price adjustment strategy where the sellers sets different prices for consumers located in different locations. Different forms of Geographical Pricing are as follows:

- 1) **Free on Board (FOB) Pricing:** It is a pricing strategy where the sellers are responsible for loading the goods on carriers and the customers are supposed to pay the freight from factory to their destinations. For example, a factory located in Mumbai is supposed to deliver goods worth ten thousand to two destinations Delhi and Nagpur. The customers of Delhi and Nagpur are supposed to pay the transportation cost from Mumbai to their respective locations. Since the distance between Delhi and Mumbai is much higher as compared to Nagpur and Mumbai, the freight charges of Delhi will be higher (let's assume 5000 rupees) as compared to Nagpur (let's assume 2000 rupees). In this case the prices are similar but the transportation cost depends upon the location of buyer.
- 2) **Uniform Delivery Pricing:** In this Pricing strategy, firms charge same prices (inclusive of freight) from all its customers without any consideration of their locations. Taking into account the above example let's say the freight charges are fixed at an average of rupees 4000 the customers in Nagpur will have to pay higher charges (as the freight charges from Mumbai to Nagpur are taken as rupees 2000 in above example). On the other hand, this would be a cheaper option as compared to free on board for Delhi based buyer.

- 3) **Zone Pricing:** This pricing strategy falls between FOB and Uniform Pricing strategies. In this pricing strategy, consumers are divided into different zones and consumer in one zone pays one single price that is different from another zone. For example, consumers in India can be divided into North, South, West and East zones and different sets of prices are fixed for each zone.

**Dynamic Pricing:** It is a price adjustment strategy, where prices are adjusted on continuous basis to meet the needs of individual customers and situations. This pricing strategy helps to adjust prices according to the market forces. For example, Alaska Airlines create unique prices and advertisements for people as they surf the web. Dynamic Pricing has many advantages. Sellers can utilize the data that they have for designing a tailor-made product that fits buyer's behavior and adjust the prices accordingly. Buyers get an advantage of comparing the prices from various vendors online and can choose the most suitable prices.

Apart from advantages, there are flip sides of this pricing strategies. People tend to feel cheated after knowing that they have paid higher prices for the same service as they had not chosen the different vendor than that of others.

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## 14.9 CHANGING THE PRICE OF THE PRODUCT

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Firms enter into different situations where they adopt a strategy of changing the price of the product. The firms may either go for price cuts or may increase the prices of the product.

**Price Cuts:** There are various situations where firms feel that reducing the price of the product will help them in achieving their objectives. Different factors that compel a company reduce the prices of the product are as follows: excess capacity, reduction in the demand of the product or usage of price cuts for boosting the sales and capturing the market share. Reducing the prices is a tough call. Many companies after facing the situation of excess capacity reduces the prices of the product, but when the industry is dominated by such firms it will lead to price war as every competitor will try to hold their market share.

A lot of companies have used this price reduction strategy profitably. Big Bazaar came with the concept of "*sabse sasta din*" and attained huge success. Price reduction is perceived in different ways by consumers too. While on one hand the consumer will feel that they are getting a good deal in low prices, on other hand they may take it as reduction in the quality of the product thus degrading the brand value. Price reduction many a times tend to have more adverse effect than positive effects.

**Initiating Price Increase:** Firms many times go for increasing the prices of the product. If the price increase strategy of the firms is successful, it leads to enhancement of revenues. Price rise may be initiated by different reasons: rise in the cost of production may lead to increasing the prices so that extra cost can be covered easily. Another factor that leads to price rise is overdemand. When firms face the situation of overdemand they may raise their prices to cater to the smaller set of customers. Price rise is perceived in different manner by the customers'. On one hand

the customers feel the rise in prices is associated with enhancement of quality thus creating a sense of loyalty among the customers. But the same strategy can boomerang if the customers perceive that the company is becoming greedy and is charging higher prices. They may feel that this is a strategy of extracting more money from the customers. Thus, it is quite important that firms while increasing the price must assure customers via different promotional tools about reason behind price rise so that they don't feel cheated.

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## 14.10 SUMMARY

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Price is defined as the amount of money charged for a product or service, or the sum of values that the customer exchanges for the benefits of having and using product or service. Price tends to play an important role in purchase decision of customers. It helps in attainment of revenues thus contributing to the bottom line of an organisation. It is the customers who decide whether the prices charged by the company are right or not. Pricing decision like other important marketing decision must start with the customers. The pricing decision must be based on the value of the product rather than any other factor. Setting the prices based on the buyer's perception of the value rather than the sellers cost is called value-based pricing.

Different objectives that motivate pricing strategy of the firms are Survival, Profit, Market share, Return on Investment and Indication of product quality. Firms may adopt one of the above objectives for setting the prices of the product.

Fixation of pricing is dependent on various factors. Some important factors that affect pricing are customer perception of value, type of market, firm's objective and policies, demand of the product, marketing strategy of the firm, economic factors affecting the businesses, government policies etc. Firms may either adopt market skimming or market penetration pricing strategy for pricing the new goods. Many a time firms look for ways of adjusting the prices so that it can mitigate the effects of different market forces. Discounts and allowances, Segmented pricing, Psychological pricing and Promotional pricing are few basic techniques of price adjustment strategy. Companies selling mix of products to the customers may either adopt to product line pricing, captive product pricing, optional product pricing or product bundle pricing.

