Rai Technology University

ENGINEERING MINDS

Marketing Management

Subject: MARKETING MANAGEMENT **Credits: 4**

SYLLABUS

Concepts of Marketing Management:
Definition and Concepts: Definitions of Marketing, Scope of Marketing; Core Marketing Concepts: Concept of Demand and Supply; Transaction; Major Marketing Management Philosophy; Social Marketing

Marketing Environment - Internal & External
Marketing Environment Forces; Macro Environment; Micro and Internal Environment; Factors Influencing Consumer Buyer Behavior; Buyer Decision Process; Inputs for Buying Decision Process; Consumer Trends; Market Segmentation Process.

Developing Market Strategies and the Offerings Part –I
Positioning and Differentiation: Concept, Positioning according to Ries and Trout, Various Tools of Differentiation; Product Decisions and Strategies; Product Mix; Product Life Cycle; Brand Positioning; Brand Identity; Equity and Packaging.

Developing Market Strategies and the Offerings - Part II:
Introduction to Service Marketing; Differentiating Services; Product and Service Price; Response to Change in Price; Pricing Strategies.

Delivering Marketing Programs – Part I
Marketing through Channel Partners; Wholesalers and Retailers: Current Trend; Channel Management.

Delivering Marketing Programs – Part II
Market Communication, Process for Effective Communication; Advertising; Different Advertising Media; Sales Promotion; Public Relations; Direct Marketing; Personal Selling: Concepts and Process; Management of Sales Force

Suggested Reading:

1. Marketing Management by Kotler Philip; Publisher: Prentice-Hall of India
2. Marketing Management by Ramaswamy V S and Namakumari; Publisher: S Macmillan India Ltd.
3. Marketing Management by Saxena Rajan; Publisher: Tata McGraw-Hill
4. Marketing in India Cases and Readings by Neelamegham S; Publisher: Vikas Publishing House Pvt. Ltd.
5. Majaro-The Essence of Marketing by Stokes David; Publisher: Prentice Hall of India
6. Marketing in the 21st Century by Evans R Joel and Berman Barry; Publisher: Gower Publications.

CONCEPTS OF MARKETING MANAGEMENT

Structure

1.1 DEFINITIONS OF MARKETING

The current millennium has unfolded new business rules, the most significant of them being that past history or experience in a given product market is no indicator of future success. Market leadership cannot be taken for granted because customer loyalty does not exist. In an era of seamless markets, the customer today has a much wider choice. He/she does not have to adhere only to the locally available brands/services. Given the plethora of television channels, some specifically devoted to television shopping, internet marketing, and tele-shopping, this millennium's customer wants and enjoys being wooed by the marketers. Over a period of time, wooing and cajoling the customer will only intensify. Today, marketers have pulled out almost every weapon from their armory to retain and expand their brand's share in the consumer's mind.

In today’s competitive environment a lot of emphasis is laid on the marketing, we find every organization carrying out a lot of marketing activities. Hence, it is important for you to understand what market is, what marketing is, and how is it different from selling. So we shall discuss all the important concepts of marketing and lay down the foundation for explaining the marketing process. We will also discuss the development of marketing over a period of time.

SMILE – It is marketing
Do you agree with me?

Today's e- age, where individuals have forgotten to smile and just think about their work even while dreaming! Smile is an essential ingredient for these stressed out customers; don't you think there is a need to exploit this basic need?
Welcome to the wonderful world of marketing! Marketing is not a new word but evokes feelings of freshness each time it is used. For there is so much happening in this field that even the oldies have something new to learn every day. In your class itself, I am sure that there are quite a few students opting for marketing than any other discipline. Surely, there must be something in this word marketing, that everyone feels attracted to it. Let us move little deeper inside marketing.

Marketing is ancient art. The first marketing transaction can be perhaps attributed to Adam and Eve. Its emergence as a management discipline is of relatively recent origin. And within this relatively short period, it has gained a great deal of importance. In fact today marketing is regarded as most important of all management functions of business.

All of us are involved in marketing in one-way or the other. Can you describe how the marketing evolved since its inception? It has taken a long time before marketing reached the stage what it is today!

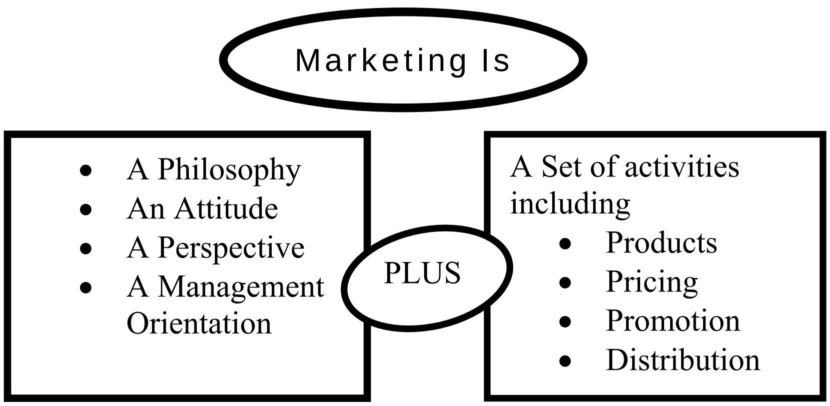
Now, let us see some definitions of Marketing –

- Much of marketing is concerned with the problem of profitably disposing of what is produced.
- Marketing is the economic process by which goods and services are exchanged between the producer and the consumer and their values determined in terms of money prices.
- Marketing originates with the recognition of a need on the part of a consumer and terminates with the satisfaction of that need by the delivery of a usable product at the right time, at the right place and at an acceptable price.
- Marketing is so basic that it cannot be considered a separate function. It is really the whole business seen from the point of view of the final result, i.e., from the point of view of the customer.
- Marketing is a viewpoint, which looks at the entire business process as a highly integrated effort to discover, create, arouse and satisfy consumer needs.
- Marketing is the delivery of a standard of living to society.

American Marketing Association – "It is the process of planning & executing the conception, pricing, promotion & distribution of ideas, goods & services to create exchange that satisfy individual & organizational goals"
Many people think that marketing and selling mean the same thing. Others think that marketing is the same as selling and advertising, still others have a notion that marketing has got something to do with making products available in the stores, arranging displays and maintaining inventories of products for future sales. Actually marketing includes all these activities and many more.

Marketing is a key function of management. It brings success to business organization. A business organization performs two key functions producing goods and services and making them available to potential customers for use.

An organization business success largely depends on how efficiently the products and services are delivered to customers and how differently do the customers perceive the difference in delivery in comparison to the competitors. This is true of all firms – from large business enterprises to small firms, from multinationals operating in different countries to small firms operating in small markets, from giant enterprises like Sony, Lever, General Motors to the next-door kirana shop. Quality production and efficient marketing are the key success factors in building sustainable competitive edge for ever business corporation.



"Marketing is a societal process by which individuals and groups obtain what they need and want through creating, offering and freely exchanging products and services of value with others" - Philip Kotler

The Chartered Institute of Marketing defines Marketing as:

"Marketing is the management process for identifying, anticipating & satisfying customer requirements profitably."

Peter Drucker: There will always, one can assume, be need for some selling. But the aim of marketing is to make selling superfluous. The aim is to know and understand the customers well that the product or service fits him and sells itself. Ideally, marketing should result in a customer who is ready to buy. All that should be needed then is to make the product or service available.

1.2 SCOPE OF MARKETING

What is new economy? Is it something different from the old economy?

With the emergence of marketing, we also witness the emergence of new economy characterized by the following:-

- A substantial increase in purchasing power.
- A greater variety of available goods and services.
- A great amount of information about everything.

- A great ease in interacting and placing orders.
- An ability to compare notes on products and services.

Today's companies also have new capabilities as given below:-

- Ability to operate powerful information and sales channels.
- Ability to collect fuller and richer information about markets, customers, prospects, and competitors.
- Faster internal communication amongst employees.
- Two way communication with customers and prospects.
- Send ads, coupons, samples, and information to customers.
- Customize offerings and services to individual customers.
- Improved, purchasing, recruiting, and training.
- Improved external communication.
- Improved logistics and service quality

Have a close look at Fig 1.1 below wherein major developments that have taken place in each decade have been depicted for nearly last fifty years. What do you observe? Now, who is going to explain the diagram for us?

The entire growth has been fuelled by the economic growth of the last half a century. The focus in the early fifties was on marketing of consumer goods, which shifted to industrial marketing. The latter development was largely due to increase in size and number of firms.

With the growth in maturity of both the consumer and the supplier, a new school of marketing in the form of non-profit and societal marketing emerged in early seventies. The business realized that they have a larger role to perform than mere profit making.

With the changes in life style and enhanced standards of living, newer and newer services hit the market place. From education, communication, consultancy to Medicare and health --- all kinds of services were being offered in the market. The marketing of services had arrived.

Marketing today knows no borders. From mere exporting, the firms had now acquired global orientation to herald the era of global marketing. For MNC's the entire world is a single huge market. It was time now that some of these MNC's like Toyota, Honda, Sony, Mercedes, and Phillips etc became household names.

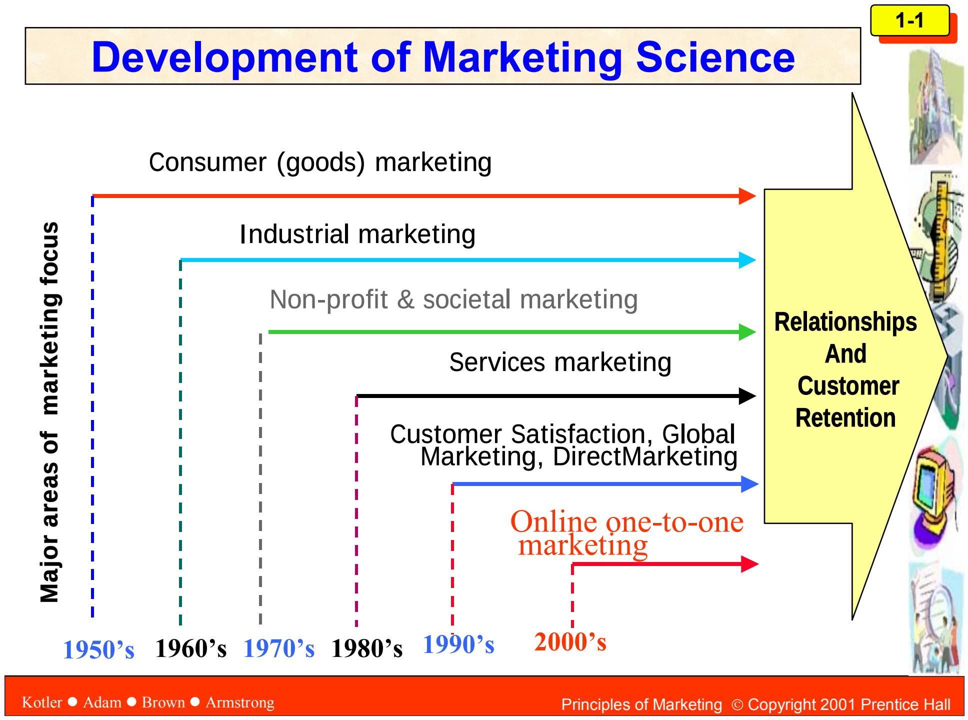


Figure 1.1 Development of Marketing Science

Customer with a wide choice and variety of products is virtually the king in the market today. It is for his satisfaction that the firms compete with each other. No wonder new dimensions to marketing like Customer Relationship Management have been added. Not only the firms want the customer to come to them but also retain him for future. Some of the firms want to reach the customer directly eliminating the middlemen---the concept of direct marketing.

Yet another facet of marketing has emerged with the advent of internet and revolutionary changes in communication technology------the online one to one marketing. E-commerce and e-marketing are the future of the marketing. In fact the marketing of twenty first century will be greatly influenced by the new technologies in the field of communication.

There are various ways in which study of marketing subject can be approached. We will follow the sequence in which we will start with the core concepts of marketing. Here it goes.

The points which you should consider regarding the challenges and issues of marketing in the present millennium:

- Seamless Global Society
- Basis for Competitive Advantage
- Business at the Speed of Thought
- Virtual Enterprise
- Customer- Co producer of products and services
- Customer: A ware house of Information

- The Death of business and consumer marketing
- The role of distribution channels
- The poor as a market segment
- Environment Protection
- Diversity and convergence coexist

1.3 CORE MARKETING CONCEPTS

We shall now discuss the areas that the marketing covers. The concept of marketing revolves around demand for the product/services. Here we are going to study 8 different types of demands, which play a major role in the marketing activities. At the end of this topic you will be in the position to understand briefly all the major concepts of marketing which will be dealt in detail in the coming lessons.

However to be successful any organization has to be competition- oriented too. Thus marketing concept involves:

- **Customer Orientation:** Successful marketing companies continuously monitor customer needs, wants and preferences.
- **Competition Orientation:** Successful marketing companies integrate all elements of the marketing mix, not merely advertising and selling into a sound business plan that could help them to effectively fight competition.
- **Ability to respond to environmental changes before competition does:** This includes changes in customer needs, competition, government policy, technology, etc. Examples are Sony and Microsoft who have consistently invested in futuristic technologies and products.

Marketing orientation involves a six dimensional approach which leads to successful marketing organizations in India and abroad.

- Consumer Orientation
- Integrated approach to exploiting market opportunities
- Futuristic approach
- Highly developed marketing systems
- Marketing culture
- Speed

Key Points

- Managerial Process involving analysis, planning and control.
- Carefully formulated programs and not just random actions. (A charity organization sending volunteers out to collect money – this is not marketing, it is selling)
- Voluntary exchange of values; no use of force or coercion. Offer benefits. (A museum, seeking member, tries to design a set of benefits that are appealing to potential members.)

- Selection of Target Markets rather than a quixotic attempt to win every market and be all things to all men.
- Purpose of marketing is to achieve Organizational Objectives. For commercial sector it is profit. For non-commercial sector, the objective is different and must be specified clearly. (City Health Department wishes to reduce diseases and enhance health level. National Safety Council wants to bring down the death and accident rate in the nation)
- Marketing relies on designing the organization's offering in terms of the target market's needs and desires rather than in terms of seller's personal tastes or internal dynamics. User-oriented and not seller-oriented.
- Marketing utilizes and blends a set of tools called the marketing mix – product design, pricing, distribution and communication. Too often marketing is equated either with just advertising or with just personal selling.

Marketing vs. Selling: Marketing is to make selling superfluous. The aim of marketing is to know and understand the customer so well that the product or service fits him and sells itself. Ideally, marketing should result in a customer who is ready to buy. All that should be needed then is to make the product or service available. (Peter Drucker)
Examples: Sony's Walkman, Nintendo's superior video game Marketing includes selling but should be preceded by needs assessment, marketing research, product development, pricing and distribution. Marketing based on hard selling carries high risk. Dissatisfied customers.

	FOCUS	MEANS	ENDS
Selling	Products	Aggressive Selling and Sales Promotion with emphasis on price variations to close the sale. *"I must somehow hook the customer"*	Maximize profits through sales volume
Marketing	Customer Needs	Integrated Marketing Plan encompassing product, price, promotion and distribution, backed up by adequate environmental scanning, consumer research, and opportunity analysis with emphasis on service. "*What can we do that will make us, in the customer's eyes, better than and superior to our competitors.*"	Maximize profits through increased customer satisfaction and hence raise market share.

Figure 1.2 Marketing vs. Selling

Benefits & Criticisms of Marketing:

Benefits

- Improved Satisfaction of Target Market
- Improved efficiency in activities

Criticism

- Marketing wastes money
- Marketing activity is intrusive
- Marketing is manipulative

Nature of Organizations:

The Unresponsive Organization

- It does nothing to measure the needs, perceptions, preferences or satisfaction of its constituent publics.
- It makes it difficult for its constituent publics to place inquiries, complaints, suggestions or opinions.
- Examples: Sovereign, monopoly or high demand positions insulated from popular control.

The Casually Responsive Organization

- It shows an interest in learning about consumer needs, perceptions, preferences, and satisfaction.
- It encourages consumers to submit inquiries, complaints, suggestions and opinions.
- Examples: US universities in early seventies faced decline in student applications. College administrators till then were largely oriented towards problems of hiring faculty, scheduling classes, and running efficient administrative services the earmarks of the bureaucratic mentality. They started listening to students. They left their doors open, made occasional surprise appearances in the student lounge, encouraged suggestions from students, and created faculty-student committees. These steps converted the university organization into being informally responsive.

The Highly Responsive Organization

- It shows a keen interest in learning about the needs, perceptions, preferences, and satisfaction of its constituent publics and relies on systematic information-collection procedures such as formal opinion surveys and consumer panels.
- It encourages its constituents to submit inquiries, complaints, suggestions, and opinions and creates formal systems to facilitate this, such as suggestion boxes, comment cards, ombudsmen, and consumer committees.

- It sifts the incoming information and takes positive steps which where called for to adjust products, services, organizational policies, and procedures.
- Examples: Large progressive firms like Hindustan Lever, Proctor and Gamble.

The Fully Responsive Organization

- Moving a step from highly to fully eliminate the difference between “them” and “us”, giving power of decision making to constituents.
- Examples: some churches, trade unions, associations and chambers of commerce. A Canadian University was searching for ways to build a more active alumni association. Just sending out newsletters about the school did not suffice to build up alumni pride or interest. It developed the idea of conferring membership status to its alumni, with certain privileges and voting rights on certain issues. Suddenly this group became alive with interest in the school. This gesture proved very meaningful to the alumni, which had hitherto felt that the university was simply using them for money.

Orientation of Organizations

- **Production Orientation** – Arose in scarcity economies. Business concentrated on production output and efficiency. Finding customers easy; products kept simple and often quality scaled down to increase profits.

- **Sales Orientation** – Key assumptions are as follows: The main task of the firm is to get sufficient sales for its products. The consumer can be induced to buy through various sales stimulating techniques and devices. The customer will probably come back again and even if he does not, there are many other customers out there. Examples: Encyclopedia salesmen, insurance agents, many Indian companies

- **Marketing Orientation** – The marketing concept is a consumers’ needs orientation backed by integrated marketing aimed at generating consumer satisfaction as the key to satisfying organizational goals.

Nature of Needs
A human need is a state of felt deprivation of some basic satisfaction. (food, clothing, shelter, safety, belonging, esteem etc.) Abraham Maslow noticed that some needs take precedence over others. For example, if you are hungry and thirsty, you will tend to try to take care of the thirst first. After all, you can do without food for weeks, but you can only do without water for a couple of days! Thirst is a “stronger” need than hunger. Likewise, if you are very thirsty, but someone has put a choke hold on you and you can’t breathe, which is more important? The need to breathe, of course. On the other hand, sex is less powerful than any of these. Let’s face it; you won’t die if you don’t get it!
Maslow took this idea and created his now famous hierarchy of needs. Beyond the details of air, water, food, and sex, he laid out five broader layers:

- **Physiological needs**. These include the needs we have for oxygen, water, protein, salt, sugar, calcium, and other minerals and vitamins. They also include the need to maintain a pH balance (getting too acidic or base will kill you) and temperature. Also, there's the need to be active, to rest, to sleep, to get rid of wastes (CO_2, sweat, urine, and feces), to avoid pain, and to have sex.

- **Safety and security needs.** When the physiological needs are largely taken care of, this second layer of needs comes into play. You will become increasingly interested in finding safe circumstances, stability, and protection. You might develop a need for structure, for order, some limits. Looking at it negatively, you become concerned, not with needs like hunger and thirst, but with your fears and anxieties. In the ordinary adult, this set of needs manifest themselves in the form of our urges to have a home in a safe neighborhood, a little job security and a good retirement plan and a bit of insurance, and so on.
- **Love and belonging needs.** When physiological needs and safety needs are, by and large, taken care of, a third layer starts to show up. You begin to feel the need for friends, a sweetheart, children; affectionate relationships in general, even a sense of community. Looked at negatively, you become increasing susceptible to loneliness and social anxieties. In our day-to-day life, we exhibit these needs in our desires to marry, have a family, be a part of a community, a member of a church, a brother in the fraternity, a part of a gang or a bowling club. It is also a part of what we look for in a career.
- **Esteem needs.** Next, we begin to look for a little self-esteem. Maslow noted two versions of esteem needs, a lower one and a higher one. The lower one is the need for the respect of others, the need for status, fame, glory, recognition, attention, reputation, appreciation, dignity, even dominance. The higher form involves the need for self-respect, including such feelings as confidence, competence, achievement, mastery, independence, and freedom. Note that this is the "higher" form because, unlike the respect of others, once you have self-respect, it's a lot harder to lose! The negative version of these needs is low self-esteem and inferiority complexes. Maslow felt that these were at the roots of many, if not most, of psychological problems. In many countries, most people have what they need in regard to their physiological and safety needs. Almost everyone, more often than not, has quite a bit of love and belonging, too. It's a little respect that often seems so very hard to get!

All of the preceding four levels he calls deficit needs, or D-needs. If you don't have enough of something -- i.e. you have a deficit -- you feel the need. But if you get all you need, you feel nothing at all! In other words, they cease to be motivating. As the old blues song goes, "you don't miss your water till your well runs dry!"

Maslow also talks about these levels in terms of **homeostasis**. Homeostasis is the principle by which a furnace thermostat operates: When it gets too cold, it switches the heat on; when it gets too hot, it switches the heat off. In the same way, our body, when it lacks a certain substance, develops a hunger for it; when it gets enough of it, then the hunger stops. Maslow simply extends the homeostatic principle to needs, such as safety, belonging, and esteem that we don't ordinarily think of in these terms. Under stressful conditions, or when survival is threatened, we can "regress" to a lower need level.

These things can occur on a society-wide basis as well: When society suddenly flounders, people start clamoring for a strong leader to take over and make things right. When the bombs start falling, they look for safety. When the food stops coming into the stores, their needs become even more basic. If one has significant problems along one's development -- a period of extreme insecurity or hunger as a child, or the loss of a family member through death or divorce, or significant neglect or abuse -- one may "fixate" on that set of needs for the rest of one's life.

Wants and Demands: Human wants are desires for specific satisfiers of these deeper needs. Demands are wants for specific products that are backed by an ability and willingness to buy them.

Value and Satisfaction:

$$\text{Value} = \frac{\text{Benefits}}{\text{Cost}} = \frac{\text{Functional Benefits} + \text{Emotional Benefits}}{\text{Monetory Cost} + \text{Time Cost} + \text{Energy Cost} + \text{Psychic cost}}$$

1.4 CONCEPT OF DEMAND AND SUPPLY

Supply and demand is an economic model based on price, utility and quantity in a market. It concludes that in a competitive market, price will function to equalize the quantity demanded by consumers, and the quantity supplied by producers, resulting in an economic equilibrium of price and quantity. An increase in the quantity produced or supplied will typically result in a reduction in price and vice-versa. Similarly, an increase in the number of workers tends to result in lower wages and vice-versa. The model incorporates other factors changing equilibrium as a shift of demand and/or supply.

The demand schedule, depicted graphically as the demand curve, represents the amount of goods that buyers are willing and able to purchase at various prices, assuming all other non-price factors remain the same. The demand curve is almost always represented as downwards-sloping, meaning that as price decreases, consumers will buy more of the good. Just as the supply curves reflect marginal cost curves, demand curves can be described as marginal utility curves.