In short pricing is one of the major decisions in the total marketing mix that the companies need to take for catering to the customers in a profitable manner. Organization's must give due importance to pricing along with other marketing mix options. Organisation must not set a single price for all the products but array of different prices that covers different items and these prices tends to change with time. Firms must take into consideration different outcomes of price cuts and price rise before initiating the process of price change.



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## 14.11 GLOSSARY

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**Price:** Price is defined as the amount of money charged for a product or service, or the sum of values that the customer exchanges for the benefits of having and using product or service.

**Good Value Pricing:** This pricing strategy deals with setting the right combination for quality and services at a fair price.

**Value Added Pricing:** It is the pricing strategy, where the companies attach value added features and services that helps them in differentiating a company offering thus charging higher price.

**Market Skimming Pricing:** In this pricing strategy, the firms while launching the product set the initial prices high. Setting the initial price very high helps in skim the revenue from the market.

**Market Penetration Pricing:** This pricing strategy is opposite of the market skimming strategy. In this strategy the prices are initially kept quite low thus helping the company in penetrating the market.

**Product Line Pricing:** In case of product line pricing the organisation sets prices across the entire product line. They must decide upon the price steps that are set between various products in a line.

**Discounts:** Discounts are straight reduction in prices on purchase of an item.

**Allowances:** Allowances are a form of price reduction where the promotional money is paid to retailers in return for an agreement to feature manufacturer's product in some way.

**Psychological Pricing:** This is a pricing approach where the prices are fixed on the basis of psychology of the consumers rather than any economic consideration.

**Promotional Pricing:** This is a price adjustment strategy where the companies temporarily reduce the prices of their products below the list prices for enhancing the short run sales.

**Geographical Pricing:** This is a price adjustment strategy where the sellers sets different prices for consumers located in different locations.

**Dynamic Pricing:** It is a price adjustment strategy where prices are adjusted on continuous basis to meet the needs of individual customers and situations.



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### 14.14 TERMINAL QUESTIONS

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- Q1- What is pricing? Explain the difference between cost based and value-based pricing?
- Q2- Discuss different new product pricing strategies and explain their relevance.
- Q3- What are various product mix pricing strategy?
- Q4- Discuss various price adjustment strategy.

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## UNIT 15 DISTRIBUTION CHANNELS

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### 15.1 Introduction

### 15.2 Objectives

### 15.3 Nature and Functions and Role of Marketing Channels

### 15.4 Number of Channel Levels

### 15.5 Types of Intermediaries

### 15.6 Channel Behavior and Organization

### 15.7 Need for Intermediaries: An Analysis

### 15.8 Summary

### 15.9 Glossary

### 15.10 References

### 15.11 Suggested Readings

### 15.12. Terminal & Model Questions

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## 15.1 INTRODUCTION

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Another important marketing mix decision that is taken into consideration by producers for catering the customers profitably is Distribution. Firms rarely work individually for creating value for the customers. It is rather collaborative effort of all the channel partners. The availability of the product in the market depends upon the efficacy of the distribution channel, thus it is an important player in the overall marketing strategy.

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## 5.2 OBJECTIVES

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After reading this unit you will be able to understand:

- Different channel partners in a distribution network.
- Importance of Distribution Network.
- Roles and Responsibility of Different Channel Partners.
- Different issues involved in Brand Extension.

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## 15.3 NATURE AND FUNCTIONS AND ROLE OF MARKETING CHANNELS

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Distribution channels are probably the most visible aspect of any company's marketing efforts. It has been estimated that number of retail outlets in India is more than 5 million. There are more than 15 million people who are dependent on retail industry for livelihood. This figure is going to increase many folds if we start adding distributors, wholesalers, agents and other who become part of market channels. Distribution function is currently undergoing tremendous changes in terms of both its span and productivity. Change in technology has transformed distribution network drastically. All the changes in distribution network are targeted towards enhancing the convenience of consumer. Usage of internet has enabled manufacturers to perform several distribution related activities with ease and effectiveness.

Marketing channels means a set of interdependent organizations that helps in making a product or service available for use or consumption to the consumer or for business use. There are few companies who sell their product directly to the consumers. In this form of distribution there are no intermediaries. On the other hand, there are marketing channels with multiple channel partners that cater to the requirement of customers. Decision regarding marketing channel plays a huge impact on other marketing mix elements. Pricing of the product depends upon the choice of the channel partner. Acquiring and developing new product depends on the feasibility and expertise of the channel partner in carrying the new product.

Distribution channels have been defined in various ways by different authors.

According to Stern and El Ansary, "Distribution channels are set of interdependent organization involved in the process of making a product or service available for the use or consumption." The process of exchange is an important aspect of marketing by these channels. By this process of exchange, it helps in performing an important role in the overall marketing function. Pitt and et al have sighted that intermediaries essentially plays three important functions. Firstly, they are there to adjust the discrepancy of assortment through the process of sorting, accumulation, allocation and assorting. Secondly, they help in minimizing the distribution cost thus making exchange more efficient and effective. Thirdly, these intermediaries play an important role of facilitating both buyer and sellers in terms of attaining information as well as in assisting them by providing a place and opportunity for meeting and reducing the uncertainty.

Robinstein and Wolinsky have attributed that distribution channels have emerged for facilitating exchange. They do this by speeding up the time-consuming matching process of buyers and sellers. According to Biglasier middlemen have emerged due to two reasons. Firstly, their volume of purchase is more than a normal buyer, thus they have a higher incentive to invest in skills that enable them to detect the true quality of goods and secondly their stay in market is for a longer time thus they are highly reputation conscious and will report the true quality of the product.



Morris and Sirgy states that the channel members alter their functions and adjust to the organization programs for coping up with the changing environment. Thus, according to them channel evolution is a continuous adaptation process that changes with economic, technological and social political forces both within the channel and in the external environment.

Marketing intermediaries are supposed to carry out various functions for catering to the customers profitably. A single channel member may perform all the below mentioned functions in certain situations. However, in most of the situations, channel members at different levels are involved in performing the following functions jointly:

- a. **Channel Members helps in creating Utility:** Utility means a state of being useful. Channel members are responsible for creating utility for the customers. They provide time, place and possession utility. Time utility means, making the product available to customers when they need it. Channel partners helps in making the product available at a time when they want them. Place utility means, making the product available at the place where they can buy them. Channel partners helps in making the products available to those locations where it becomes convenient for them to buy the desired product. Procession utility means, customers having access to obtain and have the right to use or store the product for future use. Channel partners assist customers by transferring and leasing the title of the product to them, for using it.
- b. **Channel Members Facilitate Exchange Efficiencies:** Channel members offer exchange efficiencies and help reduce the exchange costs by providing certain functions or services. For example, there are four customers who are looking to buy from four different producers. In case of involvement of no intermediary one customer has to deal with four producers thus 4 customers will have in total 16 transactions ( $4 \times 4 = 16$ ). This a long and tiring process. Now if we involve one intermediary in between than all the four producers will sell to one retailer thus four transaction and all the four consumers can buy from that one retailer adding four more transaction. Thus, in totality there are only 8 transactions as compared to 16 without any middlemen.
- c. **Channel Members may Reduce Discrepancies and Separations:** Most of the producers are located far from the consumer. The distance between the producer and customers is one of the barriers for catering to the customers. Another aspect is production volume. Firms find it profitable to produce at a higher volume. But the volume that consumer demands is quite less as compared to what is produced. Also, the producer may be a specialist in producing one type of product for example pen. But the customers won't look only for pen but they would be desiring for a bundle of stationary products. Now the middlemen in between take the responsibility of same. They will bring the product close to the consumer. They will break they volume as per the need of the consumer and also will keep different type of stationary items so that each and every product is available to the consumers.
- d. **Information:** Marketing intermediaries plays an important role in gathering information about consumers, competitors and other market scenarios. Producers



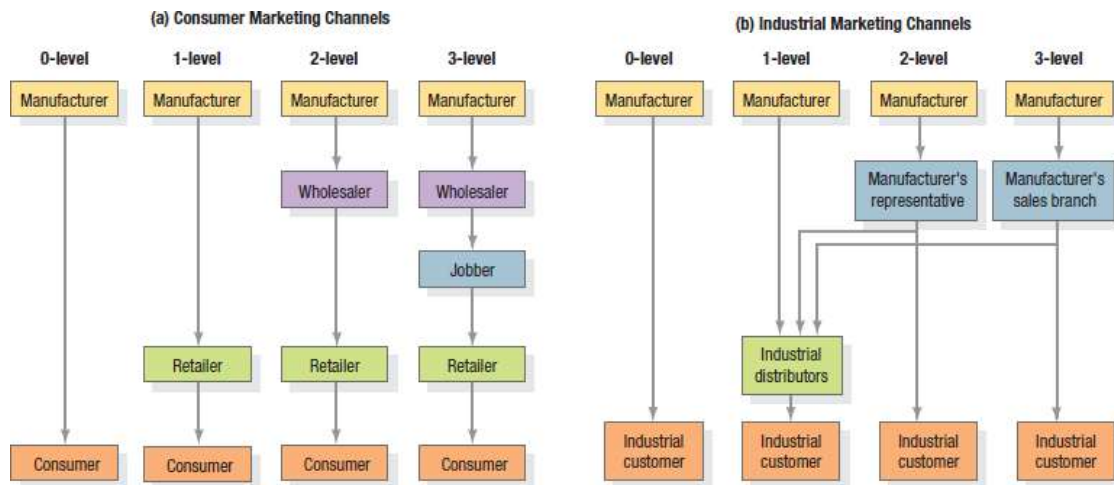
always look for collecting information about needs and preferences of the customers. They also look to collect information about competitors and their offerings. Marketing intermediaries come handy in this. They assist firm in gathering the desired information. Also, they act as link in providing the feedback to the customers.