The main determinants of individual demand are: the price of the good, level of income, personal tastes, the population (number of people), the government policies, the price of substitute goods, and the price of complementary goods. The shape of the aggregate demand curve can be convex or concave, possibly depending on income distribution. In fact, an aggregate demand function cannot be derived except under restrictive and unrealistic assumptions.

As described above, the demand curve is generally downward sloping. There may be rare examples of goods that have upward sloping demand curves. Two different hypothetical types of goods with upward-sloping demand curves are a Giffen good (an inferior, but staple, good) and a Veblen good (a good made more fashionable by a higher price).

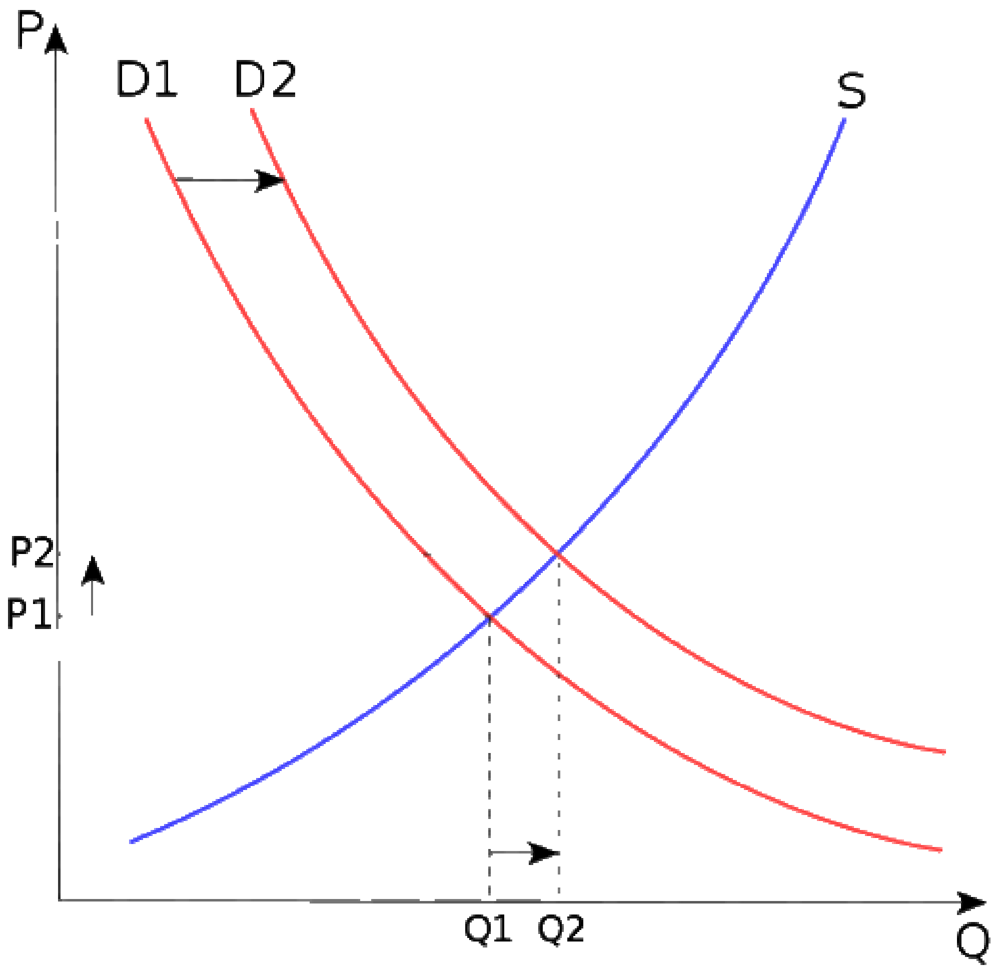


Figure 1.3: Demand Curve

In a market economy, individual consumers make plans of consumption and individual firms make plans of production based on the changes in market prices. Economists use the term invisible hand to describe the frequent exchanges in the market because everyone (no matter consumer or producer) takes the market price as a signal on trade and makes exchanges with private property rights (defined and protected by laws). The price system works in a market economy only if there is free choice within the market. The following sections explain how the market price is determined by the interaction of consumers (demand) and producers (supply). In the latter parts, the factors causing a change in price are explained.

Concept of Demand: In economics, the word 'demand' consists of 4 main concepts:

- It refers to both the ability to pay and a willingness to buy by the consumer (s). Demand is sometimes called effective demand.

- Demand can be shown by a demand schedule which shows the maximum quantity demanded (willing & able to buy) at all prices.
- Demand is a flow concept. Our willingness and ability to buy is subjected to a time period. At different times, we may have different demand schedules.
- There are many factors affecting our demand. In order to explore the effect of price on quantity demanded, economists like to assume other factors unchanged so as to make the analysis easier.

In Latin, the term 'ceteris paribus' means ' holding other factors constant or unchanged'.
An individual demand refers to the quantity of a good a consumer is willing to buy and able to buy at all prices within a period of time, ceteris paribus.

Concept of Supply: The word 'supply' bears 4 similar concepts with demand:

- It refers to both the ability to sell (produce) and the willingness to sell by the producer(s). Supply implies an effective supply.
- Supply can be shown by a supply schedule which shows the maximum quantity supplied at all different prices.
- Supply is also a flow concept. Time is an important factor affecting the condition of supply.
- There are again many factors affecting the supply of a firm. Economics hold the ceteris paribus condition in order to analyze the relationship between price and quantity supplied by a firm or producer.

1.5 TRANSACTION

The decade of the 90s saw the rebirth of relationship marketing. The issue of trust between customer and marketer is emphasized. Trust is an asymmetrical quality. It is built slowly over several transactions but disappears in a flash. The relationship marketing approach emphasizes on both the hard and the soft aspects of marketing processes which help create reliability. The hard aspects relate to product reliability, use of interactive technologies both at the front and back ends (i.e., integrating customers with organizational functions), retail stores, and so on. The soft aspects concern human interactions and thereby, work on dependability issues among salespersons, service personnel, intermediaries, and so forth. The underpinning strength of relationship marketing is customer loyalty. Today the need for customer- centric organizations is increasingly being appreciated. For that, the organizational pyramid needs to be inverted and the customer placed on the top of the pyramid. The logic behind it is that, in any organization, communication flows from top to bottom and, generally the behavior of an average employee is to look up not only for guidance and help but also for recognition.

1.6 MAJOR MARKETING MANAGEMENT PHILOSOPHY

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

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

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

Evolution of the Marketing Concept and Philosophy: The marketing concept and philosophy evolved as the last of three major philosophies of marketing. These three philosophies are the product, selling, and marketing philosophies. Even though each philosophy has a particular time when it was dominant, a philosophy did not die with the end of its era of dominance. In fact, all three philosophies are being used today.

Product Philosophy: The product philosophy was the dominant marketing philosophy prior to the Industrial Revolution and continued to the 1920s. The product philosophy holds that the organization knows its product better than anyone or any organization. The company knows what will work in designing and producing the product and what will not work. For example, the company may decide to emphasize the low cost or high quality of their products. This confidence in their ability is not a radical concept, but the confidence leads to the consumer being overlooked. Since the organization has the great knowledge and skill in making the product, the organization also assumes it knows what is best for the consumer.

This philosophy of only relying on the organization's skill and desires for the product did not lead to poor sales. In much of the product philosophy era, organizations were able to sell all of the products that they made. The success of the product philosophy era is due mostly to the time and level of technology in which it was dominant. The product era spanned both the pre-Industrial Revolution era and much of the time after the Industrial Revolution. The period before the Industrial Revolution was the time when most goods were made by hand. The production was very slow and few goods could be produced. However, there was also a demand for those goods, and the slow production could not fill the demand in many cases. The importance for management of this shortage was that very little marketing was needed.

When mass production techniques created the Industrial Revolution, the volume of output was greatly increased. Yet the increased production of goods did not immediately eliminate the shortages from the pre-industrial era. The new mass production techniques provided economies of scale allowing for lower costs of production and corresponding lower prices for goods. Lower prices greatly expanded the market for the goods, and the new production techniques were struggling to keep up with the demand. This situation meant that the product philosophy would work just as well in the new industrial environment. Consumers still did not need to be consulted for the organization to sell its products.

One of the many stories about Henry Ford illustrates the classic example of the product philosophy in use after the Industrial Revolution. Henry Ford pioneered mass production techniques in the automobile industry. With the techniques, he offered cars at affordable prices to the general public. Before this time, cars were hand made, and only the very wealthy could afford them. The public enthusiastically purchased all the Model T Fords that the company could produce. The evidence that the product philosophy was alive and well in Ford Motor Company came in Henry Ford's famous reaction to consumer requests for more color options. He was said to have responded that "you can have any color car you want as long as it is black." Realizing that different colors would increase the cost of production and price of the Model T's, Henry Ford, using the product philosophy, decided that lower prices were best for the public.

Selling Philosophy: The selling era has the shortest period of dominance of the three philosophies. It began to be dominant around 1930 and stayed in widespread use until about 1950. The selling philosophy holds that an organization can sell any product it produces with the use of marketing techniques, such as advertising and personal selling. Organizations could create marketing departments that would be concerned with selling the goods, and the rest of the organization could be left to concentrate on producing the goods.

The reason for the emergence of the selling philosophy was the ever-rising number of goods available after the Industrial Revolution. Organizations became progressively more efficient in production, which increased the volume of goods. With the increased supply, competition also entered production. These two events eventually led to the end of product shortages and the creation of surpluses. It was because of the surpluses that organizations turned to the use of advertising and personal selling to reduce their inventories and sell their goods. The selling philosophy also enabled part of the organization to keep focusing on the product, via the product philosophy. In addition, the selling philosophy held that a sales or marketing department could sell whatever the company produced.

The Ford Motor Company is also a good example of the selling philosophy and why this philosophy does not work in many instances. Ford produced and sold the Model T for many years. During its production, the automobile market attracted more competition. Not only did the competition begin to offer cars in other colors, the styling of the competition was viewed as modern and the Model T became considered as old-fashioned. Henry Ford's sons were aware of the changes in the automobile market and tried to convince their father to adapt. However, Henry Ford was sure that his standardized low-price automobile was what the public needed. Consequently, Ford turned to marketing techniques to sell the Model T. It continued to sell, but its market share began to drop. Eventually, even Henry Ford had to recognize consumer desires and introduce a new model.

The selling philosophy assumes that a well-trained and motivated sales force can sell any product. However, more companies began to realize that it is easier to sell a product that the customer wants, than to sell a product the customer does not want. When many companies began to realize this fact, the selling era gave way to the marketing era of the marketing concept and philosophy.

Marketing Philosophy: The marketing era started to dominate around 1950, and it continues to the present. The marketing concept recognizes that the company's knowledge and skill in designing products may not always be meeting the needs of customers. It also recognizes that even a good sales department cannot sell every product that does not meet consumers' needs. When customers have many choices, they will choose the one that best meets their needs.

Market Concept and Philosophy: The marketing concept and philosophy states that the organization should strive to satisfy its customers' wants and needs while meeting the organization's goals. The best way to meet the organization's goals is also by meeting customer needs and wants. The marketing concept's emphasis is to understand the customers before designing and producing a product for them. With the customer's wants and needs incorporated into the design and manufacture of the product, sales and profit goals are far more likely to be met.

With the customer's satisfaction the key to the organization, the need to understand the customer is critical. Marketing research techniques have been developed just for that purpose. Smaller organizations may keep close to their customers by simply talking with them. Larger corporations have established methods in place to keep in touch with their customers, be it consumer panels, focus groups, or third-party research studies. Whatever the method, the desire is to know the customers so the organization can better serve them and not lose sight of their needs and wants.

The idea of keeping close to the organization's customers seems simple. In reality, it is very easy to forget the customer's needs and wants. Sometimes the management is so involved with the product that their own desires and wants begin to take dominance, even though they have adopted the marketing concept.

Meeting Customer Needs While Meeting Organizational Goals: Sometimes in the zeal to satisfy a customer's wants and needs, the marketing concept is construed to mean that the customer is always right. However, the marketing concept also states that it is important to meet organizational goals as well as satisfy customer wants and needs. Satisfying customer needs and organizational goals may involve conflicts that sometimes cannot be resolved. The organization that adopts the marketing concept will do everything in its power to meet the needs of its customers, but it must also make a profit. Sometimes the wants of the customers may include a low price or features that are not attainable for the organization if it is to make a profit. Consequently, the organization must hope for a compromise between what the consumer wants and what is practical for the business to provide.

Criticism of the Marketing Concept: Interpreted literally, the marketing concept only advocates discovering consumers' wants and needs and satisfying them. Critics assert that consumers may not be aware of all of their wants and needs. In the 1950s, were consumers aware of a need to cook their food by sending microwaves through their food? In the 1960s, were consumers aware of a need to have personal computers in their homes? Critics argue that the marketing concept's concentration on consumers' wants and needs stifle innovation. Organizations will no longer concentrate on research and development in hopes that one product in ten might meet with consumer acceptance, and will less likely come up with innovative products such as microwaves and personal computers.

Supporters of the marketing concept have contended that it does not stifle innovation and that it does recognize that consumers cannot conceive of every product that they may want or need. However, need is defined in a very broad sense. In the microwave and personal computer examples, the need was not for the specific product, but there was a need to cook food faster and a need for writing and calculating. The microwave and personal computer satisfied those needs though the consumer never imagined these products. The marketing concept does not stifle creativity and innovation. It seeks to encourage creativity to satisfy customer needs.

The marketing concept is a relative newcomer as a philosophy of doing business. However, its evolution started before the Industrial Revolution. As time progressed, customer and business needs also evolved. The product and selling philosophies eventually evolved into the marketing concept and philosophy. Today, the marketing concept and philosophy stands as a formula for doing business and many believe it is a prescription for success. It aims to satisfy customers by guiding the organization to meet the customers' needs and wants while meeting the organization's goals.

1.7 SOCIAL MARKETING

Social marketing was "born" as a discipline in the 1970s, when Philip Kotler and Gerald Zaltman realized that the same marketing principles that were being used to sell products to consumers could be used to "sell" ideas, attitudes and behaviors. Kotler and Andreasen define social marketing as "differing from other areas of marketing only with respect to the objectives of the marketer and his or her organization. Social marketing seeks to influence social behaviors not to benefit the marketer, but to benefit the target audience and the general society." This technique has been used extensively in international health programs, especially for contraceptives and oral rehydration therapy (ORT), and is being used with more frequency in the United States for such diverse topics as drug abuse, heart disease and organ donation.

Like commercial marketing, the primary focus is on the consumer--on learning what people want and need rather than trying to persuade them to buy what we happen to be producing. Marketing talks to the consumer, not about the product. The planning process takes this consumer focus into account by addressing the elements of the "marketing mix." This refers to decisions about 1) the conception of a Product, 2) Price, 3) distribution (Place), and 4) Promotion. These are often called the "Four Ps" of marketing. Social marketing also adds a few more "P's." At the end is an example of the marketing mix.

Product: The social marketing "product" is not necessarily a physical offering. A continuum of products exists, ranging from tangible, physical products (e.g., condoms), to services (e.g., medical exams), practices (e.g., breastfeeding, ORT or eating a heart-healthy diet) and finally, more intangible ideas (e.g., environmental protection). In order to have a viable product, people must first perceive that they have a genuine problem, and that the product offering is a good solution for that problem. The role of research here is to discover the consumers' perceptions of the problem and the product, and to determine how important they feel it is to take action against the problem.

Price: "Price" refers to what the consumer must do in order to obtain the social marketing product. This cost may be monetary, or it may instead require the consumer to give up intangibles, such as time or effort, or to risk embarrassment and disapproval. If the costs outweigh the benefits for an individual, the perceived value of the offering will be low and it will be unlikely to be adopted. However, if the benefits are perceived as greater than their costs, chances of trial and adoption of the product is much greater. In setting the price, particularly for a physical product, such as contraceptives, there are many issues to consider. If the product is priced too low, or provided free of charge, the consumer may perceive it as being low in quality. On the other hand, if the price is too high, some will not be able to afford it. Social marketers must balance these considerations, and often end up charging at least a nominal fee to increase perceptions of quality and to confer a sense of "dignity" to the transaction. These perceptions of costs and benefits can be determined through research, and used in positioning the product.

Place: "Place" describes the way that the product reaches the consumer. For a tangible product, this refers to the distribution system--including the warehouse, trucks, sales force, retail outlets where it is sold, or places where it is given out for free. For an intangible product, place is less clear-cut, but refers to decisions about the channels through which consumers are reached with information or training. This may include doctors' offices, shopping malls, mass media vehicles or in-home demonstrations. Another element of place is deciding how to ensure accessibility of the offering and quality of the service delivery. By determining the activities and habits of the target audience, as well as their experience and satisfaction with the existing delivery system, researchers can pinpoint the most ideal means of distribution for the offering.

Promotion: Finally, the last "P" is promotion. Because of its visibility, this element is often mistakenly thought of as comprising the whole of social marketing. However, as can be seen by the previous discussion, it is only one piece. Promotion consists of the integrated use of advertising, public relations, promotions, media advocacy, personal selling and entertainment vehicles. The focus is on creating and sustaining demand for the product. Public service announcements or paid ads are one way, but there are other methods such as coupons, media events, editorials, "Tupperware"-style parties or in-store displays. Research is crucial to determine the most effective and efficient vehicles to reach the target audience and increase demand. The primary research findings themselves can also be used to gain publicity for the program at media events and in news stories.

Additional Social Marketing "P's"

- **Publics--**Social marketers often have many different audiences that their program has to address in order to be successful. "Publics" refers to both the external and internal groups involved in the program. External publics include the target audience, secondary audiences, policymakers, and gatekeepers, while the internal publics are those who are involved in some way with either approval or implementation of the program.

- **Partnership**--Social and health issues are often so complex that one agency can't make a dent by itself. You need to team up with other organizations in the community to really be effective. You need to figure out which organizations have similar goals to yours--not necessarily the same goals--and identify ways you can work together.

- **Policy**--Social marketing programs can do well in motivating individual behavior change, but that is difficult to sustain unless the environment they're in supports that change for the long run. Often, policy change is needed, and media advocacy programs can be an effective complement to a social marketing program.

- **Purse Strings**--Most organizations that develop social marketing programs operate through funds provided by sources such as foundations, governmental grants or donations. This adds another dimension to the strategy development-namely, where will you get the money to create your program?

Example of a Marketing Mix Strategy: As an example, the marketing mix strategy for a breast cancer screening campaign for older women might include the following elements:

- The product could be any of these three behaviors: getting an annual mammogram, seeing a physician each year for a breast exam and performing monthly breast self-exams.
- The price of engaging in these behaviors includes the monetary costs of the mammogram and exam, potential discomfort and/or embarrassment, time and even the possibility of actually finding a lump.
- The place that these medical and educational services are offered might be a mobile van, local hospitals, clinics and worksites, depending upon the needs of the target audience.
- Promotion could be done through public service announcements, billboards, mass mailings, media events and community outreach.
- The "publics" you might need to address include your target audience (let's say low-income women age 40 to 65), the people who influence their decisions like their husbands or physicians, policymakers, public service directors at local radio stations, as well as your board of directors and office staff.
- Partnerships could be cultivated with local or national women's groups, corporate sponsors, medical organizations, and service clubs or media outlets.
- The policy aspects of the campaign might focus on increasing access to mammograms through lower costs, requiring insurance and Medicaid coverage of mammograms or increasing federal funding for breast cancer research.
- The purse strings, or where the funding will come from, may be governmental grants, such as from the National Cancer Institute or the local health department, foundation grants or an organization like the American Cancer Society.

Each element of the marketing mix should be taken into consideration as the program is developed, for they are the core of the marketing effort. Research is used to elucidate and shape the final product, price, place, promotion and related decisions.

Types of social marketing: Using the benefits and of doing 'social good' to secure and maintain customer engagement. In 'social marketing' the distinguishing feature is therefore its 'primary' focus on 'social good', and it is not a secondary outcome. Not all public sector and not-for-profit marketing is social marketing. Public sector bodies can use standard marketing approaches to improve the promotion of their relevant services and organizational aims, this can be very important, but should not be confused with 'social marketing' where the focus in on achieving specific behavioral goals with specific audiences in relation to different topics relevant to social good (e.g.: health, sustainability, recycling, etc). As the dividing lines are rarely clear it is important not to confuse social marketing with commercial marketing. A commercial marketer selling a product may only seek to influence a buyer to make a product purchase**.**

Social marketers, dealing with goals such as reducing cigarette smoking or encouraging condom use, have more difficult goals: to make potentially difficult and long-term behavioral change in target populations. It is sometimes felt that social marketing is restricted to a particular spectrum of client -- the non-profit organization, the health services group, the government agency. These often are the clients of social marketing agencies, but the goal of inducing social change is not restricted to governmental or non-profit charitable organizations; it may be argued that corporate public relations efforts such as funding for the arts are an example of social marketing.

Social marketing should not be confused with the Societal Marketing Concept which was a forerunner of sustainable marketing in integrating issues of social responsibility into commercial marketing strategies. In contrast to that, social marketing uses commercial marketing theories, tools and techniques to social issues. Social marketing applies a “customer oriented” approach and uses the concepts and tools used by commercial marketers in pursuit of social goals like Anti-Smoking-Campaigns or fund raising for NGOs.

1.8 REVIEW QUESTIONS

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1. Think of the firm for which you last worked. Who were your customers and what did they want? Who were your competitors and how did their actions affect you? What were the company skills that gave your firm a differential advantage?

2. What is a customer need? What are your needs with respect to coffee makers? Cellular phones? Does the analysis of customer needs apply to services?

3. What are some ways by which you can measure customer preferences? What are their strengths and its weaknesses?

4. What does economic theory say about pricing in commodity markets?

E- BUSINESS AND CUSTOMER SATISFACTION

Structure

2.1: INTRODUCTION TO E- MARKETING

Internet marketing also referred to as **i-marketing**, **web marketing**, **online marketing**, or **e-Marketing**, is the marketing of products, or, services over the Internet. The Internet has brought many unique benefits to marketing, one being the lower costs and greater capabilities for the distribution of information and media to a global audience. The interactive nature of Internet marketing, both, in terms of providing instant response and eliciting responses, is a unique quality of the medium. Internet marketing is sometimes considered to have a broader scope because it not only refers to digital media, such as, the Internet, e-mail, and wireless media, but also it includes management of digital customer data and electronic customer relationship management (ECRM) systems.

Internet marketing ties together creative and technical aspects of the Internet including design, development, advertising, and sales. Internet marketing also refers to the placement of media along different stages of the customer engagement cycle through search engine marketing (SEM), search engine optimization (SEO), banner ads on specific websites, e-mail marketing, and Web 2.0 strategies.

Business models: **Internet marketing is associated with several business models:**

- e-commerce — this is where goods are sold directly to consumers (B2C) or businesses (B2B)
- Publishing — this is the sale of advertising
- lead-based websites — this is an organization that generates value by acquiring sales leads from its website
- Affiliate marketing — this is process in which a product or service developed by one person is sold by other active seller for a share of profits. The owner of the product normally provides some marketing material (sales letter, affiliate link, tracking facility).