- e. **Promotion:** Intermediaries play an important role in assisting producers/manufacturers in developing and spreading communication about the offering of the company. Middlemen help in introducing and establishing the new products in the market. Buyers tend to rely on the information and knowledge of the dealers. These middlemen provide salesmanship to the firm. They help in establishing the product in the market through their persuasive selling and one on one communication.
- f. **Contact:** Intermediaries play an important role in finding the prospective buyers and contacting them for selling the companies offering. They help in providing pre-sales and post sales services on the behalf of the firms.
- g. **Matching:** Intermediaries play a role in matching the product offering of the company to that of the needs of the customer. They help in activities like grading, sorting, packaging, assembling etc. for meeting to the requirements of the customers.
- h. **Negotiation:** They carrying out the negotiation with the buyer with respect to quantity and prices of the product offering. Intermediaries are the one, who bring buyer and sellers in close contact of each other. They act as a bridge that facilitates free and open negotiation with respect to quantity, price and quality of the product.
- i. **Physical Distribution:** Members of the marketing channel carry out the function of distribution of goods and services. The final product has to be moved from the point of production to the point of consumption. This means it involves storing the product till it is delivered. Most of the big retailers hold enough quantities of the product in order to cater to the consumers
- j. **Financing:** Channel members carry out the function of financing. They work on acquiring and using the funds to cover the cost of the channel work. Even though there are firms which are predominantly cash and carry kind of intermediaries still most of the intermediaries provide credit facility or even paying in parts. Many intermediaries offer about 30 to 45 days to the retailers for paying back.
- k. **Risk Taking:** Channel member takes the responsibility of risk associated with ownership and transfer of goods. Not every product finds favor in the eyes of the customer, much fallout within few months, as a result of which the intermediaries would be at risk. An uncontrollable factor like floods, earthquakes or even contamination or fire could pose a serious threat. The intermediaries have to bear these risks along with the market risks.

These are some of the core functions intermediaries perform enabling goods and services to reach consumers at the right time

## 15.4 NUMBER OF CHANNEL LEVELS

In any distribution network channel level refers to the number of intermediaries in marketing distribution channel that lie between the producer/ manufacturer and the end consumer. Marketing channel can be divided into two parts consumer and industrial marketing channels. This shows that the two members who are part of any distribution channel are producer and consumer. Between these two extremes lie different channel partners thus creating different channels levels.



**Fig 15.1** Number of Channels Source: page 420; part 6 delivering value; kotler\_keller\_-\_marketing\_management\_14th\_edition

- Zero Level Channel:** Another name for a zero-level channel is direct marketing channel. In this marketing channel manufacturers sell directly to consumer. Examples of zero level marketing are direct mail orders, telemarketing, TV and internet selling. In this marketing channel manufacturers directly deals with the consumers and they don't have any channel partners to facilitate the trade between them. There are many advantages of direct marketing channel. One of the biggest benefits of direct marketing channel is that it helps in building loyalty. The control that manufacturers enjoy in marketing channel is quite high in direct marketing channel. But the disadvantage of the same is, that the reach of direct marketing channel is bit limited as compared to other marketing channels.
- Level One Channel:** This is a channel arrangement with one intermediary in between manufacturer and consumer. Large retailers who act as a middleman between the producer and consumer takes the responsibility for making the product available to the customers. Retailers such as supermarkets and chain stores prefer to buy large quantities of goods from manufacturers and sell directly to the consumers. Advantages of single level intermediaries is the customization and the discounts that they transfer to the buyers.
- Level Two Channel:** A two-level channel contains two intermediaries. In consumer markets, these are typically a wholesaler and a retailer. This channel arrangement is a

practical option for those producers who are catering to the needs and requirement of the thousands of consumers residing in various geographic locations. The wholesaler caters to the needs of the retail outlets established in these diverse geographical locations making it easy for the manufactures to transfer goods to final consumers.

- d) **Level Three Channel:** This channel arrangement involves intermediaries at three levels. Manufacturer does not handle any distribution functions and appoints sole agents with substantial resources or C&F agents. They have their own network of wholesalers, and retailers all over the country. This kind of arrangement may also be on territorial basis. C&F agents handle only distribution functions. Sole selling agents may also handle personal selling on behalf of producer besides taking care of distribution.

**Industrial Product Channels:** It is the marketing channel that is used for business to business selling. It is quite in contrast with the above-mentioned business to consumer selling scenario. The users buy products from the marketing channel not for personal consumption but for the operation of their businesses. This relationship to the products use affects the development and management of the marketing channel structure. It is quite different for those who are true consumers. Higher volumes, frequent purchases and complex decision making make industrial buying different from consumer buying channels. An industrial-goods manufacturer can use its sales force to sell directly to industrial customers; or it can sell to industrial distributors who sell to industrial customers; or it can sell through manufacturer's representatives or its own sales branches directly to industrial customers, or indirectly to industrial customers through



### *Check Your Progress-A*

**Q1. Discuss different functions of channel partners?**

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**Q2. Differentiate between direct and indirect marketing channel?**

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## 15.5 TYPES OF INTERMEDIARIES

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There are many types of intermediaries that assist in flow of goods and services from producer to consumer. In this section we will try and list down different intermediaries and their role.

- a) **Merchant Wholesaler:** Wholesalers are organizations who are responsible for buying from the producers and selling to the retailers or organizational customers. They deal in bulk and sell mostly to the intermediaries. Different types of wholesalers are:
- I. **Full Service Wholesalers:** These wholesalers provide full line of services. They deal in carrying stock, maintaining sales force, offer credit, make deliveries and provide management assistance to the manufacturers. There are two types of full service wholesalers:
    - A) **Wholesale Merchants:** These wholesalers sell primarily to retailers and provide a full range of services. General merchandise wholesalers carry several merchandise lines, whereas general line wholesalers carry one or two lines with greater depth. Specialty wholesalers specialize in carrying only one part of line. For example, health food wholesalers.
    - B) **Industrial Distributer:** These distributors sell to manufacturers rather than retailers. These distributors provide several services like carrying stock, offering credit and providing delivery. These wholesalers may either carry broad range of merchandise, a general line or a specialty line.
  - II. **Limited Service Wholesalers:** These wholesalers provide fewer services than full service wholesalers. Few basic types of limited service wholesalers are as follows:
    - A. **Cash-and-Carry Wholesalers:** These wholesalers carry a small line or limited line for small retailers and sell the commodity on cash. Generally, these wholesalers don't offer delivery services.
    - B. **Truck Wholesalers or Truck Jobber:** They are generally involved in performing the selling and delivery function. They often carry a limited line of semi perishable goods like milk and bread. They make rounds to different places and sell goods on cash.
    - C. **Drop-shippers:** They do not carry the inventory or handle the product. On receiving the order, they try and find the manufacturer who can ship the desired product directly to the consumers. These drop shippers take title and risk from the time order is accepted to its delivery to the customer.
    - D. **Rack- Jobbers:** They generally serve grocery and drug retailers. They carry goods to the store, set up the point of purchase from where these goods are sold to the final consumer. They price the goods on their own and sell it to final consumer. They retain title of the goods and bill the retailer only for the goods that are sold to the consumer.

- E. **Producer Co-operative:** They are owned by the members of manufacturing community. They come in group, collect the produce and sell it to market. The profit is later distributed among different producers.
  - F. **Mail-order Wholesalers:** These wholesalers send catalogue to retail, industrial and institutional customers featuring jewellery, cosmetics, specialty food etc. they do not have any outside sales force. The orders that are received are sent by mail truck or any other means of transportation.
- b) **Agent/ Broker:** It often refers to intermediaries with the legal authority to market goods and services and performs other functions on behalf of the producer. Also, there are situations where an agent or broker can work for the person buying the product rather than the one who is selling it. For example, in case of real estate business situations may occur where an agent can work on behalf of buyer to identify the right type of property.

Both agent and broker do not take title of the goods. They are mainly responsible for facilitating the process of buying and selling, for which they earn commission on the selling price. They are generally specialized by the product line or customer type

**Brokers:** Main function of broker is to bring buyer and sellers together and assist them in negotiation process. They are paid by the party who hires them and do not carry inventory. For example, real estate broker, insurance broker etc.

**Agents:** They are similar in function to that of broker but represents buyers and sellers on more permanent basis than brokers. There are different types of agents:

- I. **Manufacturers Agent:** They represent two or more than two manufacturers in complementary lines. Agents enter into a written agreement with the manufacturers in which they cover price, territories, order handling, delivery services, warranty and commission rates. Usages of manufacturing rates is most prevalent in apparel, furniture's and electrical goods. Mostly the manufacturing agents are small business houses with limited staff. These agents are hired by either small manufacturers who don't have their own sales force for selling their own product line or by those big manufacturers who have are looking to enter into new territories or they are looking to cover those territories that can't be catered profitably by full line salespeople.
- II. **Selling Agents:** These agents have full authority to sell the full line of the products. The manufacturers are either not interested in selling the product or do not possess desired skill set. In this case the selling agents come to rescue and operate as the sales department of the company. These agents have a lot of influence over the prices, terms and condition of sales. Selling agent agreement is seen in case of textiles and industrial machineries etc.
- III. **Purchasing Agents:** These agents have a long-term relationship with buyers and make purchases for them. They often deal in receiving, inspecting, warehousing, and shipping the merchandise to the buyer. They also help in

collecting the relevant market information to clients and helps them in obtaining the best goods and prices.