There are many other business models based on the specific needs of each person or the business that launches an Internet marketing campaign.

One-to-one approach: The targeted user is typically browsing the Internet alone therefore the marketing messages can reach them personally. This approach is used in search marketing, where the advertisements are based on search engine keywords entered by the user. And now with the advent of Web 2.0 tools, many users can interconnect as "peers."

Appeal to specific interests: Internet marketing and geo marketing places an emphasis on marketing that appeals to a specific behavior or interest, rather than reaching out to a broadly-defined demographic. "On- and Off-line" marketers typically segment their markets according to age group, gender, geography, and other general factors. Marketers have the luxury of targeting by activity and geo location. For example, a kayak company can post advertisements on kayaking and canoeing websites with the full knowledge that the audience has a related interest. Internet marketing differs from magazine advertisements, where the goal is to appeal to the projected demographic of the periodical, but rather the advertiser has knowledge of the target audience—people who engage in certain activities (e.g., uploading pictures, contributing to blogs) — so the company does not rely on the expectation that a certain group of people will be interested in its new product or service.

Geo targeting: Geo targeting (in internet marketing) and geo marketing are the methods of determining the geo location (the physical location) of a website visitor with geo location software, and delivering different content to that visitor based on his or her location, such as country, region/state, city, metro code/zip code, organization, Internet Protocol (IP) address, ISP or other criteria**.**

Different content by choice: A typical example for different content by choice in geo targeting is the FedEx website at FedEx.com where users have the choice to select their country location first and are then presented with a different site or article content depending on their selection.

Automated different content: With automated different content in Internet marketing and geo marketing, the delivery of different content based on the geographical geo location and other personal information is automated**.**

Advantages: Internet marketing is relatively inexpensive when compared to the ratio of cost against the reach of the target audience. Companies can reach a wide audience for a small fraction of traditional advertising budgets. The nature of the medium allows consumers to research and purchase products and services at their own convenience. Therefore, businesses have the advantage of appealing to consumers in a medium that can bring results quickly. The strategy and overall effectiveness of marketing campaigns depend on business goals and cost-volume-profit (CVP) analysis.

Internet marketers also have the advantage of measuring statistics easily and inexpensively. Nearly all aspects of an Internet marketing campaign can be traced, measured, and tested. The advertisers can use a variety of methods: pay per impression, pay per click, pay per play, or pay per action. Therefore, marketers can determine which messages or offerings are more appealing to the audience. The results of campaigns can be measured and tracked immediately because online marketing initiatives usually require users to click on an advertisement, visit a website, and perform a targeted action. Such measurement cannot be achieved through billboard advertising, where an individual will at best be interested, then decide to obtain more information at a later time.

Internet marketing as of 2007 is growing faster than other types of media. Because exposure, response, and overall efficiency of Internet media are easier to track than traditional off-line media—through the use of web analytics for instance—Internet marketing can offer a greater sense of accountability for advertisers. Marketers and their clients are becoming aware of the need to measure the collaborative effects of marketing. The effects of multi-channel marketing can be difficult to determine, but are an important part of ascertaining the value of media campaigns.

Limitations: Internet marketing requires customers to use newer technologies rather than traditional media. Low-speed Internet connections are another barrier. If companies build large or overly-complicated websites, individuals connected to the Internet via dial-up connections or mobile devices experience significant delays in content delivery. From the buyer's perspective, the inability of shoppers to touch, smell, taste or "try on" tangible goods before making an online purchase can be limiting. However, there is an industry standard for e-commerce vendors to reassure customers by having liberal return policies as well as providing in-store pick-up services. A survey of 410 marketing executives listed the following barriers to entry for large companies looking to market online: insufficient ability to measure impact, lack of internal capability, and difficulty convincing senior management.

Security concerns: Information security is important both to companies and consumers that participate in online business. Many consumers are hesitant to purchase items over the Internet because they do not trust that their personal information will remain private. Encryption is the primary method for implementing privacy policies. Recently some companies that do business online have been caught giving away or selling information about their customers. Several of these companies provide guarantees on their websites, claiming that customer information will remain private. Some companies that purchase customer information offer the option for individuals to have their information removed from the database, also known as opting out. However, many customers are unaware if and when their information is being shared, and are unable to stop the transfer of their information between companies if such activity occurs.

Another major security concern that consumers have with e-commerce merchants is whether or not they will receive exactly what they purchase. Online merchants have attempted to address this concern by investing in and building strong consumer brands (e.g., Amazon.com, eBay, Overstock.com), and by leveraging merchant/feedback rating systems and e-commerce bonding solutions. All of these solutions attempt to assure consumers that their transactions will be free of problems because the merchants can be trusted to provide reliable products and services. Additionally, the major online payment mechanisms (credit cards, PayPal, Google Checkout, etc.) have also provided back-end buyer protection systems to address problems if they actually do occur.

Broadband-induced trends: Online advertising techniques have been dramatically affected by technological advancements in the telecommunications industry. In fact, many firms are embracing a new paradigm that is shifting the focus of online advertising from simple text ads to rich multimedia experiences. As a result, advertisers can more effectively engage in and manage online branding campaigns, which seek to shape consumer attitudes and feelings towards specific products. The critical technological development fueling this paradigm shift is Broadband.

In March 2005, roughly half of all American homes were equipped with broadband technology. By May 2008, broadband technologies had spread to more than 90% of all residential Internet connections in the United States. When one considers a Nielsen's study conducted in June 2008, which estimated the number of U.S. Internet users as 220,141,969, one can calculate that there are presently about 199 million people in the United States utilizing broadband technologies to surf the Web.

As a result, all 199 million members of this burgeoning market have the ability to view TV-like advertisements with the click of a mouse. And to be sure, online advertisers are working feverishly to design rich multimedia content that will engender a "warm-fuzzy" feeling when viewed by their target audience. As connection speeds continue to increase, so will the frequency of online branding campaigns.

Effects on industries: Internet marketing has had a large impact on several previously retail-oriented industries including music, film, pharmaceuticals, banking, flea markets, as well as the advertising industry itself. Internet marketing is now overtaking radio marketing in terms of market share in the music industry; many consumers have been purchasing and downloading music (e.g., MP3 files) over the Internet for several years in addition to purchasing compact discs. By 2008 Apple Inc.'s iTunes Store has become the largest music vendor in the United States.

The number of banks offering the ability to perform banking tasks online has also increased. Online banking is believed to appeal to customers because it is more convenient than visiting bank branches. Currently over 150 million U.S. adults now bank online, with increasing Internet connection speed being the primary reason for fast growth in the online banking industry. Of those individuals who use the Internet, 44 percent now perform banking activities over the Internet.

Internet auctions have gained popularity. Unique items that could only previously be found at flea markets are being sold on eBay. Specialized e-stores sell items ranging from antiques to movie props. As the premier online reselling platform, eBay is often used as a price-basis for specialized items. Buyers and sellers often look at prices on the website before going to flea markets; the price shown on eBay often becomes the item's selling price. It is increasingly common for flea market vendors to place a targeted advertisement on the Internet for each item they are selling online, all while running their business out of their homes.

The effect on the advertising industry itself has been profound. In just a few years, online advertising has grown to be worth tens of billions of dollars annually. PricewaterhouseCoopers reported that US$16.9 billion was spent on Internet marketing in the U.S. in 2006.

Internet marketing has had a growing impact on the electoral process. In 2008 candidates for President heavily utilized Internet marketing strategies to reach constituents. During the 2007 primaries candidates added, on average, over 500 social network supporters per day to help spread their message. President Barack Obama raised over US$1 million in a single day during his extensive Democratic candidacy campaign, largely due to online donors.

2.2: COMPONENTS OF E- COMMERCE

Electronic Commerce means buying and selling of goods and services across the internet. An e commerce site can be as simple as a catalog page with a phone no, or it can range all the way to a real time credit and processing site where customer can purchase downloadable goods and receive them on the spot.

E-Business is the creation of new, and the redesigning of existing value chains and business processes through the application of information technology. Naturally, e-Business is more than e-commerce. It expands the scope of e-commerce to transform the company and the industry itself.

E-commerce advantages and disadvantages: E-commerce provides many new ways for businesses and consumers to communicate and conduct business. There are a number of advantages and disadvantages of conducting business in this manner.

E-commerce advantages: Some advantages that can be achieved from e-commerce include:

- **Being able to conduct business 24 x 7 x 365:** E-commerce systems can operate all day every day. Your physical storefront does not need to be open in order for customers and suppliers to be doing business with you electronically.
- **Access the global marketplace:** The Internet spans the world, and it is possible to do business with any business or person who is connected to the Internet. Simple local businesses such as specialist record stores are able to market and sell their offerings internationally using e-commerce. This global opportunity is assisted by the fact that, unlike traditional communications methods, users are not charged according to the distance over which they are communicating.
- **Speed:** Electronic communications allow messages to traverse the world almost instantaneously. There is no need to wait weeks for a catalogue to arrive by post: that communications delay is not a part of the Internet / e-commerce world.
- **Market space:** The market in which web-based businesses operate is the global market. It may not be evident to them, but many businesses are already facing international competition from web-enabled businesses.
- **Opportunity to reduce costs:** The Internet makes it very easy to 'shop around' for products and services that may be cheaper or more effective than we might otherwise settle for. It is sometimes possible to, through some online research, identify original

manufacturers for some goods - thereby bypassing wholesalers and achieving a cheaper price.

- **Computer platform-independent:** 'Many, if not most, computers have the ability to communicate via the Internet independent of operating systems and hardware. Customers are not limited by existing hardware systems'.
- **Efficient applications development environment:** 'In many respects, applications can be more efficiently developed and distributed because they can be built without regard to the customer's or the business partner's technology platform. Application updates do not have to be manually installed on computers. Rather, Internet-related technologies provide this capability inherently through automatic deployment of software updates'.
- **Allowing customer self service and 'customer outsourcing':** People can interact with businesses at any hour of the day that it is convenient to them, and because these interactions are initiated by customers, the customers also provide a lot of the data for the transaction that may otherwise need to be entered by business staff. This means that some of the work and costs are effectively shifted to customers; this is referred to as 'customer outsourcing'.
- **Stepping beyond borders to a global view:** Using aspects of e-commerce technology can mean your business can source and use products and services provided by other businesses in other countries. This seems obvious enough to say, but people do not always consider the implications of e-commerce.

In brief, it is useful to take a global view with regard the potential and organization of your e-commerce activities, especially if you are targeting global customers. The Internet provides an important new channel to sell to consumers. Peterson et al. (1999) suggest that, as a marketing channel, the Internet has the following characteristics:

- the ability to inexpensively store vast amounts of information at different virtual locations
- the availability of powerful and inexpensive means of searching, organizing, and disseminating such information
- interactivity and the ability to provide information on demand
- the ability to provide perceptual experiences that are far superior to a printed catalogue, although not as rich as personal inspection
- the capability to serve as a transaction medium
- the ability to serve as a physical distribution medium for certain goods (e.g., software)
- relatively low entry and establishment costs for sellers
- no other existing marketing channel possesses all of these characteristics.

Some of these advantages and their surrounding issues are discussed below in further detail.

Some disadvantages and constraints of e-commerce include the following.

- **Time for delivery of physical products.** It is possible to visit a local music store and walk out with a compact disc or a bookstore and leave with a book. E-commerce is often used to buy goods that are not available locally from businesses all over the world, meaning that physical goods need to be delivered, which takes time and costs money. In some cases there are ways around this, for example, with electronic files of the music or books being accessed across the Internet, but then these are not physical goods.

- **Physical product, supplier & delivery uncertainty.** When you walk out of a shop with an item, it's yours. You have it; you know what it is, where it is and how it looks. In some respects e-commerce purchases are made on trust. This is because, firstly, not having had physical access to the product, a purchase is made on an expectation of what that product is and its condition. Secondly, because supplying businesses can be conducted across the world, it can be uncertain whether or not they are legitimate businesses and are not just going to take your money. It's pretty hard to knock on their door to complain or seek legal recourse! Thirdly, even if the item is sent, it is easy to start wondering whether or not it will ever arrive.

- **Perishable goods.** Forget about ordering a single gelato ice cream from a shop in Rome! Though specialized or refrigerated transport can be used, goods bought and sold via the Internet tend to be durable and non-perishable: they need to survive the trip from the supplier to the purchasing business or consumer. This shifts the bias for perishable and/or non-durable goods back towards traditional supply chain arrangements, or towards relatively more local e-commerce-based purchases, sales and distribution. In contrast, durable goods can be traded from almost anyone to almost anyone else, sparking competition for lower prices. In some cases this leads to **disintermediation** in which intermediary people and businesses are bypassed by consumers and by other businesses that are seeking to purchase more directly from manufacturers.

- **Limited and selected sensory information.** The Internet is an effective conduit for visual and auditory information: seeing pictures, hearing sounds and reading text. However it does not allow full scope for our senses: we can see pictures of the flowers, but not smell their fragrance; we can see pictures of a hammer, but not feel its weight or balance. Further, when we pick up and inspect something, we choose what we look at and how we look at it. This is not the case on the Internet. If we were looking at buying a car on the Internet, we would see the pictures the seller had chosen for us to see but not the things we might look for if we were able to see it in person. And, taking into account our other senses, we can't test the car to hear the sound of the engine as it changes gears or sense the smell and feel of the leather seats. There are many ways in which the Internet does not convey the richness of experiences of the world. This lack of sensory information means that people are often much more comfortable buying via the Internet generic goods - things that they have seen or experienced before and about which there is little ambiguity, rather than unique or complex things.

- **Returning goods.** Returning goods online can be an area of difficulty. The uncertainties surrounding the initial payment and delivery of goods can be exacerbated in this process. Will the goods get back to their source? Who pays for the return postage? Will the refund be paid? Will I be left with nothing? How long will it take? Contrast this with the offline experience of returning goods to a shop.

- **Privacy, security, payment, identity, contract.** Many issues arise - privacy of information, security of that information and payment details, whether or not payment details (e.g. credit card details) will be misused, identity theft, contract, and, whether we have one or not, what laws and legal jurisdiction apply.

- **Defined services & the unexpected.** E-commerce is an effective means for managing the transaction of known and established services, that is, things that are everyday. It is not suitable for dealing with the new or unexpected. For example, a transport company used to dealing with simple packages being asked if it can transport a hippopotamus, or a customer asking for a book order to be wrapped in blue and white polka dot paper with a bow. Such requests need human intervention to investigate and resolve.

- **Personal service.** Although some human interaction can be facilitated via the web, e-commerce can not provide the richness of interaction provided by personal service. For most businesses, e-commerce methods provide the equivalent of an information-rich counter attendant rather than a salesperson. This also means that feedback about how people react to product and service offerings also tends to be more granular or perhaps lost using e-commerce approaches. If your only feedback is that people are (or are not) buying your products or services online, this is inadequate for evaluating how to change or improve your e-commerce strategies and/or product and service offerings. Successful business use of e-commerce typically involves strategies for gaining and applying customer feedback. This helps businesses to understand, anticipate and meet changing online customer needs and preferences, which is critical because of the comparatively rapid rate of ongoing Internet-based change.

- **Size and number of transactions.** E-commerce is most often conducted using credit card facilities for payments, and as a result very small and very large transactions tend not to be conducted online. The size of transactions is also impacted by the economics of transporting physical goods. For example, any benefits or conveniences of buying a box of pens online from a US-based business tend to be eclipsed by the cost of having to pay for them to be delivered to you in Australia. The delivery costs also mean that buying individual items from a range of different overseas businesses is significantly more expensive than buying all of the goods from one overseas business because the goods can be packaged and shipped together.

Business-to-business (**B2B**) describes commerce transactions between businesses, such as between a manufacturer and a wholesaler, or between a wholesaler and a retailer. Contrasting terms are **business-to-consumer** (B2C) and **business-to-government** (B2G).The volume of B2B transactions is much higher than the volume of B2C transactions. The primary reason for this is that in a typical supply chain there will be many B2B transactions involving subcomponent or raw materials, and only one B2C transaction, specifically sale of the finished product to the end customer. For example, an automobile manufacturer makes several B2B transactions such as buying tires, glass for windshields, and rubber hoses for its vehicles. The final transaction, a finished vehicle sold to the consumer, is a single (B2C) transaction.

Etymology: The term **"business-to-business"** was originally coined to describe the electronic communications between businesses or enterprises in order to distinguish it from the communications between businesses and consumers (B2C). It eventually came to be used in marketing as well, initially describing only industrial or capital goods marketing. Today it is widely used to describe all products and services used by enterprises. Many professional institutions and the trade publications focus much more on B2C than B2B. This is a strange development as most sales and marketing people work in B2B.

2.2: WEB MARKETING

The key to online business success is a comprehensive web marketing strategy supported by effective marketing tactics. You need to plan how to attract new prospects, convert leads into sales, and maximize the lifetime value of your customers.

The good news is that once you've figured out the right formula, it's usually easy to automate the process, and leverage the Internet to quickly multiply your profits.

What is a Web Marketing Strategy? Web or Internet Marketing strategies form the cornerstones of your online business, and outline in general terms what is required to make your business a success (for example, driving potential customers to your website). Ideally you should consider and write out the different elements of your overall marketing strategy before you do anything else.

Internet Marketing Tactics: Achieving the aims set out in your web marketing strategy means taking action and implementing various marketing tactics. This is where it gets difficult. The problem is knowing which web marketing tactics actually work, or just as importantly – which don't. There's so much hype and misinformation about marketing online that it's often difficult to find the truth. Many end up using incorrect or outdated Internet marketing strategies and tactics that have them working hard but getting nowhere.

Web marketing is effective and profitable. Don't let anybody convince you otherwise. Today thousands of companies and individuals from all over the world sell products or services via the Internet and make good money relatively easily. You can too. It's simply that it can take a while to learn the ropes before you start turning a decent profit, especially with all the bad advice that's floating around. Understand that you and every other internet marketer will always be learning anyway, because today's killer marketing strategy or tactic could be tomorrow's dud. And accept that you will get it wrong sometimes. The difference between those that fail and those that succeed is simply this: The successful refused to give up and kept trying until they found what worked. The free Internet marketing information and tools you'll find here will save you time and heartaches. If you need more direct assistance, our web marketing services can help put you on the fast track to profits.

If you're still struggling to finally reach your financial independence & make a nice living from your home, then listen... The only reason why you're failing is because ***you don't have a good website marketing strategy***. If you ask any successful offline world entrepreneur how it's possible to build a great business without a proper strategy, he'll start laughing. But many internet marketers are trying to make money without even realizing what on earth they're doing online… If you believe that you can jump in, create a website, submit it to a few directories or blogs, sit down, relax & watch those thousands of dollars (that you've seen in many marketers' checks) to come, then you need to **stop right there**. It ain't gonna happen. You need to think: who you are and where do you want to be in the future. Whether offline or online, there are only two things that matter: **"Buying"** and **"Selling"**. Basically, to simplify, it all comes down to this:

- **Who is your customer?** What is he or she specifically looking for? You must know their problems or desires. You must be in their shoes and find out what is that would make them feel better (an offer).

- **What is your offer?** Why should they buy from you? How come you're better than the rest? Why should they trust you? Are you offering your own or someone else's product?

How will you create an irresistible offer so they beg you to sell it to them? Think about it… There are millions of people buying online every single day. If they're not buying from you then whose fault is that - theirs or yours? Before you even start creating internet marketing strategy for your website(s), you need to do a research. That's where it all begins actually. Just like in any business, you have to understand where you are and what can you do.

#1 Phase - Online Research: In this phase, you must research your market.

- **Who are your main competitors?** What are they doing online? PPC, SEO, press releases, develop their own products; do affiliate marketing or Ad sense? What are their weaknesses? Do they offer a guarantee? Is their product really good? Do they build links constantly or not?
- **Who is your favorite customer?** Where do they hangout: My Space or You Tube? Are they freebie seekers or desperate buyers? What forces them to buy one or another product? Read reviews, forums, testimonials to find out as much as you can about your target market.

#2 Phase – Data Analysis

- If you've performed a thorough online market research, it's time to systematize the data you have. Write down ***what are the main strengths and weaknesses of your competitors***. Maybe you have more time than your competitors? Or maybe you know some targeted traffic source that others don't. How might this affect your business?
- Which are the places your target market usually visits? What are their main concerns? Maybe they're not satisfied with the products in the market. Can offer something better, maybe in a form of a bonus? After that, you come to the next step, which is developing your internet marketing strategy.

#3 Phase – Strategy Development

- When you already know your target market and your competitors, you are able to start creating your internet marketing strategy (or strategies). Just sit down and think about: who you are and what you can offer to the target market. It involves a little bit of planning. What marketing methods you'll use and which ones you can afford? PPC, SEO, email, blogging, podcasting, video blogging, webinars, viral traffic generation, link building, banner exchange or others?
- You must prioritize your web marketing tactics. Find out what's going to bring you positive ROI in the shortest time possible.

#4 Phase – Monitoring Performance

When you have an internet marketing plan, you can start implementing it right away. The last step is to start monitoring your internet marketing campaigns. Which keywords people typed into search engines to find your site? Which keywords brought you the most money in **PPC marketing**? Are you satisfied with your **SEO rankings** or not? Do majority of your visitors leave your site without even spending 30 seconds? And so on…
Only with the help of close monitoring you can discover what works and what doesn't. Testing landing pages, testing Ad words ads against each other (A/B split testing) can show you some amazing results. **And remember – you never know for sure until you TEST it!**

There is no formula for an effective Internet marketing strategy. It depends on your individual situation. When you realize your strengths and weaknesses, you'll be able to come up with a great marketing plan. No matter if you're thinking about Ad sense site, affiliate site or your own product. When you find out what you're able to accomplish with your resources at the moment, you can create a great web marketing strategy for your online business and finally breakthrough on the internet.

2.3: CUSTOMER RELATIONSHIP MANAGEMENT

Customer relationship management (**CRM**) consists of the processes a company uses to track and organize its contacts with its current and prospective customers. CRM software is used to support these processes; information about customers and customer interactions can be entered, stored and accessed by employees in different company departments. Typical CRM goals are to improve services provided to customers, and to use customer contact information for targeted marketing.

While customer relationship management can be implemented without major investments in software, software is often necessary to explore the full benefits of a CRM strategy. However, most CRM software vendors stress that a successful effort requires a holistic approach. Many initiatives often fail because implementation was limited to software installation, without providing the context, support and understanding for employees to learn, and take full advantage of the information systems. Tools for customer relationship management should be implemented "only after a well-devised strategy and operational plan are put in place". Other problems occur when failing to think of sales as the output of a process that itself needs to be studied and taken into account when planning automation.

From the outside, customers interacting with a company perceive the business as a single entity, despite often interacting with a number of employees in different roles and departments. CRM is a combination of policies, processes, and strategies implemented by an organization to unify its customer interactions and provide a means to track customer information. It involves the use of technology in attracting new and profitable customers, while forming tighter bonds with existing ones.