- IV. **Commission merchants:** These merchants take physical possession of goods and negotiate the sales. These agents are not employed on long term basis. This is mostly used in agricultural produce marketing. Farmers who don't want to sell their output and do not belong any cooperatives may use these merchants. These agents take possession of the goods and sell it in market. After selling the goods they deduct their commission and expenses and remit the balance to the producers.
- c) **Distributors:** Also called functional wholesalers, distributors do not buy products from the producers. Instead, they expedite sales between the manufacturer and retailers or other businesses. Like agents and brokers, they can be paid by commission, or they can be paid in fees from the manufacturer.
- d) **Retailers:** Retailers sell directly to household/ultimate consumers. They are at the bottom of the distribution hierarchy, working under wholesalers or distributors. In case of level one channel they operate directly under producers. They operate in relatively small territory. They buy assorted products in suitable lots and resell them to household- consumers in small quantities- as and when household demands. They cater to the need of large number of households, located in limited geographical areas, competing as a general rule, with other retailers. Different types of retailers are as follows:
- I. **Specialty Store:** They carry a narrow product line with deep assortment like apparel stores, sporting-goods stores, furniture stores, florist and book stores.
  - II. **Department Stores:** These stores carry several product lines- typically clothing, home furnishing and household goods. In these stores each line is operated as a different department managed by specialist buyers and merchandisers.
  - III. **Supermarkets:** These retail outlets are relatively large, low-cost, low margin, high volume, self service operations that are designed to serve needs of consumers regarding grocery and household product.
  - IV. **Convenience Stores:** These are relatively small stores as compared to others and are located near residential areas. They are open for long hours generally for whole week. They carry a limited line of high turnover convenience products at a slightly higher price.
  - V. **Discount Stores:** They carry standard merchandise that are sold at a lower price with very low margins but higher volumes.
  - VI. **Off-price Retailers:** These outlets sell merchandise that are bought at less than regular wholesale prices and sold at less than regular retail price. These stores generally carry leftover goods, overruns, and irregular goods obtained at a reduced price either from manufactures or other retailers. They include factory outlets, independent off-price retailers etc.

- VII. Superstores: They are very big stores that are larger than regular supermarkets and are traditionally aimed at meeting consumers total needs for routinely purchasing food and non-food items.

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## 15.6 CHANNEL BEHAVIOR AND ORGANIZATION

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Marketing channel consists of firms that have come together for meeting their common goal. There are complex behavioural systems in which people and companies interact to accomplish individual, company and channel goals. Some channel systems consist only of informal interactions guided by strong organizational structures. While others consist of formal interactions guided by strong organizational structure.

Channel Behaviour: A marketing channel consists of firms that have partnered for their common goals. Each channel member depends on the others. Every member in channel plays a specialized role. For example, i-phone maker apple work in creating a world class mobile that caters to the need and requirement of the customers, whereas the retailer selling i-phone will work in making the product easily available to the customers. Both the channel partners use their own specialization for meeting the same goal of serving the customers satisfactorily and thus making profit for themselves. We can see that both the channel partner work for the same cause and are dependent on each other for their success. Thus ideally, we can assume that all the channel partners will work smoothly and in a synergistic manner for achievement of the overall channel goals. But this is much easier said than done. Most of the time firms fail to understand this broader view. They are more interested in their petty gains and tend to forget the broader goals. Cooperating to achieve the broader goals means giving up individual company goals. These disagreement overall goals, roles and rewards generate channel conflicts.

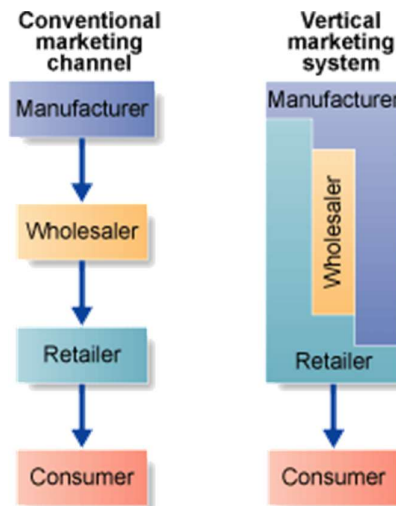
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Channel Behavior: A marketing channel consists of firms that have partnered for their common goals. Each channel member depends on the others. Every member in channel plays a specialized role. For example, i-phone maker apple work in creating a world class mobile that caters to the need and requirement of the customers, whereas the retailer selling i-phone will work in making the product easily available to the customers. Both the channel partners use their own specialization for meeting the same goal of serving the customers satisfactorily and thus making profit for themselves. We can see that both the channel partner work for the same cause and are dependent on each other for their success. Thus ideally, we can assume that all the channel partners will work smoothly and in a synergistic manner for achievement of the overall channel goals. But this is much easier said than done. Most of the time firms fail to understand this broader view. They are more interested in their petty gains and tend to



forget the broader goals. Cooperating to achieve the broader goals means giving up individual company goals. These disagreement overall goals, roles and rewards generate channel conflicts.

**Vertical Marketing System:** A vertical marketing system is one in which the producer, wholesalers, and retailers acts as a unified system. In this marketing system one of the channel member can either own other channel member or can enter into a contract with others or have so much power that they can force others to cooperate. The vertical marketing system can be dominated by either producer, wholesaler or retailer.



**Fig 15.2 CMSVs VMS**

Source: [http://www.laukamm.de/fomweb/elearning/marketing/channel/kotl\\_channel\\_behavior.htm](http://www.laukamm.de/fomweb/elearning/marketing/channel/kotl_channel_behavior.htm)

There are three major types of vertical marketing systems: Corporate, Contractual and administered marketing system.

- a) **Corporate VMS:** It is a vertical marketing system arrangement in which the stages of production and distribution are under one single ownership. For example, Spanish clothing chain Zara which is one of the fastest growing fashion chain controls every aspect of supply chain from design and production to its own worldwide distribution network. In this system conflict and management are attained through regular organizational channel.
- b) **Contractual VMS:** It is a vertical marketing system that consists of independent firms at different levels of production and distribution who come together through contracts to obtain more economies or sales impact. In this system channel members coordinate their activities and manage conflicts through contractual agreements. One of the most common contractual agreement is franchise organization. In this system a channel member, called franchisor links several stages in production and distribution process. There are three types of franchises.



- I. **Manufacturer Sponsored Retailer Franchise System:** This is the type of franchise system where the manufacturers enter into an agreement with the retailers who act as independent retailers. For example, Nissan and its franchise dealers.
  - II. **Manufacturer Sponsored Wholesaler Franchise System:** In this type of system the manufacturers enter into an agreement with the wholesalers and are responsible for supplying the product to retailers. For example, coca cola has its set of licensed bottlers (wholesalers) who buy concentrated coca cola syrup and then bottle it and sell it to retailers in the local markets.
  - III. **Service-firm sponsored Retailer Franchise System:** This is a type of system where a service provider enters into a contractual agreement with the retailer for catering the customers in a profitable and satisfactory manner. For example, Pizza Hut have their franchise in different part of the world that provide standard services to the consumers.
- c) **Administered VMS:** It is a vertical marketing system that coordinates the successive stages of production and distribution. In this VMS there is neither common ownership nor contractual ties but its due to the size and power of one of the partner's. For example, big brand like Amul and Parle gets huge support and cooperation from resellers for providing self-space, promotion and pricing. In the same manner big retailers like Big Bazaar commands huge influence on the manufacturers who reply on the retail outlet for selling its produce.

**Horizontal Marketing System:** This is another type of channel arrangement in which two or more companies at one level join together to attain a new marketing opportunity. In this system companies might join forces with competitors or non-competitors. Companies can work together either temporarily or on a permanent basis. For example, MacDonald's came together with Sinope one of the largest gasoline retailers for opening chain of restaurants at their gas station. This was a win-win situation for both. On one hand it helped MacDonald in expanding its reach in China on the other hand it pulled hungry motorist to come at Sinope.

**Multichannel Distribution System:** It is a distribution system in which a firm establish two or more marketing channels for enhancing their reach among customers. This is also regarded as hybrid marketing channel. In this era of fierce competition almost every big company and many small one distributes through multiple channels. This helps in expanding their sale and marketing coverage. It also helps in catering to the diverse customer segment profitably.

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## 15.7 NEED FOR INTERMEDIARIES: AN ANALYSIS

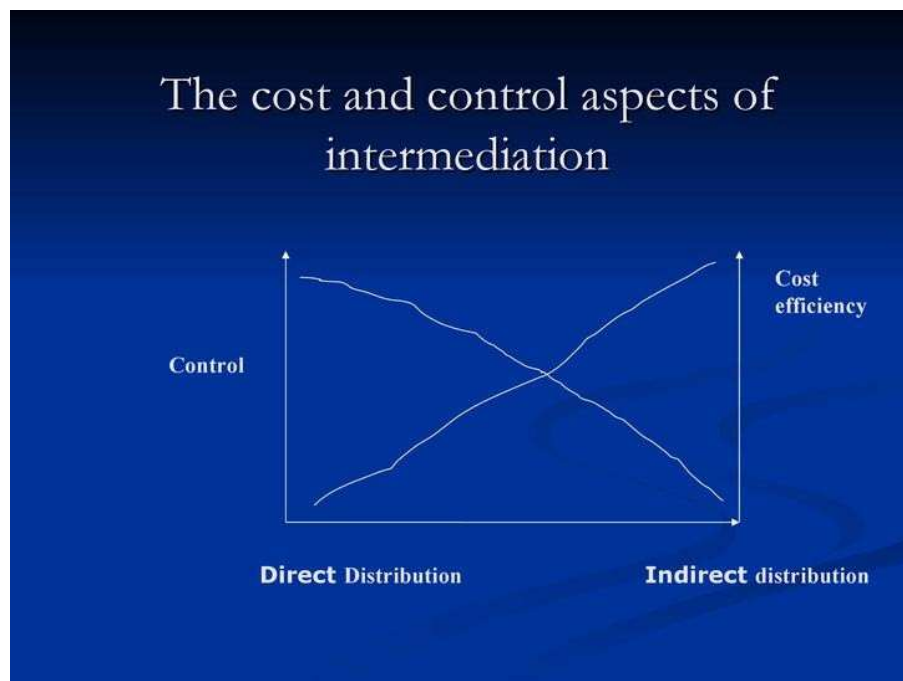
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We have seen many cases where the organization have adopted to a route of not having any intermediaries. There are instances where organization have performed quite well by not having any external marketing intermediary in between or if they have intermediaries the dependence on those intermediaries is minimal. With the change in technology and advent of internet, it has become quite easy for the manufacturers to get in touch with the consumers easily and thus perform the activities of these intermediaries on their own. Dell for example

performed the physical distribution activity on its own without the help of any intermediary. This vertical integration has its own set of advantages. This helps an organization to command more control in the distribution function. In case of the products that require high amount of technology transfer (the product that are complex in nature), or the products that have a short life span and constantly requires new products to be introduced requires more control in the distribution system than others. In this case too it is important to have a manufacturer own distribution network.