CRM includes many aspects which relate directly to one another:

- Front office operations — Direct interaction with customers, e.g. face to face meetings, phone calls, e-mail, online services etc.
- Back office operations — Operations that ultimately affect the activities of the front office (e.g., billing, maintenance, planning, marketing, advertising, finance, manufacturing, etc.)
- Business relationships — Interaction with other companies and partners, such as suppliers/vendors and retail outlets/distributors, industry networks (lobbying groups, trade associations). This external network supports front and back office activities.
- Analysis — Key CRM data can be analyzed in order to plan target-marketing campaigns, conceive business strategies, and judge the success of CRM activities (e.g., market share, number and types of customers, revenue, profitability).

Proponents of CRM software claim that it doesn't only allow more effective ways of managing customer relationships, but also more customer-centric ways of doing business. Executives often cite the need for the proper tools as a barrier to delivering the experience their customers expect. A 2009 study of over 860 corporate executives revealed only 39% believe that their employees have tools and authority to solve customer problems.

Types/variations of CRM: There are several different approaches to CRM, with different software packages focusing on different aspects. In general, Customer Service, Campaign Management and Sales Force Automation (SFA) form the core of the system.

Operational CRM: Operational CRM provides support to "front office" business processes, e.g. to sales, marketing and service staff. Interactions with customers are generally stored in customers' contact histories, and staff can retrieve customer information as necessary. The contact history provides staff members with immediate access to important information on the customer (products owned, prior support calls etc.), eliminating the need to individually obtain this information directly from the customer. Reaching to the customer at right time at right place is preferable.

Operational CRM processes customer data for a variety of purposes:

- Managing campaigns
- Enterprise Marketing Automation

- Sales Force Automation
- Sales Management System

Analytical CRM: Analytical CRM analyzes customer data for a variety of purposes:

- Designing and executing targeted marketing campaigns
- Designing and executing campaigns, e.g. customer acquisition, cross-selling, up-selling, addon-selling
- Analyzing customer behavior in order to make decisions relating to products and services (e.g. pricing, product development)
- Management information system (e.g. financial forecasting and customer profitability analysis)

Analytical CRM generally makes heavy use of data mining and other techniques to produce useful results for decision-making. It is at the analytical stage that the importance of fully integrated CRM software becomes most apparent. Logically speaking, the more information that the analytical software has available for analysis, the better its predictions and recommendations will be.

Sales Intelligence CRM: Sales Intelligence CRM is similar to Analytical CRM, but is intended as a more direct sales tool. Features include alerts sent to sales staff regarding:

- Cross-selling/Up-selling/Switch-selling opportunities
- Customer drift
- Sales performance
- Customer trends
- Customer margins
- Customer alignment

Campaign Management: Campaign management combines elements of Operational and Analytical CRM. Campaign management functions include:

- Target groups formed from the client base according to selected criteria
- Sending campaign-related material (e.g. on special offers) to selected recipients using various channels (e.g. e-mail, telephone, SMS, post)
- Tracking, storing, and analyzing campaign statistics, including tracking responses and analyzing trends

Collaborative CRM: Collaborative CRM covers aspects of a company's dealings with customers that are handled by various departments within a company, such as sales, technical support and marketing. Staff members from different departments can share information collected when interacting with customers. For example, feedback received by customer support agents can provide other staff members with information on the services and features requested by customers. Collaborative CRM's ultimate goal is to use information collected by all departments to improve the quality of services provided by the company. CRM also plays a role of data distributor within customers, producers and partners. Producers can use CRM information to develop products or find new market. CRM facilitates communication between customers, suppliers and partner by using new information system such email, link and data bank.

Consumer Relationship CRM: Consumer Relationship System (CRS) covers aspects of a company's dealing with customers handled by the Consumer Affairs and Customer Relations contact centers within a company. Representatives handle in-bound contact from anonymous consumers and customers. Early warnings can be issued regarding product issues (e.g. item recalls) and current consumer sentiment can be tracked (voice of the customer).

Simple CRM: A relatively new spin off of the traditional CRM model first appearing in 2006. At their core, CRM tools are designed to manage customer relationships. As described above there are countless supplemental features and capabilities. Simple CRM systems breakdown the traditional CRM system to focus on the core values--managing contacts and activities with customers and prospects These systems are designed to create the most value for the immediate end user rather than the organization as a whole. Many times they focus on satisfying the needs of a particular marketplace niche, organizational unit, or type of user rather than an entire organization**.**

Social CRM: Beginning in 2007, the rapid growth in social media and social networking forced CRM product companies to integrate "social" features into their traditional CRM systems. Some of the first features added are social network monitoring feeds (i.e. Twitter timeline), typically built into the system dashboard. Other emerging capabilities include messaging, sentiment analysis, and other analytics. Many industry experts contend that Social CRM is the way of the future, but there are still many skeptics. Top CRM minds agree that online social communities and conversations carry heavy consequences for companies. They must be monitored for real-time marketplace feedback and trends.

Strategy: Several CRM software packages are available, and they vary in their approach to CRM. However, as mentioned above, CRM is not just a technology but rather a comprehensive, customer-centric approach to an organization's philosophy of dealing with its customers. This includes policies and processes, front-of-house customer service, employee training, marketing, systems and information management. Hence, it is important that any CRM implementation considerations stretch beyond technology toward the broader organizational requirements.

The objectives of a CRM strategy must consider a company’s specific situation and its customers' needs and expectations. Information gained through CRM initiatives can support the development of marketing strategy by developing the organization's knowledge in areas such as identifying customer segments, improving customer retention, improving product offerings (by better understanding customer needs), and by identifying the organization's most profitable customers.

CRM strategies can vary in size, complexity, and scope. Some companies consider a CRM strategy only to focus on the management of a team of salespeople. However, other CRM strategies can cover customer interaction across the entire organization. Many commercial CRM software packages provide features that serve the sales, marketing, event management, project management, and finance industries. From this perspective, CRM has for some time been seen to play an important role in many sales process engineering efforts.

Implementation issues: Many CRM project "failures" are also related to data quality and availability. Data cleaning is a major issue. If a company's CRM strategy is to track life-cycle revenues, costs, margins, and interactions between individual customers, this must be reflected in all business processes. Data must be extracted from multiple sources (e.g., departmental/divisional databases such as sales, manufacturing, supply chain, logistics, finance, service etc.), which requires an integrated, comprehensive system in place with well-defined structures and high data quality. Data from other systems can be transferred to CRM systems using appropriate interfaces.

Because of the company-wide size and scope of many CRM implementations, significant pre-planning is essential for smooth roll-out. This pre-planning involves a technical evaluation of the data available and the technology employed in existing systems. This evaluation is critical to determine the level of effort needed to integrate this data. Equally critical is the human aspect of the implementation. A successful implementation requires an understanding of the expectations and needs of the stakeholders involved. An executive sponsor should also be obtained to provide high-level management representation of the CRM project. An effective tool for identifying technical and human factors before beginning a CRM project is a pre-implementation checklist. A checklist can help ensure any potential problems are identified early in the process.

Privacy and data security system: One of the primary functions of CRM software is to collect information about customers. When gathering data as part of a CRM solution, a company must consider the desire for customer privacy and data security, as well as the legislative and cultural norms. Some customers prefer assurances that their data will not be shared with third parties without their prior consent and that safeguards are in place to prevent illegal access by third parties.

Customer Relationship Management Process: It is a process whose objective is to enhance customer loyalty. This process consists of the following:

- Creation and Management of data mining and warehousing
- Development of appropriate organizational structure
- Investment in Technology
- People Development

Data Mining and warehousing: In order for it to be effective datamining should help to disseminate information on customers to everybody in the organization, which in turn should facilitate each persons functioning and also make him or her customer- responsive. Companies have used datamining to support their sales and service staff, in particular. They have also supported their sales and service staff with advanced technology which has helped them use the data for the purpose of developing a customized offer. In order to develop a data warehouse a company needs to consider the costs that are going to be involved in it. Generally these costs are:

- **Initial Investment Costs:** This will include both hardware and software as well as resources (Internal and External) to build the database.
- **Running or Operational Costs:** The CDW must be constantly updated with current information and practices. Without it, the investment will be outdated and ineffective.
- **Enhancement Costs:** CDW consists more than names and addresses. It must contain demographics, purchase habits, and preferences. There is a cost to obtain and populate the database with this information.
- **Workforce Costs:** Staffing costs are involved in maintaining the CDW, including users in the marketing, IT, sales departments. These costs must be estimated at the start of the CRM process. Cost analysis could possibly lead the company to ask some fundamental questions on whether it needs to create its own database or buy from other sources or outsource it.

Organizational Structure: One of the key issues in organizational structuring is the development of inter- functional process which would ensure that customer- related problems are resolved by all the departments that have a role in it. Invariably all department heads should be involved in the CRM process. We must also remember that the success of the process depends on the active involvement of all managers and employees. Each one of them should respect the interfaces of their functions with that of others and be able to use the data appropriately.

Some of the other issues in the organizational structure will relate to developing strategic alliances with other companies or intermediaries. Call centers are one example of a strategic alliance that a company may develop with an organization that has set up a large customer service centre.

Technology: One of the key inputs in the CRM is the use of technology for datamining and also for responding to the customer in real time. Some commonly used technological tools are the telephone, the internet, computers, fax, and electronic data interchange. There are three Ws of technology which seek to address the issues of the integration of organizational process, technology and the corporate. Integration of the web, workflow management, and data warehousing have lead to the creation of electronic customer relationship management (ECRM) the process by which companies can understand customers in a seamless manner. Smart cards are an example of the customer sharing his data with the organization. Consider for example the case of a customer who wants to make an airline reservation. He calls a dedicated number which is that of a call centre. It is through the call centre that he gets connected to the airlines' reservation staff but he does not want to repeatedly answer queries regarding his name, address and any other necessary travel details. The call centre, which in this case is the centre of relationship, should reflect the entire organization and should be able to add value to the customer relationship management.

Each of these technologies performs a distinct role. Together they contribute to the system working in an effective manner. The web has been compared to the eyes, ears and mouth of a CRM process as it collects and presents the information to the user. The data ware house servers are like a brain and central nervous system. Its principle task is to assimilate the information passed to it by the web and then to formulate the response based on current external and historical information. Workflow management systems automate the procedure by which documents, information, and all relevant tasks are distributed amongst participants. It follows the normal rules of the division of labor and sequencing of activities. This provides a strong framework for developing customer- centric business processes like order cycle management and customer services. The seamless flow of work allows employees in the organization to route customers' communications through a virtual folder that combines documents, voice messages, e- mails, faxes, and so forth, to be delivered to the nearest customer service points at the right time to ensure a single point resolution of any customer complaint or enquiry. Another common technological tool used is voice mail. Combined with the call centre and third party service provider, it could help the organization deliver the same level of services to different segments of customers irrespective of their size and volume of business. These technological tools could also help the organization decide on which customers to cross sell or up sell. Consider, for example a customer for a basic long distance call. He could also be the right customer to buy internet access. The value of the offer is determined by the customers' need, based on segments, usage pattern, and response to similar contacts previously made by the organization. Cross sell or up sell campaigns work because the customer already has a relationship with the organization.

People: Even though technology today is extensively being used for the purpose of strengthening the linkage of the organization with the customer, one must not forget that behind all these technologies is the human being. Unless the human beings have been empowered, have the knowledge, and the right skills as well as the customer friendly attitude, the CRM process will just not work. In fact it is one area where companies are realizing increasingly that they need to have the type of people who have the necessary perspective and understanding of their function, products, organization, and a desire to be customer responsive. Take for example, a customer who has called up a credit cards company's service centre. His call is first attended to by an interactive voice responsive mail, which for the first 10 seconds, charts out the route the customer may take depending on his or her need. After listening to the detailed menu, if the customer is still unable to make contact with the customer service executive for the resolution of the problem, then the call centre has not properly due its exercise on the technology front. This could be sorted out on an immediate basis. But what happens when the customer gets the customer service executive, who takes a long time to understand the customers problem, gives a stereotype response which in any case the customer is aware of because it has already been put down in the contract which he has signed earlier. The customer requires an early response to why he has been charged interest on a very small outstanding amount in the last bill and how this amount is more than that outstanding at the end of the current month? If the customer service executive explains the process, of revolving credit and tries to justify the interest charged to the customer, then the credit card Company is not customer centric, rather, it is product centric and organization centric. Now if the customer persists and challenges the customer service executive and the executive is still not able to satisfy the customer, then the entire purpose of creating a call centre and the service centre is defeated. It is, therefore, necessary that the people in the call center need to have service orientation. They need to appreciate that responsiveness (speed and quality of the response), reliability, empathy, and assurance are important skills that customers are looking for when they are interacting with organizations. If these are not met, then the earlier stages in CRM have no meaning.

Measuring CRM: From the above example, it is clear that if the organization has to move up on CRM, it needs to continuously measure how well it is doing. Measurement is important because it helps the organization to understand not only what they are doing but also how well they are doing and the areas that need improvement.

Balanced Score Card: One of the techniques used in measuring the organizations performance is the balanced score card. The logic of the balanced score card is that financial measures, though unambiguous, do not show less quantifiable but extremely critical measures of performances. Hence firms need to assess the performance by looking both towards the future and also to the past. According to the authors, the balanced scorecard could be used for crafting future strategies too. The companies could create unique score cards based on the following key parameters:

- How well the financial objectives have been achieved, and as a result whether shareholders are satisfied with the organization
- How well the customer perceives the organization/ company's offer and do they feel satisfied and committed to the organization.
- Organizational analysis with a view to identifying the process in which the organization has excelled and the ones where it is weak.
- Is the organization a learning organization and what has it learnt over a period of time.
- What are the knowledge management processes in the organization

Evaluating the organization on the basis of such a score card could help it develop a cause and effect business strategy.

Catalytic Measure - The other measure that has been suggested is the catalytic measure. This measure focuses on organization's efforts on identifiable changes. The implementation of such measures facilitates and speeds up the change in any area that the organization wants. According to Brown, the-best catalytic measures are those that are considered credible by both customers and staff. Consider for example the communication at the back of a school bus which tells people that it is carrying school children and is being driven safely; it also gives the telephone number of the principal of the school. This announcement places pressure on the driver to be more cautious and induces change in driving behavior. It is important that the catalytic measure empowers and convinces people to achieve results and at the same time has been developed through consultative processes, thus enhancing the esteem of the people.

There are four steps that have been identified in implementing the catalytic measure. These are:

- identifying the area needing change
- creating a relevant yardstick of performance
- developing the measurement approach through a consultative process
- communicating and implementing the program

Thus, today, CRM has a significant role in creating strong customer bondage. It is an organizational process which includes people, infrastructure, performance measures and controls, organizational alignment to the environment, and new strategic patterns.

2.4: REVIEW QUESTIONS

1. As a leading organization in the hotel industry, what standards and goals must you set to achieve the highest levels of customer loyalty?
2. As a responsible marketing head of an upcoming player in the airlines industry, do you think there is an advantage in competing on personal service rather than price? Also, how can you personalize your service to improve customer service?
3. The synergy between telephone, computer, and other technologies has provided the customer with great choice and access; however, organizations need to balance the remoteness brought about by technology and the need for the customer to feel a valued individual. What steps would you take as a manager to bridge this gap?

MARKETING OPPORTUNITIES PART - I

Structure

3.1 About Strategic Planning

3.2 Concept of Strategic Business Units (SBUs)

3.3 Boston Consulting Group (BCG Model)

3.4 SWOT Analysis

3.5 Review Questions

3.1 ABOUT STRATEGIC PLANNING

Strategic planning is an organization's process of defining its strategy, or direction, and making decisions on allocating its resources to pursue this strategy, including its capital and people. Various business analysis techniques can be used in strategic planning, including SWOT analysis (Strengths, Weaknesses, Opportunities, and Threats) and PEST analysis (Political, Economic, Social, and Technological analysis) or STEER analysis (Socio-cultural, Technological, Economic, Ecological, and Regulatory factors) and EPISTEL (Environment, Political, Informatics, Social, Technological, Economic and Legal).

Strategic planning is the formal consideration of an organization's future course. All strategic planning deals with at least one of three key questions:

1. "What do we do?"
2. "For whom do we do it?"
3. "How do we excel?"

In business strategic planning, the third question is better phrased "How can we beat or avoid competition?" In many organizations, this is viewed as a process for determining where an organization is going over the next year or more -typically 3 to 5 years, although some extend their vision to 20 years. In order to determine where it is going, the organization needs to know exactly where it stands, then determine where it wants to go and how it will get there. The resulting document is called the "strategic plan." It is also true that strategic planning may be a tool for effectively plotting the direction of a company; however, strategic planning itself cannot foretell exactly how the market will evolve and what issues will surface in the coming days in order to plan your organizational strategy. Therefore, strategic innovation and tinkering with the 'strategic plan' have to be a cornerstone strategy for an organization to survive the turbulent business climate.

Vision: Defines the desired or intended future state of an organization or enterprise in terms of its fundamental objective and/or strategic direction. Vision is a long term view, sometimes describing a view of how the organization would like the world in which it operates to be. For example a charity working with the poor might have a vision statement which read "A world without poverty"

Mission: Defines the fundamental purpose of an organization or an enterprise, basically describing why it exists and what it does to achieve its Vision. A corporate Mission can last for many years, or for the life of the organization. It is not an objective with a timeline, but rather the overall goal that is accomplished over the years as objectives are achieved that are aligned with the corporate mission.

Values: Beliefs that are shared among the stakeholders of an organization. Values drive an organization's culture and priorities.

Methodologies: There are many approaches to strategic planning but typically a three-step process may be used:

- **Situation** - evaluate the current situation and how it came about.
- **Target** - define goals and/or objectives (sometimes called ideal state)
- **Path** - map a possible route to the goals/objectives

One alternative approach is called Draw-See-Think

- **Draw** - what is the ideal image or the desired end state?
- **See** - what is today's situation? What is the gap from ideal and why?
- **Think** - what specific actions must be taken to close the gap between today's situation and the ideal state?
- **Plan** - what resources are required to execute the activities?

An alternative to the *Draw-See-Think* approach is called *See-Think-Draw*

- **See** - what is today's situation?
- **Think** - define goals/objectives
- **Draw** - map a route to achieving the goals/objectives

In other terms strategic planning can be as follows:

- **Vision** - Define the vision and set a mission statement with hierarchy of goals and objectives
- **SWOT** - Analysis conducted according to the desired goals
- **Formulate** - Formulate actions and processes to be taken to attain these goals
- **Implement** - Implementation of the agreed upon processes
- Control - Monitor and get feedback from implemented processes to fully control the operation

Situational Analysis: When developing strategies, analysis of the organization and its environment as it is at the moment and how it may develop in the future, is important. The analysis has to be executed at an internal level as well as an external level to identify all opportunities and threats of the external environment as well as the strengths and weaknesses of the organizations.

There are several factors to assess in the external situation analysis:

1. Markets (customers)
2. Competition
3. Technology
4. Supplier markets
5. Labor markets
6. The economy
7. The regulatory environment

It is rare to find all seven of these factors having critical importance. It is also uncommon to find that the first two - markets and competition - are not of critical importance. Analysis of the external environment normally focuses on the customer. Management should be visionary in formulating customer strategy, and should do so by thinking about market environment shifts, how these could impact customer sets, and whether those customer sets are the ones the company wishes to serve.

Goals, Objectives and Targets: Strategic planning is a very important business activity. It is also important in the public sector areas such as education. It is practiced widely informally and formally. Strategic planning and decision processes should end with objectives and a roadmap of ways to achieve those objectives. The following terms have been used in strategic planning: desired end states, plans, policies, goals, objectives, strategies, tactics and actions. Definitions vary, overlap and fail to achieve clarity. The most common of these concepts are specific, time bound statements of intended future results and general and continuing statements of intended future results, which most models refer to as either goals or objectives (sometimes interchangeably).

One model of organizing objectives uses hierarchies. The items listed above may be organized in a hierarchy of means and ends and numbered as follows: Top Rank Objective (TRO), Second Rank Objective, Third Rank Objective, etc. From any rank, the objective in a lower rank answers to the question "How?" and the objective in a higher rank answers to the question "Why?" The exception is the Top Rank Objective (TRO): there is no answer to the "Why?" question. That is how the TRO is defined.

People typically have several goals at the same time. "Goal congruency" refers to how well the goals combine with each other. Does goal A appear compatible with goal B? Do they fit together to form a unified strategy? "Goal hierarchy" consists of the nesting of one or more goals within other goal(s).

One approach recommends having short-term goals, medium-term goals, and long-term goals. In this model, one can expect to attain short-term goals fairly easily: they stand just slightly above one's reach. At the other extreme, long-term goals appear very difficult, almost impossible to attain. Strategic management jargon sometimes refers to "Big Hairy Audacious Goals" (BHAGs) in this context. Using one goal as a stepping-stone to the next involves **goal sequencing**. A person or group starts by attaining the easy short-term goals, then steps up to the medium-term, then to the long-term goals. Goal sequencing can create a "goal stairway". In an organizational setting, the organization may co-ordinate goals so that they do not conflict with each other. The goals of one part of the organization should mesh compatibly with those of other parts of the organization.

Mission statements and vision statements: Organizations sometimes summarize goals and objectives into a **mission statement** and/or a **vision statement.** Others begin with a vision and mission and use them to formulate goals and objectives. While the existence of a shared mission is extremely useful, many strategy specialists question the requirement for a written mission statement. However, there are many models of strategic planning that start with mission statements, so it is useful to examine them here.

- A ***Mission statement*** tells you the fundamental purpose of the organization. It defines the customer and the critical processes. It informs you of the desired level of performance.
- A ***Vision statement*** outlines what the organization wants to be, or how it wants the world in which it operates to be. It concentrates on the future. It is a source of inspiration. It provides clear decision-making criteria.

An advantage of having a statement is that it creates value for those who get exposed to the statement, and those prospects are managers, employees and sometimes even customers. Statements create a sense of direction and opportunity. Many people mistake vision statement for mission statement, and sometimes one is simply used as a longer term version of the other. The Vision should describe why it is important to achieve the Mission. A Vision statement defines the purpose or broader goal for being in existence or in the business and can remain the same for decades if crafted well. A Mission statement is more specific to what the enterprise can achieve itself. Vision should describe what will be achieved in the wider sphere if the organization and others are successful.

A mission statement can resemble a vision statement in a few companies, but that can be a grave mistake. It can confuse people. The mission statement can galvanize the people to achieve defined objectives, even if they are stretch objectives, provided it can be elucidated in SMART (Specific, Measurable, Achievable, Relevant and Time-bound) terms. A mission statement provides a path to realize the vision in line with its values. These statements have a direct bearing on the bottom line and success of the organization.

Which comes first? The mission statement or the vision statement? That depends. If you have a new start up business, new program or plan to re engineer your current services, then the vision will guide the mission statement and the rest of the strategic plan. If you have an established business where the mission is established, then many times, the mission guides the vision statement and the rest of the strategic plan. Either way, you need to know your fundamental purpose - the mission, your current situation in terms of internal resources and capabilities (strengths and/or weaknesses) and external conditions (opportunities and/or threats), and where you want to go - the vision for the future. It's important that you keep the end or desired result in sight from the start.

Features of an effective vision statement include:

- Clarity and lack of ambiguity
- Vivid and clear picture
- Description of a bright future
- Memorable and engaging wording
- Realistic aspirations
- Alignment with organizational values and culture

To become really effective, an organizational vision statement must (the theory states) become assimilated into the organization's culture. Leaders have the responsibility of communicating the vision regularly, creating narratives that illustrate the vision, acting as role-models by embodying the vision, creating short-term objectives compatible with the vision, and encouraging others to craft their own personal vision compatible with the organization's overall vision. In addition, mission statements need to be subjected to an internal assessment and an external assessment. The internal assessment should focus on how members inside the organization interpret their mission statement. The external assessment — which includes all of the businesses stakeholders — is valuable since it offers a different perspective. These discrepancies between these two assessments can give insight on the organization's mission statement effectiveness.

Another approach to defining Vision and Mission is to pose two questions. Firstly, "What aspirations does the organization have for the world in which it operates and has some influence over?", and following on from this, "What can (and /or does) the organization do or contribute to fulfill those aspirations?" The succinct answer to the first question provides the basis of the Vision Statement. The answer to the second question determines the Mission Statement.

3.2: CONCEPT OF STRATEGIC BUSINESS UNITS (SBUs)

Strategic Business Unit or SBU is understood as a business unit within the overall corporate identity which is distinguishable from other business because it serves a defined external market where management can conduct strategic planning in relation to products and markets. When companies become really large, they are best thought of as being composed of a number of businesses (or SBUs).

In the broader domain of strategic management, the phrase "Strategic Business Unit" came into use in the 1960s, largely as a result of General Electric's many units. These organizational entities are large enough and homogeneous enough to exercise control over most strategic factors affecting their performance. They are managed as self contained planning units for which discrete business strategies can be developed. A Strategic Business Unit can encompass an entire company, or can simply be a smaller part of a company set up to perform a specific task. The SBU has its own business strategy, objectives and competitors and these will often be different from those of the parent company. Research conducted in this includes the BCG Matrix. This approach entails the creation of business units to address each market in which the company is operating. The organization of the business unit is determined by the needs of the market.

An SBU is an operating unit or planning focus that groups a distinct set of products or services, which are sold to a uniform set of customers, facing a well-defined set of competitors. The external (market) dimension of a business is the relevant perspective for the proper identification of an SBU. Therefore, an SBU should have a set of external customers and not just an internal supplier. Companies today often use the word “Segment” or “Division” when referring to SBU’s, or an aggregation of SBU’s that share such commonalities.

Commonalities: An SBU is generally defined by what it has in common, as well as the traditional aspects defined by McKinsey, of separate competitors and a profitability bottom line. The commonalities are five in number:

Success factors: There are three factors that are generally seen as determining the success of an SBU:

1. the degree of autonomy given to each SBU manager,
2. the degree to which an SBU shares functional programs and facilities with other SBUs, and
3. The manner in which the corporation evaluates and rewards the performance of its SBU managers.

BCG Matrix: When using the Boston Consulting Group Matrix, SBUs can be shown within any of the four quadrants (Star, Question Mark, Cash Cow, Dog) as a circle whose area represents their size. With different colors, competitors may also be shown. The precise location is determined by the two axes, Industry Growth as the Y axis, Market Share as the X axis. Alternatively, changes over or two years can be shown by shading or other differences in design.

3.3 BOSTON CONSULTING GROUP (BCG MODEL)

When using the Boston Consulting Group Matrix, SBUs can be shown within any of the four quadrants (Star, Question Mark, Cash Cow, Dog) as a circle whose area represents their size. With different colors, competitors may also be shown. The precise location is determined by the two axes, Industry Growth as the Y axis, Market Share as the X axis. Alternatively, changes over or two years can be shown by shading or other differences in design.

The **BCG matrix** (aka B.C.G. analysis, BCG-matrix, Boston Box, Boston Matrix, Boston Consulting Group analysis) is a chart that had been created by Bruce Henderson for the Boston Consulting Group in 1970 to help corporations with analyzing their business units or product lines. This helps the company allocate resources and is used as an analytical tool in brand marketing, product management, strategic management, and portfolio analysis.

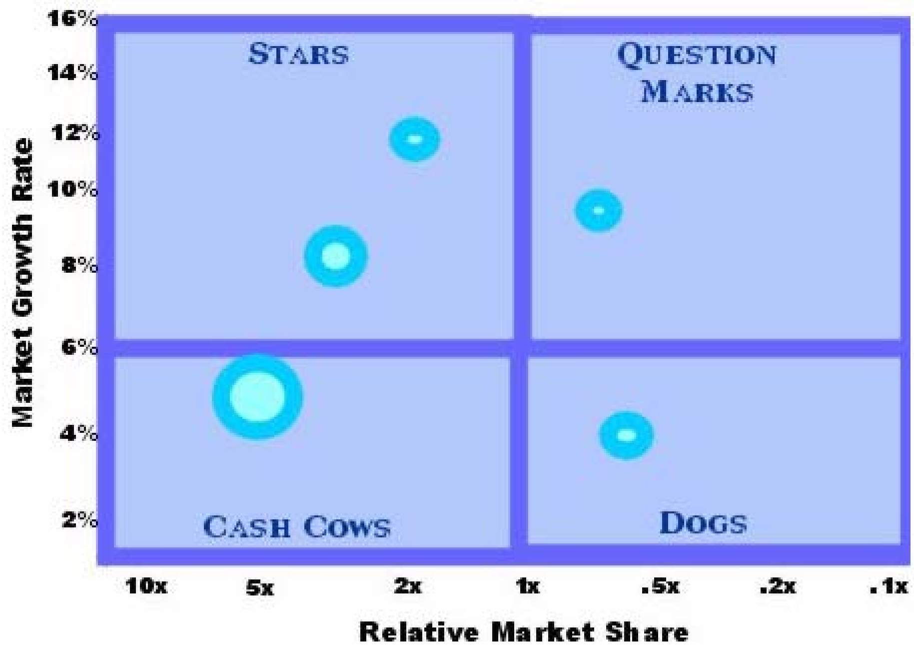

Figure 3.1: BCG Chart

To use the chart, analysts plot a scatter graph to rank the business units (or products) on the basis of their relative market shares and growth rates.

- **Cash cows** are units with high market share in a slow-growing industry. These units typically generate cash in excess of the amount of cash needed to maintain the business. They are regarded as staid and boring, in a "mature" market, and every corporation would be thrilled to own as many as possible. They are to be "milked" continuously with as little investment as possible, since such investment would be wasted in an industry with low growth.

- **Dogs,** or more charitably called *pets*, are units with low market share in a mature, slow-growing industry. These units typically "break even", generating barely enough cash to maintain the business's market share. Though owning a break-even unit provides the social benefit of providing jobs and possible synergies that assist other business units, from an accounting point of view such a unit is worthless, not generating cash for the company. They depress a profitable company's return on assets ratio, used by many investors to judge how well a company is being managed. *Dogs*, it is thought, should be sold off.

- **Question marks** (also known as problem child) are growing rapidly and thus consume large amounts of cash, but because they have low market shares they **do not generate much cash**. The result is a large net cash consumption. A question mark has the potential to gain market share and become a star, and eventually a cash cow when the market growth slows. If the question mark does not succeed in becoming the market leader, then after perhaps years of cash consumption it will degenerate into a dog when the market growth declines. Question marks must be analyzed carefully in order to determine whether they are worth the investment required to grow market share.

- **Stars** are units with a high market share in a fast-growing industry. The hope is that *stars* become the next *cash cows*. Sustaining the business unit's market leadership may require extra cash, but this is worthwhile if that's what it takes for the unit to remain a leader. When growth slows, stars become *cash cows* if they have been able to maintain their category leadership, or they move from brief *stardom* to *dogdom*.

As a particular industry matures and its growth slows, all business units become either *cash cows* or *dogs*. The natural cycle for most business units is that they start as *question marks*, then turn into *stars*. Eventually the market stops growing thus the business unit becomes a *cash cow*. At the end of the cycle the cash cow turns into a *dog*.

The overall goal of this ranking was to help corporate analysts decide which of their business units to fund, and how much; and which units to sell. Managers were supposed to gain perspective from this analysis that allowed them to plan with confidence to use money generated by the *cash cows* to fund the *stars* and, possibly, the *question marks*. As the BCG stated in 1970:

Only a diversified company with a balanced portfolio can use its strengths to truly capitalize on its growth opportunities. The balanced portfolio has:

- stars whose high share and high growth assure the future;
- cash cows that supply funds for that future growth; and
- Question marks to be converted into stars with the added funds.

Practical Use of the BCG Matrix: For each product or service, the 'area' of the circle represents the value of its sales. The BCG Matrix thus offers a very useful 'map' of the organization's product (or service) strengths and weaknesses, at least in terms of current profitability, as well as the likely cashflows.

The need which prompted this idea was, indeed, that of managing cash-flow. It was reasoned that one of the main indicators of cash generation was relative market share, and one which pointed to cash usage was that of market growth rate. Derivatives can also be used to create a 'product portfolio' analysis of services. So Information System services can be treated accordingly.

Relative market share: This indicates likely cash generation, because the higher the share the more cash will be generated. As a result of 'economies of scale' (a basic assumption of the BCG Matrix), it is assumed that these earnings will grow faster the higher the share. The exact measure is the brand's share relative to its largest competitor. Thus, if the brand had a share of 20 percent, and the largest competitor had the same, the ratio would be 1:1. If the largest competitor had a share of 60 percent; however, the ratio would be 1:3, implying that the organization's brand was in a relatively weak position. If the largest competitor only had a share of 5 percent, the ratio would be 4:1, implying that the brand owned was in a relatively strong position, which might be reflected in profits and cash flows. If this technique is used in practice, this scale is logarithmic, not linear.

On the other hand, exactly what is a high relative share is a matter of some debate. The best evidence is that the most stable position (at least in FMCG markets) is for the brand leader to have a share double that of the second brand, and triple that of the third. Brand leaders in this position tend to be very stable—and profitable. The reason for choosing relative market share, rather than just profits, is that it carries more information than just cash flow. It shows where the brand is positioned against its main competitors, and indicates where it might be likely to go in the future. It can also show what type of marketing activities might be expected to be effective.

Market growth rate: Rapidly growing in rapidly growing markets, are what organizations strive for; but, as we have seen, the penalty is that they are usually net cash users - they require investment. The reason for this is often because the growth is being 'bought' by the high investment, in the reasonable expectation that a high market share will eventually turn into a sound investment in future profits. The theory behind the matrix assumes, therefore, that a higher growth rate is indicative of accompanying demands on investment. The cut-off point is usually chosen as 10 per cent per annum. Determining this cut-off point, the rate above which the growth is deemed to be significant (and likely to lead to extra demands on cash) is a critical requirement of the technique; and one that, again, makes the use of the BCG Matrix problematical in some product areas. What is more, the evidence, from FMCG markets at least, is that the most typical pattern is of very low growth, less than 1 per cent per annum. This is outside the range normally considered in BCG Matrix work, which may make application of this form of analysis unworkable in many markets.

Where it can be applied, however, the market growth rate says more about the brand position than just its cash flow. It is a good indicator of that market's strength, of its future potential (of its 'maturity' in terms of the market life-cycle), and also of its attractiveness to future competitors. It can also be used in growth analysis.

Critical evaluation: The matrix ranks only market share and industry growth rate, and only implies actual profitability, the purpose of any business. (It is certainly possible that a particular *dog* can be profitable without cash infusions required, and therefore should be retained and not sold.) The matrix also overlooks other elements of industry. With this or any other such analytical tool, ranking business units has a subjective element involving guesswork about the future, particularly with respect to growth rates. Unless the rankings are approached with rigor and scepticism, optimistic evaluations can lead to a dot com mentality in which even the most dubious businesses are classified as "question marks" with good prospects; enthusiastic managers may claim that cash must be thrown at these businesses immediately in order to turn them into stars, before growth rates slow and it's too late. Poor definition of a business's market will lead to some *dogs* being misclassified as *cash bulls*.

As originally practiced by the Boston Consulting Group, the matrix was undoubtedly a useful tool, in those few situations where it could be applied, for graphically illustrating cashflows. If used with this degree of sophistication its use would still be valid. However, later practitioners have tended to over-simplify its messages. In particular, the later application of the names (problem children, stars, cash cows and dogs) has tended to overshadow all else—and is often what most students, and practitioners, remember. This is unfortunate, since such simplistic use contains at least two major problems:

'Minority applicability'. The cash flow techniques are only applicable to a very limited number of markets (where growth is relatively high, and a definite pattern of product life-cycles can be observed, such as that of ethical pharmaceuticals). In the majority of markets, use may give misleading results.

'Milking cash bulls'. Perhaps the worst implication of the later developments is that the (brand leader) cash bulls should be milked to fund new brands. This is not what research into the FMCG markets has shown to be the case. The brand leader's position is the one, above all, to be defended, not least since brands in this position will probably outperform any number of newly launched brands. Such brand leaders will, of course, generate large cash flows; but they should not be `milked' to such an extent that their position is jeopardized. In any case, the chance of the new brands achieving similar brand leadership may be slim—certainly far less than the popular perception of the Boston Matrix would imply.

Perhaps the most important danger is, however, that the apparent implication of its four-quadrant form is that there should be balance of products or services across all four quadrants; and that is, indeed, the main message that it is intended to convey. Thus, money must be diverted from `cash cows' to fund the `stars' of the future, since `cash cows' will inevitably decline to become `dogs'. There is an almost mesmeric inevitability about the whole process. It focuses attention, and funding, on to the `stars'. It presumes, and almost demands that `cash bulls' will turn into `dogs'.

The reality is that it is only the `cash bulls' that are really important—all the other elements are supporting actors. It is a foolish vendor who diverts funds from a `cash cow' when these are needed to extend the life of that `product'. Although it is necessary to recognize a `dog' when it appears (at least before it bites you) it would be foolish in the extreme to create one in order to balance up the picture. The vendor, who has most of his (or her) products in the `cash cow' quadrant, should consider himself (or herself) fortunate indeed, and an excellent marketer, although he or she might also consider creating a few stars as an insurance policy against unexpected future developments and, perhaps, to add some extra growth. There is also a common misconception that 'dogs' are a waste of resources. In many markets 'dogs' can be considered loss-leaders that while not themselves profitable will lead to increased sales in other profitable areas.

Alternatives: As with most marketing techniques, there are a number of alternative offerings vying with the BCG Matrix although this appears to be the most widely used (or at least most widely taught—and then probably 'not' used). The next most widely reported technique is that developed by McKinsey and General Electric, which is a three-cell by three-cell matrix—using the dimensions of `industry attractiveness' and `business strengths'. This approaches some of the same issues as the BCG Matrix but from a different direction and in a more complex way (which may be why it is used less, or is at least less widely taught). Perhaps the most practical approach is that of the Boston Consulting Group's Advantage Matrix, which the consultancy reportedly used itself though it is little known amongst the wider population.

Other uses: The initial intent of the growth-share matrix was to evaluate business units, but the same evaluation can be made for product lines or any other cash-generating entities. This should only be attempted for real lines that have a sufficient history to allow some prediction; if the corporation has made only a few products and called them a product line, the sample variance will be too high for this sort of analysis to be meaningful.

Drawbacks: The growth-share matrix once was used widely, but has since faded from popularity as more comprehensive models have been developed. Some of its weaknesses are:

- Market growth rate is only one factor in industry attractiveness, and relative market share is only one factor in competitive advantage. The growth-share matrix overlooks many other factors in these two important determinants of profitability.
- The framework assumes that each business unit is independent of the others. In some cases, a business unit that is a "dog" may be helping other business units gain a competitive advantage.
- The matrix depends heavily upon the breadth of the definition of the market. A business unit may dominate its small niche, but have very low market share in the overall industry. In such a case, the definition of the market can make the difference between a dog and a cash cow. While its importance has diminished, the BCG matrix still can serve as a simple tool for viewing a corporation's business portfolio at a glance, and may serve as a starting point for discussing resource allocation among strategic business units.

3.4: SWOT ANALYSIS

SWOT Analysis is a strategic planning method used to evaluate the **S**trengths, **W**eaknesses, **O**pportunities, and **T**hreats involved in a project or in a business venture. It involves specifying the objective of the business venture or project and identifying the internal and external factors that are favorable and unfavorable to achieving that objective. The technique is credited to Albert Humphrey, who led a convention at Stanford University in the 1960s and 1970s using data from Fortune 500 companies.

Strategic and Creative Use of SWOT Analysis Strategic Use: Orienting SWOTs to an Objective

Figure 3.2: SWOT Analysis

A SWOT analysis must first start with defining a desired end state or objective. A SWOT analysis may be incorporated into the strategic planning model. An example of a strategic planning technique that incorporates an objective-driven SWOT analysis is Strategic Creative Analysis (SCAN). Strategic Planning, including SWOT and SCAN analysis, has been the subject of much research.

- **S**trengths: attributes of the person or company that is helpful to achieving the objective.
- **W**eaknesses: attributes of the person or company that is harmful to achieving the objective.
- **O**pportunities: *external* conditions that is helpful to achieving the objective.
- **T**hreats: *external* conditions which could do damage to the objective.

Identification of SWOTs is essential because subsequent steps in the process of planning for achievement of the selected objective may be derived from the SWOTs.

First, the decision makers have to determine whether the objective is attainable, given the SWOTs. If the objective is NOT attainable a different objective must be selected and the process repeated.

The SWOT analysis is often used in academia to highlight and identify strengths, weaknesses, opportunities and threats. It is particularly helpful in identifying areas for development.

C**reative Use of SWOTs: Generating Strategies:** If, on the other hand, the objective seems attainable, the SWOTs are used as inputs to the creative generation of possible strategies, by asking and answering each of the following four questions, many times:

- How can we Use and capitalize on each Strength?
- How can we improve each Weakness?
- How can we Exploit and Benefit from each Opportunity?
- How can we mitigate each Threat?

Ideally a cross-functional team or a task force that represents a broad range of perspectives should carry out the SWOT analysis. For example, a SWOT team may include an accountant, a salesperson, an executive manager, an engineer, and an ombudsman.

Matching and converting: Another way of utilizing SWOT is **matching** and **converting**. Matching is used to find *competitive advantages* by matching the strengths to opportunities. Converting is to apply conversion strategies to convert threats or weaknesses into strengths or opportunities. An example of conversion strategy is to find new markets. If the threats or weaknesses cannot be converted a company should try to *minimize* or *avoid* them.

Evidence on the Use of SWOT: SWOT analysis may limit the strategies considered in the evaluation. "In addition, people who use SWOT might conclude that they have done an adequate job of planning and ignore such sensible things as defining the firm's objectives or calculating ROI for alternate strategies."

Internal and external factors: The aim of any SWOT analysis is to identify the key internal and external factors that are important to achieving the objective. These come from within the company's unique value chain. SWOT analysis groups key pieces of information into two main categories:

- Internal factors – The *strengths* and *weaknesses* internal to the organization.
- External factors – The *opportunities* and *threats* presented by the external environment to the organization. - Use a PEST or PESTLE analysis to help identify factors

The internal factors may be viewed as strengths or weaknesses depending upon their impact on the organization's objectives. What may represent strengths with respect to one objective may be weaknesses for another objective. The factors may include all of the 4P's; as well as personnel, finance, manufacturing capabilities, and so on. The external factors may include macroeconomic matters, technological change, legislation, and socio-cultural changes, as well as changes in the marketplace or competitive position. The results are often presented in the form of a matrix.

SWOT analysis is just one method of categorization and has its own weaknesses. For example, it may tend to persuade companies to compile lists rather than think about what is actually important in achieving objectives. It also presents the resulting lists uncritically and without clear prioritization so that, for example, weak opportunities may appear to balance strong threats.

It is prudent not to eliminate too quickly any candidate SWOT entry. The importance of individual SWOTs will be revealed by the value of the strategies it generates. A SWOT item that produces valuable strategies is important. A SWOT item that generates no strategies is not important.

Use of SWOT Analysis: The usefulness of SWOT analysis is not limited to profit-seeking organizations. SWOT analysis may be used in any decision-making situation when a desired end-state (objective) has been defined. Examples include: non-profit organizations, governmental units, and individuals. SWOT analysis may also be used in pre-crisis planning and preventive crisis management. SWOT analysis may also be used in creating a recommendation during a viability study.

SWOT-landscape analysis: The SWOT-landscape grabs different managerial situations by visualizing and foreseeing the dynamic performance of comparable objects according to findings by Brendan Kitts, Leif Edvinsson and Tord Beding. Changes in relative performance are continuously identified. Projects (or other units of measurements) that could be potential risk or opportunity objects are highlighted. SWOT-landscape also indicates which underlying strength/weakness factors that have had or likely will have highest influence in the context of value in use (for ex. capital value fluctuations).

Corporate planning: As part of the development of strategies and plans to enable the organization to achieve its objectives, then that organization will use a systematic/rigorous process known as corporate planning. SWOT alongside PEST/PESTLE can be used as a basis for the analysis of business and environmental factors.

Set objectives – defining what the organization is going to do

Environmental scanning - Internal appraisals of the organization's SWOT, this needs to include an assessment of the present situation as well as a portfolio of products/services and an analysis of the product/service life cycle

Analysis of existing strategies, this should determine relevance from the results of an internal/external appraisal. This may include gap analysis which will look at environmental factors

Strategic Issues defined – key factors in the development of a corporate plan which needs to be addressed by the organization

Develop new/revised strategies – revised analysis of strategic issues may mean the objectives need to change

Establish critical success factors – the achievement of objectives and strategy implementation

Preparation of operational, resource, projects plans for strategy implementation

Monitoring results – mapping against plans, taking corrective action which may mean amending objectives/strategies.

Marketing: Main article: Marketing management: In many competitor analyses, marketers build detailed profiles of each competitor in the market, focusing especially on their relative competitive strengths and weaknesses using SWOT analysis. Marketing managers will examine each competitor's cost structure, sources of profits, resources and competencies, competitive positioning and product differentiation, degree of vertical integration, historical responses to industry developments, and other factors.

Marketing management often finds it necessary to invest in research to collect the data required to perform accurate marketing analysis. Accordingly, management often conducts market research (alternately marketing research) to obtain this information. Marketers employ a variety of techniques to conduct market research, but some of the more common include:

- Qualitative marketing research, such as focus groups
- Quantitative marketing research, such as statistical surveys
- Experimental techniques such as test markets
- Observational techniques such as ethnographic (on-site) observation
- Marketing managers may also design and oversee various environmental scanning and competitive intelligence processes to help identify trends and inform the company's marketing analysis.

Using SWOT to analyse the market position of a small management consultancy with specialism in HRM.

Strengths	Weaknesses	Opportunities	Threats
Reputation in marketplace	Shortage of consultants at operating level rather than partner level	Well established position with a well defined market niche.	Large consultancies operating at a minor level
Expertise at partner level in HRM consultancy	Unable to deal with multi-disciplinary assignments because of size or lack of ability	Identified market for consultancy in areas other than HRM	Other small consultancies looking to invade the marketplace
Track record – successful assignments			

3.5 REVIEW QUESTIONS

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1. Samsung recently introduced a range of their home appliances in the Indian market. It launched its range of refrigerators, washing machines, microwave ovens, televisions and also cellular phone handsets. These are positioned at the urban professionals in middle and higher income groups. Its major competitors are LG, BPL, Philip, Sony and Panasonic, Electrolux and Whirlpool. The company has n objective to achieve a market penetration ratio of 25 percent in 2005-2006 and eventually be a market leader in each of the products. Analyze the market opportunity for Samsung and evolve a marketing plan for achieving this goal.
2. One of the erstwhile leaders in consumer entertainment electronics has hired your services as a marketing consultant to advice on possible diversification. The company has been considering several products for diversification; some of these are manufacturing and marketing dish antennas, creating a new entertainment company, or entering into feature film production. Evaluate these new product opportunities and give your recommendations to the company with proper justification.
3. The internet gaming industry will be worth over Rs. 100 crores in 2005-2006. There are 36 million mobile subscriber in India and by the end of 2005 it is expected to be 100 million. According to some estimates, the mobile market of India is expected to grow at a compound average rate of 40% until 2007. One of the major player in this market is India games which is keen to develop a marketing strategy which will make it a leader across the competition in this market develop a competitive plan for India Games which will help the firm achieve its goal.