These above cases clearly state that having a control on the distribution network or having a network that is vertically integrated is very beneficial. But the cost associated with direct distribution is quite high as compared to one via intermediary. This is because the each of the intermediaries would be sharing the cost of distributing the company's product. Another argument that goes against direct distribution is the need for specialization. In the changing business scenario where there is a cut throat competition, it is must to have a distribution network that is run by specialists. Now a firm that specialize in manufacturing the product will require huge sum of money and time in creating a channel that can cope up with the existing competition. Rather than investing huge amount of time and money a firm can easily outsource these functions to those firms that specializes in that work.

The two important aspects that the firm must consider while deciding whether to go for intermediation are Cost and control



**Fig 15.3 Cost and Control aspects of intermediation** Source: <https://www.slideshare.net/dcsastudent/dlm>

The above graph clearly states that the level of control in case of direct distribution is quite high as compared to indirect distribution. But with the high level of control comes cost

efficiency. In case of direct distribution, the cost involved is quite high as compared to indirect distribution that are highly cost effective.

A firm before taking the decision regarding whether to have intermediaries or not must take a call on the degree of control and cost efficiency. If the firm is looking to have more control on the distribution network and cost-efficient design is not the priority than the firm must invest on developing a direct distribution network. On the other hand, if the firm is looking for a cost-efficient distribution and does not have much consideration for control they must design an indirect channel of distribution. In reality, the choice is not between an absolute direct distribution or absolute indirect distribution. Except from some extreme cases, most of the companies look for a combination of direct distribution and indirect distribution i.e. one via intermediaries. Thus, the question is actually about the extent to which the distribution activities have to be outsourced to the intermediaries. Answering this question takes into account a lot of things. Apart from the nature, scope and economies of the distribution activities, the objective of the firm, its capabilities, competitor policies and programs as well as the trend in future plays an important role.



### ***Check Your Progress- B***

**Q1. Explain horizontal and vertical marketing system suitable examples.**

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**Q2. Write a short note in wholesaling and retailing.**

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**Q3. Distinguish between direct and indirect marketing channels.**

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## 15.8 SUMMARY

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Distribution channels are probably the most visible aspect of any company's marketing efforts. Marketing channels means a set of interdependent organizations that help make a product or service available for use or consumption by the consumer or business use. There are few companies who sell their product directly to the consumers. Marketing intermediaries are supposed to carry out various functions for catering to the customers profitably. Firms can either go for direct marketing channel or may choose an indirect marketing channel. Different types of intermediaries occur in marketing channel like agents, brokers, wholesalers and retailers. Firms can either have a traditional arrangement of these marketing channels where each and every channel partner is independent or may choose to have a system where one channel member via agreement, force or power controls other channel members

Firm take call regarding marketing channel arrangements on the basis of cost involved in owning a marketing channel with respect to the control that it is looking for.



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## 15.9 GLOSSARY

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**Distribution Channel:** Distribution channels are set of interdependent organization involved in the process of making product a product or service available for the use or consumption.

**Agents:** They are similar in function to that of broker but represents buyers and sellers on more permanent basis than brokers.

**Full Service Wholesalers:** These wholesalers provide full line of services. They deal in carrying stock, maintaining sales force, offer credit, make deliveries and provide management assistance to the manufacturers.

**Wholesale Merchants:** These wholesalers sell primarily to retailers and provide a full range of services.

**Distributors:** Also called functional wholesalers, distributors do not buy products from the producers. Instead, they expedite sales between the manufacturer and retailers or other businesses.

**Horizontal Conflicts:** This channel conflict occurs among firms at same level of channel.

**Vertical Conflicts:** These conflicts occur between different levels of same channel.

**Vertical Marketing System:** A vertical marketing system is one in which the producer, wholesalers, and retailers acts as a unified system.

**Horizontal Marketing System:** This is another type of channel arrangement in which two or more companies at one level join together to follow a new marketing opportunity.

**Multichannel Distribution System:** It is a distribution system in which a firm establish two or more marketing channels for enhancing their reach among customers.



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2. Marketing Management; Global Perspective Indian Context; 4<sup>th</sup> Edition; VS Ramaswamy, S Namakumari; Macmillan Publishers India Limited.



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## 15.12 TERMINAL QUESTIONS

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- Q1. What are different types of intermediaries in a given marketing channel?
- Q2. Discuss different types of vertical marketing systems.
- Q3. How is Horizontal marketing system different from Vertical Marketing System?
- Q4. Discuss different factors that play an important role in identifying the type and number of intermediaries in a given marketing channel.

# Marketing Management

## BBA(N)-602



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