MARKETING OPPORTUNITIES PART – II

Structure

4.1 Marketing Process

4.2 Marketing Plan

4.3 Marketing Intelligence System

4.4 Marketing Decision Support System

4.5 Marketing Research and its Process

4.6 Measurement of Market Demand

4.1 MARKETING PROCESS

Under the marketing concept, the firm must find a way to discover unfulfilled customer needs and bring to market products that satisfy those needs. The process of doing so can be modeled in a sequence of steps: the situation is analyzed to identify opportunities, the strategy is formulated for a value proposition, tactical decisions are made, the plan is implemented and the results are monitored.

Situation Analysis

|
V

Marketing Strategy

|
V

Marketing Mix Decisions

|
V

Implementation & Control

Figure 4.1 The Marketing Process

Situation Analysis: A thorough analysis of the situation in which the firm finds itself serves as the basis for identifying opportunities to satisfy unfulfilled customer needs. In addition to identifying the customer needs, the firm must understand its own capabilities and the environment in which it is operating.

The situation analysis thus can be viewed in terms an analysis of the external environment and an internal analysis of the firm itself. The external environment can be described in terms of macro-environmental factors that broadly affect many firms, and micro-environmental factors closely related to the specific situation of the firm.

The situation analysis should include past, present, and future aspects. It should include a history outlining how the situation evolved to its present state and an analysis of trends in order to forecast where it is going. Good forecasting can reduce the chance of spending a year bringing a product to market only to find that the need no longer exists.

If the situation analysis reveals gaps between what consumers want and what currently is offered to them, then there may be opportunities to introduce products to better satisfy those consumers. Hence, the situation analysis should yield a summary of problems and opportunities. From this summary, the firm can match its own capabilities with the opportunities in order to satisfy customer needs better than the competition.

There are several frameworks that can be used to add structure to the situation analysis:

- **5 C Analysis** - company, customers, competitors, collaborators, climate. Company represents the internal situation; the other four cover aspects of the external situation
- **PEST analysis** - for macro-environmental political, economic, societal, and technological factors. A PEST analysis can be used as the "climate" portion of the 5 C framework.
- **SWOT analysis** - strengths, weaknesses, opportunities, and threats - for the internal and external situation. A SWOT analysis can be used to condense the situation analysis into a listing of the most relevant problems and opportunities and to assess how well the firm is equipped to deal with them.

Marketing Strategy: Once the best opportunity to satisfy unfulfilled customer needs is identified, a strategic plan for pursuing the opportunity can be developed. Market research will provide specific market information that will permit the firm to select the target market segment and optimally position the offering within that segment. The result is a value proposition to the target market. The marketing strategy then involves:

- Segmentation
- Targeting (target market selection)
- Positioning the product within the target market
- Value proposition to the target market

Marketing Mix Decisions: Detailed tactical decisions then are made for the controllable parameters of the marketing mix. The action items include:

- Product development - specifying, designing, and producing the first units of the product.
- Pricing decisions
- Distribution contracts
- Promotional campaign development

Implementation and Control: At this point in the process, the marketing plan has been developed and the product has been launched. Given that few environments are static, the results of the marketing effort should be monitored closely. As the market changes, the marketing mix can be adjusted to accommodate the changes. Often, small changes in consumer wants can addressed by changing the advertising message. As the changes become more significant, a product redesign or an entirely new product may be needed. The marketing process does not end with implementation - continual monitoring and adaptation is needed to fulfill customer needs consistently over the long-term.

4.2: MARKETING PLAN

A **marketing plan** is a written document that details the necessary actions to achieve one or more marketing objectives. It can be for a product or service, a brand, or a product line. Marketing plans cover between one and five years. A marketing plan may be part of an overall business plan. Solid marketing strategy is the foundation of a well-written marketing plan. While a marketing plan contains a list of actions, a marketing plan without a sound strategic foundation is of little use.

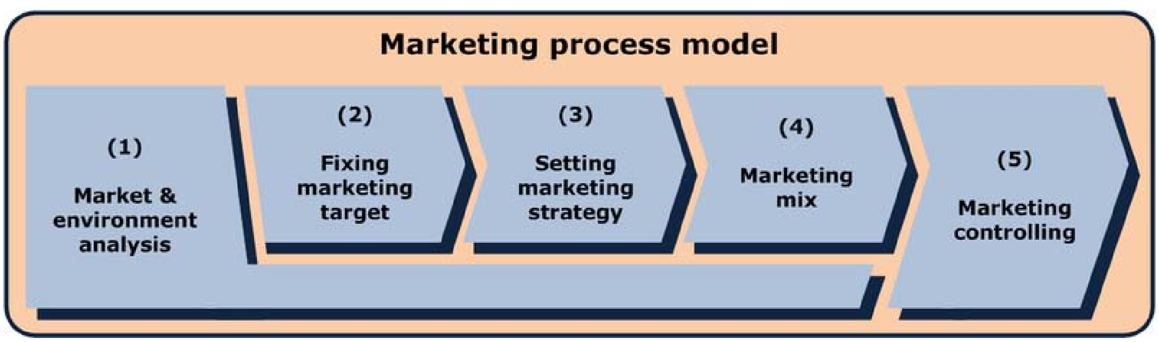

Figure 4.2: Marketing Process Model

The marketing process model based on the publications of Philip Kotler. It consists of 5 steps, beginning with the market & environment research. After fixing the targets and setting the strategies, they will be realized by the marketing mix in step 4. The last step in the process is the marketing controlling.

In most organizations, "strategic planning" is an annual process, typically covering just the year ahead. Occasionally, a few organizations may look at a practical plan which stretches three or more years ahead. To be most effective, the plan has to be formalized, usually in written form, as a formal "marketing plan." The essence of the process is that it moves from the general to the specific; from the overall objectives of the organization down to the individual action plan for a part of one marketing program. It is also an interactive process, so that the draft output of each stage is checked to see what impact it has on the earlier stages - and is amended.

Marketing planning aims and objectives: Behind the corporate objectives, which in themselves offer the main context for the marketing plan, will lay the "corporate mission"; which in turn provides the context for these corporate objectives. In a sales-oriented organization, marketing planning function designs incentive pay plans to not only motivate and reward frontline staff fairly but also to align marketing activities with corporate mission.

This "corporate mission" can be thought of as a definition of what the organization is; of what it does: "Our business is This definition should not be too narrow, or it will constrict the development of the organization; a too rigorous concentration on the view that "We are in the business of making meat-scales," as IBM was during the early 1900s, might have limited its subsequent development into other areas. On the other hand, it should not be too wide or it will become meaningless; "We want to make a profit" is not too helpful in developing specific plans.

Abell suggested that the definition should cover three dimensions: "customer groups" to be served, "customer needs" to be served, and "technologies" to be utilized. Thus, the definition of IBM's "corporate mission" in the 1940s might well have been: "We are in the business of handling accounting information [customer need] for the larger US organizations [customer group] by means of punched cards [technology]."Perhaps the most important factor in successful marketing is the "corporate vision." Surprisingly, it is largely neglected by marketing textbooks; although not by the popular exponents of corporate strategy - indeed, it was perhaps the main theme of the book by Peters and Waterman, in the form of their "Super ordinate Goals." "In Search of Excellence" said: "Nothing drives progress like the imagination. The idea precedes the deed." If the organization in general, and its chief executive in particular, has a strong vision of where its future lies, then there is a good chance that the organization will achieve a strong position in its markets (and attain that future). This will be not least because its strategies will be consistent; and will be supported by its staff at all levels. In this context, all of IBM's marketing activities were underpinned by its philosophy of "customer service"; a vision originally promoted by the charismatic Watson dynasty. The emphasis at this stage is on obtaining a complete and accurate picture.

A "traditional" - albeit product-based - format for a "brand reference book" (or, indeed, a "marketing facts book") was suggested by Godley more than three decades ago:

1. Financial data—Facts for this section will come from management accounting, costing and finance sections.
2. Product data—From production, research and development.
3. Sales and distribution data - Sales, packaging, distribution sections.
4. Advertising, sales promotion, merchandising data - Information from these departments.
5. Market data and miscellany - From market research, who would in most cases act as a source for this information. His sources of data, however, assume the resources of a very large organization. In most organizations they would be obtained from a much smaller set of people (and not a few of them would be generated by the marketing manager alone).

It is apparent that a marketing audit can be a complex process, but the aim is simple: *"it is only to identify those existing (external and internal) factors which will have a significant impact on the future plans of the company."* It is clear that the **basic** material to be input to the marketing audit should be comprehensive.

Accordingly, the best approach is to accumulate this material continuously, as and when it becomes available; since this avoids the otherwise heavy workload involved in collecting it as part of the regular, typically annual, planning process itself - when time is usually at a premium.

Even so, the first task of this *annual* process should be to check that the material held in the current *facts book* or *facts files* actually *is* comprehensive and accurate, and can form a sound basis for the marketing audit itself.

The structure of the facts book will be designed to match the specific needs of the organization, but one simple format - suggested by Malcolm McDonald - may be applicable in many cases. This splits the material into three groups:

1. **Review of the marketing environment.** A study of the organization's markets, customers, competitors and the overall economic, political, cultural and technical environment; covering developing trends, as well as the current situation.

2. **Review of the detailed marketing activity.** A study of the company's marketing mix; in terms of the 7 Ps - (see below)

3. **Review of the marketing system.** A study of the marketing organization, marketing research systems and the current marketing objectives and strategies. The last of these is too frequently ignored. The marketing system itself needs to be regularly questioned, because the validity of the whole marketing plan is reliant upon the accuracy of the input from this system, and `garbage in, garbage out' applies with a vengeance.

- **Portfolio planning.** In addition, the coordinated planning of the individual products and services can contribute towards the balanced portfolio.
- **80:20 rule.** To achieve the maximum impact, the marketing plan must be clear, concise and simple. It needs to concentrate on the 20 percent of products or services, and on the 20 percent of customers, which will account for 80 percent of the volume and 80 percent of the profit**.**
- **7 P's:** Product, Place, Price and Promotion, Physical Environment, People, Process. The 7 P's can sometimes divert attention from the customer, but the framework they offer can be very useful in building the action plans.

It is only at this stage (of deciding the marketing objectives) that the active part of the marketing planning process begins'. This next stage in marketing planning is indeed the key to the whole marketing process. The "marketing objectives" state just where the company intends to be; at some specific time in the future.

James Quinn succinctly defined objectives in general as: *Goals (or objectives) state **what** is to be achieved and **when** results are to be accomplished, but they do not state 'how' the results are to be achieved.* They typically relate to what products (or services) will be where and in what markets (and must be realistically based on customer behavior in those markets). They are essentially about the match between those "products" and "markets." Objectives for pricing, distribution, advertising and so on are at a lower level, and should not be confused with marketing objectives. They are part of the marketing strategy needed to achieve marketing objectives. To be most effective, objectives should be capable of measurement and therefore "quantifiable." This measurement may be in terms of sales volume, money value, market share, percentage penetration of distribution outlets and so on. An example of such a measurable marketing objective might be "to enter the market with product Y and capture 10 percent of the market by value within one year." As it is quantified it can, within limits, be unequivocally monitored; and corrective action taken as necessary.

The marketing objectives must usually be based, above all, on the organization's financial objectives; converting these financial measurements into the related marketing measurements. He went on to explain his view of the role of "policies," with which strategy is most often confused: "Policies are rules or guidelines that express the 'limits' within which action should occur." Simplifying somewhat, marketing strategies can be seen as the means, or "game plan," by which marketing objectives will be achieved and, in the framework that we have chosen to use, are generally concerned with the 8 P's. Examples are:

1. Price - The amount of money needed to buy products
2. Product - The actual product
3. Promotion (advertising)- Getting the product known
4. Placement - Where the product is located
5. People - Represent the business
6. Physical environment - The ambiance, mood, or tone of the environment
7. Process - How do people obtain your product
8. Packaging - How the product will be protected

In principle, these strategies describe how the objectives will be achieved. The 7 P's are a useful framework for deciding how the company's resources will be manipulated (strategically) to achieve the objectives. It should be noted, however, that they are not the only framework, and may divert attention from the real issues. The focus of the strategies must be the objectives to be achieved - not the process of planning itself. Only if it fits the needs of these objectives should you choose, as we have done, to use the framework of the 7 P's.

The strategy statement can take the form of a purely verbal description of the strategic options which have been chosen. Alternatively, and perhaps more positively, it might include a structured list of the major options chosen. One aspect of strategy which is often overlooked is that of "timing." Exactly when it is the best time for each element of the strategy to be implemented is often critical. Taking the right action at the wrong time can sometimes be almost as bad as taking the wrong action at the right time. Timing is, therefore, an essential part of any plan; and should normally appear as a schedule of planned activities. Having completed this crucial stage of the planning process, you will need to re-check the feasibility of your objectives and strategies in terms of the market share, sales, costs, profits and so on which these demand in practice. As in the rest of the marketing discipline, you will need to employ judgment, experience, market research or anything else which helps you to look at your conclusions from all possible angles.

Detailed plans and programs: At this stage, you will need to develop your overall marketing strategies into detailed plans and program. Although these detailed plans may cover each of the 7 P's, the focus will vary, depending upon your organization's specific strategies. A product-oriented company will focus its plans for the 7 P's around each of its products. A market or geographically oriented company will concentrate on each market or geographical area. Each will base its plans upon the detailed needs of its customers, and on the strategies chosen to satisfy these needs.

Again, the most important element is, indeed, that of the detailed plans; which spell out exactly what programs and individual activities will take place over the period of the plan (usually over the next year). Without these specified - and preferably quantified - activities the plan cannot be monitored, even in terms of success in meeting its objectives. It is these programs and activities which will then constitute the "marketing" of the organization over the period. As a result, these detailed marketing programs are the most important, practical outcome of the whole planning process. These plans therefore are:

- **Clear** - There should be an unambiguous statement of 'exactly' what is to be done.
- **Quantified** - The predicted outcome of each activity should be, as far as possible, quantified; so that its performance can be monitored.
- **Focused** - The temptation to proliferate activities beyond the numbers which can be realistically controlled should be avoided. The 80:20 Rule applies in this context too.
- **Realistic** - They should be achievable.
- **Agreed** - Those who are to implement them should be committed to them, and agree that they are achievable. The resulting plans should become a working document which will guide the campaigns taking place throughout the organization over the period of the plan. If the marketing plan is to work, every exception to it (throughout the year) must be questioned; and the lessons learned, to be incorporated in the next year's planning.

Content of the marketing plan: A marketing plan for a small business typically includes Small Business Administration Description of competitors, including the level of demand for the product or service and the strengths and weaknesses of competitors

1. Description of the product or service, including special features
2. Marketing budget, including the advertising and promotional plan
3. Description of the business location, including advantages and disadvantages for marketing
4. Pricing strategy
5. Market Segmentation

The main contents of a marketing plan are:

1. Executive Summary
2. Situational Analysis
3. Opportunities / Issue Analysis - SWOT Analysis
4. Objectives
5. Strategy
6. Action Program (the operational marketing plan itself for the period under review)
7. Financial Forecast
8. Controls

In detail, a complete marketing plan typically includes:

1. Title page
2. Executive Summary
3. Current Situation – Macro environment
    - economy
    - legal
    - government
    - technology
    - ecological
    - sociocultural
    - supply chain
4. Current Situation - Market Analysis
    - market definition
    - market size
    - market segmentation
    - industry structure and strategic groupings
    - Porter 5 forces analysis
    - competition and market share
    - competitors' strengths and weaknesses
    - market trends
5. Current Situation - Consumer Analysis
    - nature of the buying decision
    - participants
    - demographics
    - psychographics
    - buyer motivation and expectations
    - loyalty segments
6. Current Situation - Internal
    - company resources
        - financial
        - people
        - time
        - skills
    - objectives

        - mission statement and vision statement
        - corporate objectives
        - financial objective
        - marketing objectives
        - long term objectives
        - description of the basic business philosophy
    - corporate culture
7. Summary of Situation Analysis
    - external threats
    - external opportunities
    - internal strengths
    - internal weaknesses
    - Critical success factors in the industry
    - our sustainable competitive advantage
8. Marketing research
    - information requirements
    - research methodology
    - research results
9. Marketing Strategy - Product
    - product mix
    - product strengths and weaknesses
        - perceptual mapping
    - product life cycle management and new product development
    - Brand name, brand image, and brand equity
    - the augmented product
    - product portfolio analysis
        - B.C.G. Analysis
        - contribution margin analysis
        - G.E. Multi Factoral analysis
        - Quality Function Deployment
10. Marketing Strategy - segmented marketing actions and market share objectives
    - by product,
    - by customer segment,
    - by geographical market,
    - by distribution channel.
11. Marketing Strategy - Price
    - pricing objectives
    - pricing method (e.g.: cost plus, demand based, or competitor indexing)
    - pricing strategy (e.g.: skimming, or penetration)
    - discounts and allowances
    - price elasticity and customer sensitivity
    - price zoning
    - break even analysis at various prices
12. Marketing Strategy - promotion
    - promotional goals
    - promotional mix

- advertising reach, frequency, flights, theme, and media
- sales force requirements, techniques, and management
- sales promotion
- publicity and public relations
- electronic promotion (e.g.: Web, or telephone)
- word of mouth marketing (buzz)
- viral marketing

13. Marketing Strategy - Distribution
    - geographical coverage
    - distribution channels
    - physical distribution and logistics
    - electronic distribution
14. Implementation
    - personnel requirements
        - assign responsibilities
        - give incentives
        - training on selling methods
    - financial requirements
    - management information systems requirements
    - month-by-month agenda
        - PERT or critical path analysis
    - monitoring results and benchmarks
    - adjustment mechanism
    - contingencies (What if's)
15. Financial Summary
    - assumptions
    - pro-forma monthly income statement
    - contribution margin analysis
    - breakeven analysis
    - Monte Carlo method
    - ISI: Internet Strategic Intelligence
16. Scenarios
    - Prediction of Future Scenarios
    - Plan of Action for each Scenario
17. Appendix
    - pictures and specifications of the new product
    - results from research already completed

Measurement of progress: The final stage of any marketing planning process is to establish targets (or standards) so that progress can be monitored. Accordingly, it is important to put both quantities and timescales into the marketing objectives (for example, to capture 20 percent by value of the market within two years) and into the corresponding strategies.

Changes in the environment mean that the forecasts often have to be changed. Along with these, the related plans may well also need to be changed. Continuous monitoring of performance, against predetermined targets, represents a most important aspect of this. However, perhaps even more important is the enforced discipline of a regular formal review. Again, as with forecasts, in many cases the best (most realistic) planning cycle will revolve around a quarterly review. Best of all, at least in terms of the quantifiable aspects of the plans, if not the wealth of backing detail, is probably a quarterly rolling review - planning one full year ahead each new quarter. Of course, this does absorb more planning resource; but it also ensures that the plans embody the latest information, and - with attention focused on them so regularly - forces both the plans and their implementation to be realistic.

Plans only have validity if they are actually used to control the progress of a company: their success lies in their implementation, not in the writing'.

Performance analysis: The most important elements of marketing performance, which are normally tracked, are:

Sales analysis: Most organizations track their sales results; or, in non-profit organizations for example, the number of clients. The more sophisticated track them in terms of 'sales variance' - the deviation from the target figures - which allows a more immediate picture of deviations to become evident. `Micro-analysis', which is a nicely pseudo-scientific term for the normal management process of investigating detailed problems, then investigates the individual elements (individual products, sales territories, customers and so on) which are failing to meet targets.

Market share analysis: Few organizations track market share though it is often an important metric. Though absolute sales might grow in an expanding market, a firm's share of the market can decrease which bodes ill for future sales when the market starts to drop. Where such market share is tracked, there may be a number of aspects which will be followed:

- overall market share
- segment share - that in the specific, targeted segment
- relative share -in relation to the market leaders
- annual fluctuation rate of market share

Expense analysis: The key ratio to watch in this area is usually the `marketing expense to sales ratio'; although this may be broken down into other elements (advertising to sales, sales administration to sales, and so on).

Financial analysis: The "bottom line" of marketing activities should at least in theory, be the net profit (for all except non-profit organizations, where the comparable emphasis may be on remaining within budgeted costs). There are a number of separate performance figures and key ratios which need to be tracked:

- gross contribution<>net profit
- gross profit<>return on investment
- net contribution<>profit on sales

The above performance analyses concentrate on the quantitative measures which are directly related to short-term performance. But there are a number of indirect measures, essentially tracking customer attitudes, which can also indicate the organization's performance in terms of its longer-term marketing strengths and may accordingly be even more important indicators. Some useful measures are:

- market research - including customer panels (which are used to track changes over time)
- lost business - the orders which were lost because, for example, the stock was not available or the product did not meet the customer's exact requirements
- customer complaints - how many customers complain about the products or services, or the organization itself, and about what

Use of marketing plans: A formal, written marketing plan is essential; in that it provides an unambiguous reference point for activities throughout the planning period. However, perhaps the most important benefit of these plans is the planning process itself. This typically offers a unique opportunity, a forum, for information-rich and productively focused discussions between the various managers involved. The plan, together with the associated discussions, then provides an agreed context for their subsequent management activities, even for those not described in the plan itself.

Budgets as managerial tools: The classic quantification of a marketing plan appears in the form of budgets. Because these are so rigorously quantified, they are particularly important. They should, thus, represent an unequivocal projection of actions and expected results. What is more, they should be capable of being monitored accurately; and, indeed, performance against budget is the main (regular) management review process.

The purpose of a marketing budget is, thus, to pull together all the revenues and costs involved in marketing into one comprehensive document. It is a managerial tool that balances what is needed to be spent against what can be afforded, and helps make choices about priorities. It is then used in monitoring performance in practice.

The marketing budget is usually the most powerful tool by which you think through the relationship between desired results and available means. Its starting point should be the marketing strategies and plans, which have already been formulated in the marketing plan itself; although, in practice, the two will run in parallel and will interact. At the very least, the rigorous, highly quantified, budgets may cause a rethink of some of the more optimistic elements of the plans.

Marketing Plan Outline:

- **Executive Summary:** A high-level summary of the marketing plan.
- **The Challenge:** Brief description of product to be marketed and associated goals, such as sales figures and strategic goals.
- **Situation Analysis:** As described previously
- **Company Analysis:** Goals; Focus; Culture; Strengths; Weaknesses; Market share

- **Customer Analysis:** Number; Type; Value drivers; Decision process; Concentration of customer base for particular products
- **Competitor Analysis:** Market position; Strengths; Weaknesses; Market shares; Collaborators; Subsidiaries, joint ventures, and distributors, etc.
- **Climate:** Macro-environmental PEST analysis: Political and legal environment; Economic environment; Social and cultural environment; Technological environment
- **SWOT Analysis:** A SWOT analysis of the business environment can be performed by organizing the environmental factors as follows: The firm's internal attributes can be classed as *strengths* and *weaknesses*; the external environment presents *opportunities* and *threats*.
- **Market Segmentation:** Present a description of the market segmentation as follows: Description; Percent of sales; what they want; how they use product; Support requirements; How to reach them; Price sensitivity.
- **Alternative Marketing Strategies:** List and discuss the alternatives that were considered before arriving at the recommended strategy. Alternatives might include discontinuing a product, re-branding, positioning as a premium or value product, etc.
- **Selected Marketing Strategy:** Discuss why the strategy was selected, then the marketing mix decisions (4 P's) of product, price, place (distribution), and promotion.
- **Product:** The product decisions should consider the product's advantages and how they will be leveraged. Product decisions should include: Brand name; Quality; Scope of product line; Warranty; Packaging
- **Price:** Discuss pricing strategy, expected volume, and decisions for the following pricing variables: List price; Discounts; Bundling; Payment terms and financing options; Leasing options
- **Distribution (Place):** Decision variables include: Distribution channels, such as direct, retail, distributors & intermediates; Motivating the channel - for example, distributor margins; Criteria for evaluating distributors; Locations; Logistics, including transportation, warehousing, and order fulfillment
- **Promotion:** Advertising, including how much and which media; Public relations; Promotional programs; Budget; determine break-even point for any additional spending; Projected results of the promotional programs
- **Short & Long-Term Projections:** The selected strategy's immediate effects, expected long-term results, and any special actions required to achieve them. This section may include forecasts of revenues and expenses as well as the results of a break-even analysis.
- **Conclusion:** Summarize all of the above.
- **Appendix**
- **Exhibits:** Calculations of market size, commissions, profit margins, break-even analyses, etc.

4.3 MARKETING INTELLIGENCE SYSTEM

Successful business planning and development requires a good understanding of market potential, and of your capabilities against those of your competitors. Yet, 92% of respondents in a US survey felt that they needed a more systematic approach to competitor intelligence, while 75% of respondents in a UK survey were dissatisfied with their current methods of organizing marketing information. What these organizations lack is an effective Market Intelligence System (MkIS).

What is a Market Intelligence System? A Market Intelligence System (MkIS) is one that systematically gathers and processes critical business information, transforming it into actionable management intelligence for marketing decisions.

Note the following points:

- Market intelligence is not just about market information, but the whole gamut of external environment information needed to support key strategic decisions - about products, prices, investment priorities, entering joint ventures etc.
- The system is not purely a computer-based system. It is a *total* system that incorporates human processes for interpreting and processing information into intelligence.
- The processes must be systematic, since only regular monitoring of key external parameters and integration of disparate snippets of information will give a viable long-term intelligence base.

Benefits of an MkIS

- Market and customer orientation - implementing an MkIS will encourage people throughout the organization to focus externally.
- Identification of new opportunities- One company in a component industry identified a new trend before the 'expert' industry analysts.
- Early warning of competitor moves - through good intelligence, one chemical company thwarted the sitting of a competitor's manufacturing plant in one of their most profitable sales territories.
- Minimizing investment risk - ongoing intelligence and analysis is more likely to temper unbridled enthusiasm to follow the bandwagon into those "mustn't miss the window of opportunity" markets
- Better customer interaction - An insurance company downloads into their salespeople's portables up to date profiles, order history and relevant 'news bites', for the clients they are about to visit.
- Better market selection & positioning - good understanding of customer needs and competitor positioning will help a company better carve out its own unique niche
- Quicker, more efficient and cost-effective information - establishment of a system will make information more quickly and easily accessible. One company avoided the need for an expensive piece of market research by tapping into its existing MkIS.

Key Elements of an MkIS

Information: A continuous flow of information is the lifeblood of a good market intelligence system - information about new technologies, markets, customers, the economic and regulatory environment etc. Both formal (routine reporting, factual) and informal information (gossip, opinions) must be tapped.

Information Management Processes: With many professionals having external information delivered to their desktops, from online services such as Reuters or MAID, and increasingly from the Internet is easy to believe that users have all the information they need on tap. However, this is raw information and will need transforming into intelligence. Before that, however, this information must be classified, stored and made accessible - applying good practice principles of Information Resources Management (IRM).

Intelligence Development Processes: A good intelligence system is more than information. It is a recurring cycle of linking the needs of decision makers to the processes of turning the information into actionable intelligence.

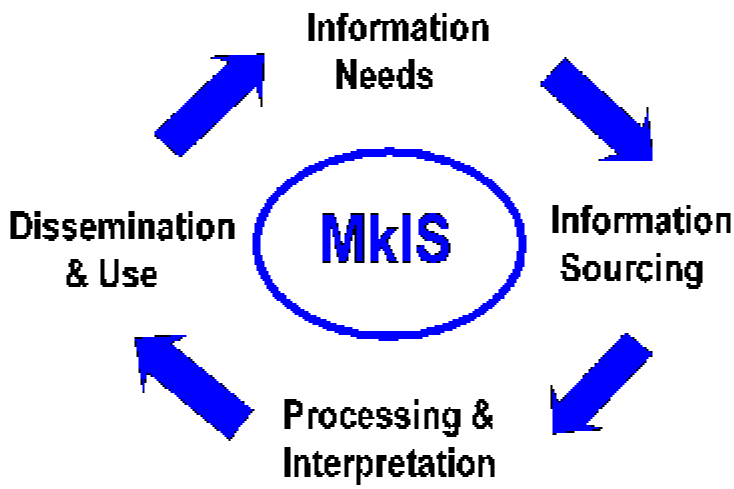

Figure 4.2 Marketing Intelligence System

This requires human interpretation, communicating and sharing of information and perspectives between internal and external experts.

Computer Systems: A comprehensive MkIS will combine many of the features of decision support systems, EIS, online databases and library systems. It is therefore likely to include many of the following:

- **For gathering information:** CD-ROMs, online data-base access, data feeds, email, Internet access, filters, intelligent agents etc.
- **For storage and retrieval:** Database/document management facilities, text retrieval, search engines, intelligent agents
- **For processing and analysis:** modeling and visualization software, groupware, group decision support systems (GDSS)

An Organizational Focus: Although many professionals do much of their own information gathering and analysis, there still needs to be a clear focal point of MkIS responsibility. This may be a named individual or a small group who have the distinctive skills needed (such as those promulgated by SCIP - the Society for Competitor Intelligence Professionals)._Its role is to ensure a cohesive approach and effective interdepartmental co-ordination.

Developing an MkIS

MkIS in most organizations evolves through several phases:

1. Ad-Hoc. Individuals collect their own information. This phase culminates when management recognizes the need to focus resources.
2. Establishment of a specialist unit.
3. Introduction of computer based solutions.
4. Evolution into a full global electronic network.
5. Recognition of information as a corporate asset with appropriate information resource management (IRM) policies and procedures.
6. When appropriate, treating the resultant intelligence as a tradable commodity, to be shared with partners or sold externally.

Most organizations today are at stages 2-3.

Typical Applications

- **Strategic Analysis & Scenario Planning**
    - Environment Forecasting
    - Acquisition targets
    - Location of new plants
    - Supplier evaluation
- **Marketing Planning**
    - Industry analysis
    - Competitor analysis
    - New product introductions
    - Product portfolio
    - Pricing
- **Sales & Marketing**
    - Sales cycle management (targeting etc)
    - Database marketing
    - Sales forecasting
    - Promotion campaign assessment

10 Steps to Success

1. **Define the Customers: -**Always a good place to start! For MkIS there are usually three distinct groups of customers who will need different solutions:

    - Field Personnel e.g. sales and service - their needs are immediate and specific: *"I want the price of product X for competitor Y and I want it yesterday!"*
    - Marketers and planners - more strategic but focused; market and product trends to develop marketing plans and adjust the mix - pricing, packaging promotion etc.
    - Board level management - strategic and broad: general industry and market developments that affect investment and other strategic decisions.

2. **Understand Needs**:-A common starting point is an **information audit** a detailed analysis of information entities - their origins, uses, and formats. However, we would advocate a less onerous and more focused approach - the study of your customers' **work** and **decisions**, using structured interviews (taped if possible), focus groups etc.

3. **Map Needs against Decisions & Sources**:-This will list information originators and users, sources required and decision supported. It will also identify high pay-off opportunities, for example where certain information has multiple uses.

4. **Implement a Sourcing Strategy**:- The source/needs map from step 3 will point to clusters of information needs that can give economies in purchasing. For example, purchasing a networked CD-ROM may be more cost-effective than doing multiple ad-hoc online searches.

5. **Define Information Policies & Standards**:- Steps 1-4 will reveal, often to many people for the first time, the sheer wealth of information that is available. This step therefore involves classification standards, ownership, life-cycle management standards and agreed 'protocols and procedures' between owners and users.

6. **Select a Pilot Project:-** This is to create a 'quick win' to demonstrate the power of an MkIS. Select a key decision process that involves people across several departments. Pricing can be a good one. It is something that needs to be reviewed regularly and has direct bottom line impact - a 1% price change flows straight to the bottom line and can equate to more than a 10% change in sales. The careful selection of a pilot cannot be overestimated. Pick the wrong one, and it be difficult to regain credibility.

7. **Select & Adapt Appropriate Technology**:- With the selected pilot project acting as a focal point, now is the time to start detailed consideration of the computer solution. The choices are bewildering, and are proliferating daily. Therefore, selecting the right solution may need the involvement (or even the approval) of your MIS department - but make sure they are well-tuned into end-user computing styles (as opposed to the "we'll give users access to the Internet over my dead body" brigade - exact words recently relayed to me by an MIS manager).

8. **Nurture the Intelligence Processes**:-This requires encouraging interaction across departmental boundaries and sub-cultures. Therefore, the creation of events and forums to encourage this interchange is often a useful starting point. Advanced MkIS users extend their systems access to business partners and external experts as part of this process.

9. **Focus Dissemination**:- Intelligence on the shelf - or buried in a computer - is of little use to anyone. It needs to reach those in decision making situations. This can be in the form of regular dissemination, an alerting service or responding to an ad-hoc requests to the intelligence base. Many MkIS departments issue weekly or monthly bulletins of key developments. These should be short and focused. They give company relevant and specific information that no external newsletter, with its generic coverage, can provide.

10. **Market the Capability**:- Good MkIS managers create two way interaction with their clients. Use all the techniques of marketing to reach your internal audience and consider carefully the incentives you can offer to encourage the regular inflow of useful information. After all the best intelligence is already probably lying somewhere within your own organization. It comes from contacts made between employees and the outside world - marketing people at exhibitions, business managers at professional meetings, and perhaps, most important of all - salespeople on customer visits etc.

4.4: MARKETING DECISION SUPPORT SYSTEM

Marketing decision support systems (MKDSS) is an Information system that helps with decision-making in the formation of a marketing plan. The reason for using an MKDSS is because it helps to support the software vendors' planning strategy for marketing products; it can help to identify advantageous levels of pricing, advertising spending, and advertising copy for the firm's products. This help determines the firms marketing mix for product software.

This model, is an example of market response model for a product manufacturer of expert system shells which uses only direct marketing for sales (so no retailers are included). The boxes represent sources of information with overlapping boxes representing many. The arrows represent data flows and are labeled with the specific type. This model helps to predict the actions of customers which good to know to increase your marketing efficiency. Models like this are used to construct an MKDSS by providing an illustration of the analysis that it contains; included are two sub-models for advertising copy and spending, and price which use calculus for computation. Both methodological and technological options are available in an MKDSS such as statistical science models, managerial models, and decision-making support for managers. It includes information from customer analysis and industry analysis as well as general market conditions. This decision support system combines external data obtained from market analysis with internal data to form a comprehensive marketing plan of action for advertising and price setting.
In an increasingly complex market place competitive advantage of an enterprise is dependant on the quality of the market information it has, its utilization for decision making, and response to the market. As mentioned earlier, marketing research and market intelligence are two significant components of MIS in any organization. In addition, the following are also a part of MIS.

- Order generation, processing, delivery and payment cycle
- Sales Management information, giving details on the firm's sales, market share, profitability, and trends in each market
- payment history
- orders lost/won
- brand monitors
- distribution audit reports
- service monitor reports
- product performance reports

All the above are generally available within the organization. The problem is that more often than not, it is widely scattered and decision maker is different from information generator. Consequently, the decision maker may not even know of the existence of information in the organization. For example, the marketing head or the CEO may not know of product performance reports that may be generated by the sales team on the request of production department. Further, the decision maker may not even utilize the internal databases and base his decision purely on his hunch or his experience. When such a situation occurs, the company loses out to the competition.

As we mentioned earlier, internal database is a useful starting point in the development of a strong market information system. In order to develop a co-ordinated marketing information system, today most companies use information technology. Several software solutions are available which provide integrated market information to decision makers at different levels. Typically any such system provides a perspective at three different levels.

(a) Transaction processing level
(b) Managerial and operational level
(c) Strategic level

While the transaction level information system is useful at the sales person level, the other two are used at higher levels. Typically, sales call planning, sales call reports, customer account information, and dealer reports are information at the transaction level. Reports on performance of branch, region, and product as well as sundry debtors status, etc., form a part of managerial and operation level information system. But national sales data, relative market share, shifts in customer preferences, competition in different product/markets, and receivables are information used at the strategic level or top management level. Another key input in the decision is supply chain management. How the product and information flow in the supply chain (i.e., from company to the customer and back) is today being reviewed at senior and, in some cases, top management levels also.

Decision Making: It is a five step sequence and the sophistication of any information system is based on the number of sequences involved in the system, rather than the ones being left to the decision maker. This five step sequence consists of:

- Source: This consists of the physical activities and objects which are relevant to the enterprise, like the retail outlet.
- Data: Observation, measurement, and recording of data from a source (like a retail store) audit and information systems to record information on sale by product class, and other non- sale data like the promotional activities of competition.
- Predictions and Inferences: Generalizations, conclusions, and prediction of future scenarios like comparative product sales data across competition brands will reveal customer preferences. This combined with price and other non- price data (like promotions over a period of time) may help the decision maker generalize on his brands and customer preferences.
- Values and Choice: What are the goals, alternatives, and choices for the organization? In the above case what should the firm do to counter competition- reduce price, introduce new products, or invest in merchandizing and store promotions?
- Action: Take a course of action. Typically, a composite information design will look as shown in figure 4.3 below:

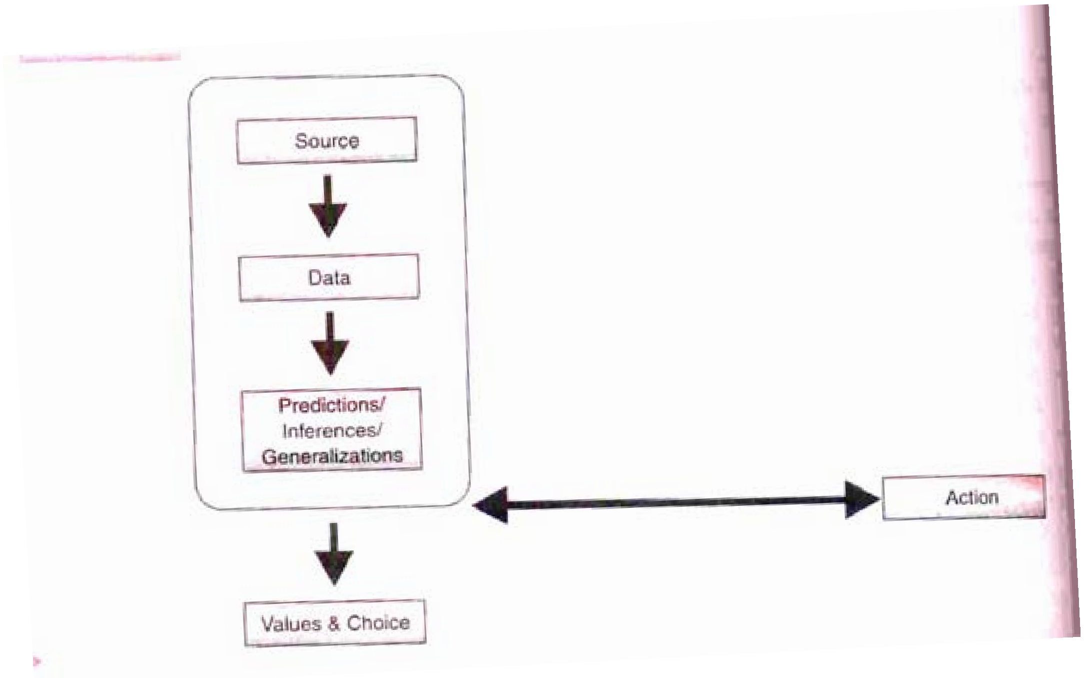

Figure 4.3: Marketing Information system flow

4.5 MARKETING RESEARCH AND ITS PROCESS

Marketing research is the systematic gathering, recording, and analysis of data about issues relating to marketing products and services. The term is commonly interchanged with **market research**; however, expert practitioners may wish to draw a distinction, in that *market* research is concerned specifically with markets, while *marketing* research is concerned specifically about marketing processes.
Marketing research is often partitioned into two sets of categorical pairs, either by target market:

- **Consumer** marketing research, and
- **Business-to-business** (B2B) marketing research

Or, alternatively, by methodological approach:

- **Qualitative** marketing research, and
- **Quantitative** marketing research

Consumer marketing research is a form of applied sociology that concentrates on understanding the preferences, attitudes, and behaviors of consumers in a market-based economy, and it aims to understand the effects and comparative success of marketing campaigns. The field of consumer marketing research as a statistical science was pioneered by Arthur Nielsen with the founding of the AC Nielsen Company in 1923.Thus, marketing research may also be described as the systematic and objective identification, collection, analysis, and dissemination of information for the purpose of assisting management in decision making related to the identification and solution of problems and opportunities in marketing. The goal of marketing research is to identify and assess how changing elements of the marketing mix impacts customer behavior.

Role of marketing research: The task of marketing research is to provide management with relevant, accurate, reliable, valid, and current information. Competitive marketing environment and the ever-increasing costs attributed to poor decision making require that marketing research provide sound information. Sound decisions are not based on gut feeling, intuition, or even pure judgment. Marketing managers make numerous strategic and tactical decisions in the process of identifying and satisfying customer needs. They make decisions about potential opportunities, target market selection, market segmentation, planning and implementing marketing programs, marketing performance, and control. These decisions are complicated by interactions between the controllable marketing variables of product, pricing, promotion, and distribution. Further complications are added by uncontrollable environmental factors such as general economic conditions, technology, public policies and laws, political environment, competition, and social and cultural changes. Another factor in this mix is the complexity of consumers. Marketing research helps the marketing manager link the marketing variables with the environment and the consumers. It helps remove some of the uncertainty by providing relevant information about the marketing variables, environment, and consumers. In the absence of relevant information, consumers' response to marketing programs cannot be predicted reliably or accurately. Ongoing marketing research programs provide information on controllable and non-controllable factors and consumers; this information enhances the effectiveness of decisions made by marketing managers.

Traditionally, marketing researchers were responsible for providing the relevant information and marketing decisions were made by the managers. However, the roles are changing and marketing researchers are becoming more involved in decision making, whereas marketing managers are becoming more involved with research. The role of marketing research in managerial decision making is explained further using the framework of the "DECIDE" model:

D
Define the marketing problem

E
Enumerate the controllable and uncontrollable decision factors

C
Collect relevant information

I
Identify the best alternative

D
Develop and implement a marketing plan

E
Evaluate the decision and the decision process

The DECIDE model conceptualizes managerial decision making as a series of six steps. The decision process begins by precisely defining the problem or opportunity, along with the objectives and constraints. Next, the possible decision factors that make up the alternative courses of action (controllable factors) and uncertainties (uncontrollable factors) are enumerated. Then, relevant information on the alternatives and possible outcomes is collected. The next step is to select the best alternative based on chosen criteria or measures of success. Then a detailed plan to implement the alternative selected is developed and put into effect. Last, the outcome of the decision and the decision process itself are evaluated.

Marketing research characteristics: First, marketing *research is systematic*. Thus systematic planning is required at all the stages of the marketing research process. The procedures followed at each stage are methodologically sound, well documented, and, as much as possible, planned in advance. Marketing research uses the scientific method in that data are collected and analyzed to test prior notions or hypotheses.

Marketing research is *objective*. It attempts to provide accurate information that reflects a true state of affairs. It should be conducted impartially. While research is always influenced by the researcher's research philosophy, it should be free from the personal or political biases of the researcher or the management. Research which is motivated by personal or political gain involves a breach of professional standards. Such research is deliberately biased so as to result in predetermined findings. The motto of every researcher should be, "Find it and tell it like it is." The objective nature of marketing research underscores the importance of ethical considerations, which are discussed later in the chapter.

Marketing research involves the *identification*, collection, analysis, *and dissemination of information*. Each phase of this process is important. We identify or define the marketing research problem or opportunity and then determine what information is needed to investigate it., and inferences are drawn. Finally, the findings, implications and recommendations are provided in a format that allows the information to be used for management decision making and to be acted upon directly. It should be emphasized that marketing research is conducted to assist management in decision making and is not: a means or an end in itself. The next section elaborates on this definition by classifying different types of marketing research.

Comparison with other forms of business research: Other forms of business research include:

- **Market research** is broader in scope and examines all aspects of a business environment. It asks questions about competitors, market structure, government regulations, economic trends, technological advances, and numerous other factors that make up the business environment (see environmental scanning). Sometimes the term refers more particularly to the financial analysis of companies, industries, or sectors. In this case, financial analysts usually carry out the research and provide the results to investment advisors and potential investors.
- **Product research** - This looks at what products can be produced with available technology, and what new product innovations near-future technology can develop (see new product development).
- **Advertising research** - is a specialized form of marketing research conducted to improve the efficacy of advertising. Copy testing, also known as "pre-testing," is a form of customized research that predicts in-market performance of an ad before it airs, by analyzing audience levels of attention, brand linkage, motivation, entertainment, and communication, as well as breaking down the ad’s flow of attention and flow of emotion. Pre-testing is also used on ads still in rough (ripomatic or animatic) form.

Classification of marketing research: Organizations engage in marketing research for two reasons: (1) to identify and (2) solve marketing problems. This distinction serves as a basis for classifying marketing research into problem identification research and problem solving research. Problem identification research is undertaken to help identify problems which are, perhaps, not apparent on the surface and yet exist or are likely to arise in the future. Examples of problem identification research include market potential, market share, brand or company image, market characteristics, sales analysis, short-range forecasting, long range forecasting, and business trends research. Research of this type provides information about the marketing environment and helps diagnose a problem. For example, a declining market potential indicates that the firm is likely to have a problem achieving its growth targets. Similarly, a problem exists if the market potential is increasing but the firm is losing market share. The recognition of economic, social, or cultural trends, such as changes in consumer behavior, may point to underlying problems or opportunities. Once a problem or opportunity has been identified, problem solving research is undertaken to arrive at a solution. The findings of problem solving research are used in making decisions which will solve specific marketing problems.

- **Standardized** services are research studies conducted for different client firms but in a standard way. For example, procedures for measuring advertising effectiveness have been standardized so that the results can be compared across studies and evaluative norms can be established. The Starch Readership Survey is the most widely used service for evaluating print advertisements; another well-known service is the Gallup and Robinson Magazine Impact Studies. These services are also sold on a syndicated basis.
- **Customized services** offer a wide variety of marketing research services customized to suit a client's specific needs. Each marketing research project is treated uniquely.
- **Limited-service suppliers** specialize in one or a few phases of the marketing research project. Services offered by such suppliers are classified as field services, coding and data entry, data analysis, analytical services, and branded products. **Field services** collect data through mail, personal, or telephone interviewing, and firms that specialize in interviewing are called field service organizations. These organizations may range from small proprietary organizations which operate locally to large multinational organizations with WATS line interviewing facilities. Some organizations maintain extensive interviewing facilities across the country for interviewing shoppers in malls.
- **Coding and data entry services** include editing completed questionnaires, developing a coding scheme, and transcribing the data on to diskettes or magnetic tapes for input into the computer. NRC Data Systems provides such services.
- **Analytical services** include designing and pretesting questionnaires, determining the best means of collecting data, designing sampling plans, and other aspects of the research design. Some complex marketing research projects require knowledge of sophisticated procedures, including specialized experimental designs, and analytical techniques such as conjoint analysis and multidimensional scaling. This kind of expertise can be obtained from firms and consultants specializing in analytical services.
- **Data analysis services** are offered by firms, also known as tab houses that specialize in computer analysis of quantitative data such as those obtained in large surveys. Initially most data analysis firms supplied only tabulations (frequency counts) and cross tabulations (frequency counts that describe two or more variables simultaneously). With

the proliferation of software, many firms now have the capability to analyze their own data, but, data analysis firms are still in demand.

- **Branded marketing research products** and services are specialized data collection and analysis procedures developed to address specific types of marketing research problems. These procedures are patented, given brand names, and marketed like any other branded product.

Types of marketing research: Marketing research techniques come in many forms, including:

- **Ad Tracking** – periodic or continuous in-market research to monitor a brand's performance using measures such as brand awareness, brand preference, and product usage.
- **Advertising Research** – used to predict copy testing or track the efficacy of advertisements for any medium, measured by the ad's ability to get attention, communicate the message, build the brand's image, and motivate the consumer to purchase the product or service.
- **Brand equity research** - how favorably do consumers view the brand?
- **Brand association research** - what do consumers associate with the brand?
- **Brand attribute research** - what are the key traits that describe the brand promise?
- **Brand name testing** - what do consumers feel about the names of the products?
- **Commercial eye tracking research** - examine advertisements, package designs, websites, etc by analyzing visual behavior of the consumer
- **Concept testing** - to test the acceptance of a concept by target consumers
- **Cool hunting** - to make observations and predictions in changes of new or existing cultural trends in areas such as fashion, music, films, television, youth culture and lifestyle
- **Buyer decision processes research** - to determine what motivates people to buy and what decision-making process they use
- **Copy testing** – predicts in-market performance of an ad before it airs by analyzing audience levels of attention, brand linkage, motivation, entertainment, and communication, as well as breaking down the ad's flow of attention and flow of emotion.
- **Customer satisfaction research** - quantitative or qualitative studies that yields an understanding of a customer's of satisfaction with a transaction
- **Demand estimation** - to determine the approximate level of demand for the product
- **Distribution channel audits** - to assess distributors' and retailers' attitudes toward a product, brand, or company
- **Internet strategic intelligence** - searching for customer opinions in the Internet: chats, forums, web pages, blogs... where people express freely about their experiences with products, becoming strong "**opinion formers**"
- **Marketing effectiveness and analytics** - Building models and measuring results to determine the effectiveness of individual marketing activities.
- **Mystery Consumer or Mystery shopping** - An employee or representative of the market research firm anonymously contacts a salesperson and indicates he or she is shopping for a product. The shopper then records the entire experience. This method is often used for quality control or for researching competitors' products.
- **Positioning research** - how does the target market see the brand relative to competitors? - what does the brand stand for?

- **Price elasticity testing** - to determine how sensitive customers are to price changes
- **Sales forecasting** - to determine the expected level of sales given the level of demand. With respect to other factors like Advertising expenditure, sales promotion etc.
- **Segmentation research** - to determine the demographic, psychographic, and behavioral characteristics of potential buyers
- **Online panel** - a group of individual who accepted to respond to marketing research online
- **Store audit** - to measure the sales of a product or product line at a statistically selected store sample in order to determine market share, or to determine whether a retail store provides adequate service
- **Test marketing** - a small-scale product launch used to determine the likely acceptance of the product when it is introduced into a wider market
- **Viral Marketing Research** - refers to marketing research designed to estimate the probability that specific communications will be transmitted throughout an individuals Social Network. Estimates of **Social Networking Potential** (SNP) are combined with estimates of selling effectiveness to estimate ROI on specific combinations of messages and media.

All of these forms of marketing research can be classified as either *problem-identification research* or as *problem-solving research*. A company collects **primary research** by gathering original data. **Secondary research** is conducted on data published previously and usually by someone else. Secondary research costs far less than primary research, but seldom comes in a form that exactly meets the needs of the researcher. A similar distinction exists between *exploratory research* and *conclusive research*. **Exploratory** research provides insights into and comprehension of an issue or situation. It should draw definitive conclusions only with extreme caution. **Conclusive research** draws conclusions: the results of the study can be generalized to the whole population.

Exploratory research is conducted to explore a problem to get some basic idea about the solution at the preliminary stages of research. It may serve as the input to conclusive research. Exploratory research information is collected by focus group interviews, reviewing literature or books, discussing with experts, etc. This is unstructured and qualitative in nature. If a secondary source of data is unable to serve the purpose, a convenience sample of small size can be collected. Conclusive research is conducted to draw some conclusion about the problem. It is essentially, structured and quantitative research, and the output of this research is the input to management information systems (MIS). Exploratory research is also conducted to simplify the findings of the conclusive or descriptive research, if the findings are very hard to interpret for the marketing managers.

Marketing research methods: Methodologically, marketing research uses the following types of research designs:

Based on questioning:

- **Qualitative marketing research** - generally used for exploratory purposes - small number of respondents - not generalizable to the whole population - statistical

significance and confidence not calculated - examples include focus groups, in-depth interviews, and projective techniques
- **Quantitative marketing research** - generally used to draw conclusions - tests a specific hypothesis - uses random sampling techniques so as to infer from the sample to the population - involves a large number of respondents - examples include surveys and questionnaires. Techniques include choice modeling, maximum difference preference scaling, and covariance analysis.

Based on observations:

- **Ethnographic studies** -, by nature qualitative, the researcher observes social phenomena in their natural setting - observations can occur **cross-sectionally** (observations made at one time) or **longitudinally** (observations occur over several time-periods) - examples include product-use analysis and computer cookie traces. See also Ethnography and Observational techniques.
- **Experimental techniques** -, by nature quantitative, the researcher creates a quasi-artificial environment to try to control spurious factors, then manipulates at least one of the variables - examples include purchase laboratories and test markets

Researchers often use more than one research design. They may start with secondary research to get background information, then conduct a focus group (qualitative research design) to explore the issues. Finally they might do a full nation-wide survey (quantitative research design) in order to devise specific recommendations for the client.

Business to business market research: Business to business (B2B) research is inevitably more complicated than consumer research. The researchers need to know what type of multi-faceted approach will answer the objectives, since seldom is it possible to find the answers using just one method. Finding the right respondents is crucial in B2B research since they are often busy, and may not want to participate. Encouraging them to "open up" is yet another skill required of the B2B researcher. Last, but not least, most business research leads to strategic decisions and this means that the business researcher must have expertise in developing strategies that are strongly rooted in the research findings and acceptable to the client. There are four key factors that make B2B market research special and different to consumer markets:

- The decision making unit is far more complex in B2B markets than in consumer markets
- B2B products and their applications are more complex than consumer products
- B2B marketers address a much smaller number of customers who are very much larger in their consumption of products than is the case in consumer markets
- Personal relationships are of critical importance in B2B markets.

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

Below some steps that could do by SME (Small Medium Enterprise) to analyze the market:

1. Provide secondary and or primary data (if necessary);
2. Analyze Macro & Micro Economic data (e.g. Supply & Demand, GDP, Price change, Economic growth, Sales by sector/industries, interest rate, number of investment/ divestment, I/O, CPI, Social anlysis, etc);
3. Implement the marketing mix concept, which is consist of: Place, Price, Product, Promotion, People, Process, Physical Evidence and also Political & social situation to analyze global market situation);
4. Analyze market trends, growth, market size, market share, market competition (e.g. SWOT analysis, B/C Analysis, channel mapping identities of key channels, drivers of customers loyalty and satisfaction, brand perception, satisfaction levels, current competitor-channel relationship analysis, etc),etc.;
5. Determine market segment, market target, market forecast and market position;
6. Formulating market strategy & also investigating the possibility of partnership/ collaboration (e.g. Profiling & SWOT analysis of potential partners, evaluating business partnership.)
7. Combine those analysis with the SME's business plan/ business model analysis (e.g. Business description, Business process, Business strategy, Revenue model, Business expansion, Return of Investment, Financial analysis (Company History, Financial assumption, Cost/Benefit Analysis, Projected profit & Loss, Cash flow, Balance sheet & business Ratio, etc).

Note as important: Overall analysis is should be based on 6W+1H (What, When, Where, Which, Who, Why and How) question.

International Marketing Research: International Marketing Research follows the same path as domestic research, but there are a few more problems that may arise. Customers in international markets may have very different customs, cultures, and expectations from the same company. In this case, secondary information must be collected from each separate country and then combined, or compared. This is time consuming and can be confusing. International Marketing Research relies more on primary data rather than secondary information. Gathering the primary data can be hindered by language, literacy and access to technology.

Commonly used marketing research terms: Market research techniques resemble those used in political polling and social science research. **Meta-analysis** (also called the Schmidt-Hunter technique) refers to a statistical method of combining data from multiple studies or from several types of studies. Conceptualization means the process of converting vague mental images into definable concepts. Operationalization is the process of converting concepts into specific observable behaviors that a researcher can measure. Precision refers to the exactness of any given measure. **Reliability** refers to the likelihood that a given operationalized construct will yield the same results if re-measured. **Validity** refers to the extent to which a measure provides data that captures the meaning of the operationalized construct as defined in the study. It asks, "Are we measuring what we intended to measure?"

- **Applied research** sets out to prove a specific hypothesis of value to the clients paying for the research. For example, a cigarette company might commission research that attempts to show that cigarettes are good for one's health. Many researchers have ethical misgivings about doing applied research.
- **Sugging** (from "SUG", for *selling under the guise* of market research) forms a sales technique in which sales people pretend to conduct marketing research, but with the real purpose of obtaining buyer motivation and buyer decision-making information to be used in a subsequent sales call.
- **Frugging** comprises the practice of soliciting funds under the pretense of being a research organization.

Selecting a research supplier: A firm that cannot conduct an entire marketing research project in-house must select an external supplier for one or more phases of the project. The firm should compile a list of prospective suppliers from such sources as trade publications, professional directories, and word of mouth. When deciding on criteria for selecting an outside supplier, a firm should ask itself why it is seeking outside marketing research support. For example, a small firm that needs one project investigated may find it economically efficient to employ an outside source. Or a firm may not have the technical expertise undertake certain phases of a project or political conflict-of-interest issues may determine that a project be conducted by an outside supplier. When developing criteria for selecting an outside supplier, a firm should keep some basics in mind. What is the reputation of the supplier? Do they complete projects on schedule? Are they known for maintaining ethical standards? Are they flexible? Are their research projects of high quality?

What kind and how much experience does the supplier have? Has the firm had experience with projects similar to this one? Do the supplier's personnel have both technical and non technical expertise? In other words, in addition to technical skills, are the personnel assigned to the task sensitive to the client's needs and do they share the client's research ideology? Can they communicate well with the client? The cheapest bid is not always the best one. Competitive bids should be obtained and compared on the basis of quality as well as price. A good practice is to get a written bid or contract before beginning the project. Decisions about marketing research suppliers, just like other management decisions, should be based on sound information.

Careers in marketing research: Some of the positions available in marketing research include vice president of marketing research, research director, assistant director of research, project manager, field work director, statistician/data processing specialist, senior analyst, analyst, junior analyst and operational supervisor. The most common entry-level position in marketing research for people with bachelor's degrees (e.g., BBA) is as operational supervisor. These people are responsible for supervising a well-defined set of operations, including field work, data editing, and coding, and may be involved in programming and data analysis. Another entry-level position for BBAs is assistant project manager. An assistant project manager will learn and assist in questionnaire design, review field instructions, and monitor timing and costs of studies. In the marketing research industry, however, there is a growing preference for people with master's degrees. Those with MBA or equivalent degrees are likely to be employed as project managers.

A small number of business schools also offer a more specialized Master of Marketing Research (MMR) degree. An MMR typically prepares students for a wide range of research methodologies and focuses on learning both in the classroom and the field. The typical entry-level position in a business firm would be junior research analyst (for BBAs) or research analyst (for MBAs or MMR s). The junior analyst and the research analyst learn about the particular industry and receive training from a senior staff member, usually the marketing research manager. The junior analyst position includes a training program to prepare individuals for the responsibilities of a research analyst, including coordinating with the marketing department and sales force to develop goals for product exposure. The research analyst responsibilities include checking all data for accuracy, comparing and contrasting new research with established norms, and analyzing primary and secondary data for the purpose of market forecasting.

As these job titles indicate, people with a variety of backgrounds and skills are needed in marketing research. Technical specialists such as statisticians obviously need strong backgrounds in statistics and data analysis. Other positions, such as research director, call for managing the work of others and require more general skills. To prepare for a career in marketing research, students usually:

- take all the marketing courses.
- take courses in statistics and quantitative methods.
- acquire computer skills.
- take courses in psychology and consumer behavior.
- acquire effective written and verbal communication skills.
- think creatively.

Career ladder in marketing research:

1. **Vice-President of Marketing Research**: This is the senior position in marketing research. The VP is responsible for the entire marketing research operation of the company and serves on the top management team. Sets the objectives and goals of the marketing, research department.
2. **Research Director**: Also a senior position, the director has the overall responsibility for the development and execution of all the marketing research projects.
3. **Assistant Director of Research**: Serves as an administrative assistant to the director and supervises some of the other marketing research staff members.
4. **(Senior) Project Manager**: Has overall responsibility for design, implementation, and management of research projects.
5. **Statistician/Data Processing Specialist**: Serves as an expert on theory and application of statistical techniques. Responsibilities include experimental design, data processing, and analysis.
6. **Senior Analyst**: Participates in the development of projects and directs the operational execution of the assigned projects. Works closely with the analyst, junior analyst, and other personnel in developing the research design and data collection. Prepares the final report. The primary responsibility for meeting time and cost constraints rests with the senior analyst.

7. **Analyst**: Handles the details involved in executing the project. Designs and pretests the questionnaires and conducts a preliminary analysis of the data.
8. **Junior Analyst**: Handles routine assignments such as secondary data analysis, editing and coding of questionnaires, and simple statistical analysis.
9. **Field Work Director**: Responsible for the selection, training, supervision, and evaluation of interviewers and other field workers.

Marketing research process is a set of six steps which defines the tasks to be accomplished in conducting a marketing research study. These include problem definition, developing an approach to problem, research design formulation, field work, data preparation and analysis, and report generation and presentation.

Stages of marketing research process:

Step 1: Problem Definition: The first step in any marketing research project is to define the problem. In defining the problem, the researcher should take into account the purpose of the study, the relevant background information, what information is needed, and how it will be used in decision making. Problem definition involves discussion with the decision makers, interviews with industry experts, analysis of secondary data, and, perhaps, some qualitative research, such as focus groups. Once the problem has been precisely defined, the research can be designed and conducted properly.

Step 2: Development of an Approach to the Problem: Development of an approach to the problem includes formulating an objective or theoretical framework, analytical models, research questions, hypotheses, and identifying characteristics or factors that can influence the research design. This process is guided by discussions with management and industry experts, case studies and simulations, analysis of secondary data, qualitative research and pragmatic considerations.

Step 3: Research Design Formulation: A research design is a framework or blueprint for conducting the marketing research project. It details the procedures necessary for obtaining the required information, and its purpose is to design a study that will test the hypotheses of interest, determine possible answers to the research questions, and provide the information needed for decision making. Conducting exploratory research, precisely defining the variables, and designing appropriate scales to measure them are also a part of the research design. The issue of how the data should be obtained from the respondents (for example, by conducting a survey or an experiment) must be addressed. It is also necessary to design a questionnaire and a sampling plan to select respondents for the study.

More formally, formulating the research design involves the following steps:

1. Secondary data analysis
2. Qualitative research
3. Methods of collecting quantitative data (survey, observation, and experimentation)
4. Definition of the information needed
5. Measurement and scaling procedures

6. Questionnaire design
7. Sampling process and sample size
8. Plan of data analysis

Step 4: Field Work or Data Collection: Data collection involves a field force or staff that operates either in the field, as in the case of personal interviewing (in-home, mall intercept, or computer-assisted personal interviewing), from an office by telephone (telephone or computer-assisted telephone interviewing), or through mail (traditional mail and mail panel surveys with prerecruited households). Proper selection, training, supervision, and evaluation of the field force help minimize data-collection errors.

Step 5: Data Preparation and Analysis: Data preparation includes the editing, coding, transcription, and verification of data. Each questionnaire or observation form is inspected, or edited, and, if necessary, corrected. Number or letter codes are assigned to represent each response to each question in the questionnaire. The data from the questionnaires are transcribed or key-punched on to magnetic tape, or disks or input directly into the computer. Verification ensures that the data from the original questionnaires have been accurately transcribed, while data analysis, guided by the plan of data analysis, gives meaning to the data that have been collected. Univariate techniques are used for analyzing data when there is a single measurement of each element or unit in the sample, or, if there are several measurements of each element, each RCH variable is analyzed in isolation. On the other hand, multivariate techniques are used for analyzing data when there are two or more measurements on each element and the variables are analyzed simultaneously.

Step 6: Report Preparation and Presentation: The entire project should be documented in a written report which addresses the specific research questions identified, describes the approach, the research design, data collection, and data analysis procedures adopted, and presents the results and the major findings. The findings should be presented in a comprehensible format so that they can be readily used in the decision making process. In addition, an oral presentation should be made to management using tables, figures, and graphs to enhance clarity and impact. For these reasons, interviews with experts are more useful in conducting marketing research for industrial firms and for products of a technical nature, where it is relatively easy to identify and approach the experts. This method is also helpful in situations where little information is available from other sources, as in the case of radically new products.

Secondary data analysis: Secondary data are data collected for some purpose other than the problem at hand. Primary data, on the other hand, are originated by the researcher for the specific purpose of addressing the research problem. Secondary data include information made available by business and government sources, commercial marketing research firms, and computerized databases. Secondary data are an economical and quick source of background information. Analysis of available secondary data is an essential step in the problem definition process: primary data should not be collected until the available secondary data have been fully analyzed.

Qualitative research: Information, industry experts, and secondary data may not be sufficient to define the research problem. Sometimes qualitative research must be undertaken to gain a qualitative understanding of the problem and its underlying factors. Qualitative research is unstructured, exploratory in nature, based on small samples, and may utilize popular qualitative techniques such as focus groups (group interviews), word association (asking respondents to indicate their first responses to stimulus words), and depth interviews (one-on-one interviews which probe the respondents' thoughts in detail). Other exploratory research techniques, such as pilot surveys with small samples of respondents, may also be undertaken.

4.6 MEASUREMENT OF MARKET DEMAND

From your study of the previously you have seen that marketing management continually scans the marketing environment for signs of opportunities and threats. Furthermore, you have seen that marketing management divides the heterogeneous mass market up into more homogenous segments to facilitate the identification and exploitation of opportunities.

Determining the potential of a market segment is indispensable for analyzing the opportunities within a segment, and for deciding if it can possibly be chosen as a target market. It is not only the present market potential that is important and gives an indication of opportunities, but the firm must also be interested in market forecasts. Consequently market forecasting is also a very important aid for decision making by marketing management. Measuring and forecasting requires an analysis of the market with an aim of expressing it in quantitative (numeric) quantities both present and in the future. The quantitative measurement and forecasting of the market, together with its qualitative characteristics, are used as a basis for decision making by marketing management. Market measurement and forecasting can be seen as a subdivision of market research which was discussed in the previous chapter. This is a very superficial description of the important role market measurement and forecasting play.

The Importance of Market Measurement and Forecasting: The main goal of market measurement and forecasting is to serve as an aid in the decisions that marketing management has to make. As has already been emphasized, the quality of decisions cannot be better than the information they are based on. Information gathered enables marketing management to make their decisions in a more objective and scientific manner and to lessen the risk and uncertainty that accompany subjective decisions and guesswork.

Naturally marketing management often make decisions which are not very important and/or do not hold a great risk. It would be ridiculous to arrange for the gathering of information by means of measurement and forecasting for all such small decisions of this nature. Thus it must be emphasized that just as with market research, the importance and risk of the decision must be weighed up against the cost and time involved in the gathering and processing of information. Luckily there are various secondary sources which contain information regarding market measurement and forecasting. These sources include various published research reports which can be bought at a fraction of the price of a new market research project, and other sources which, for example, are available on computer and can be processed for clients' needs.

You have probably often heard of the concept "market potential". In marketing terms this means the maximum potential demand for a certain product in a specific market as a whole. Market potential is relevant to a specific geographical area, a specific period of time, specific types of products, a specific market segment, and is expressed in terms of all of these. Another concept that is relatively seldom used in colloquial language is "sales potential", which pertains to the maximum demand for a firm's product. Sales potential, in the same way as market potential, pertains to a specific geographical area, period, and market segment.

Sales potential, however, does not pertain to the types of products a firm deals with, but to a specific product (brand) of the firm. Potential market share is the difference between market potential and sales potential and actually gives an indication of which part of the potential market the firm expects to gain. Market potential, sales potential and potential market share can pertain either to the present and/or the future. A firm strives to enjoy its sales potential to the full. Market measurement and forecasting, however, are not only relevant to potential demand, but also to actual present and future sales.

The actual sales of a type of product in a specific area, period and market segment can also be called the effective demand. The market share of one of a firm's products is calculated by the ratio of the actual sales of the product concerned to the actual sales in terms of that type of product. This ratio is expressed as a percentage. You have now learned the meaning of a few elementary concepts in terms of market measurement and forecasting. The marketer can compare these measurements to each other to gain insight into an important indicator of the success of the market offering in relation to other firms, the total market and the market potential.

When you hear the management of market measurement and forecasting being expressed, by this stage you will already realize that it pertains to the planning, implementation and control of the market measurement and forecasting activities. Just as with any other scientific research, measurement and forecasting must be approached in a systematic and planned fashion to obtain the best value. Several steps can be mentioned for approaching market measurement and forecasting.

- **Describe the problem and information needs**: Seeing that it is very expensive to gather information, this step must be very carefully planned. The problem about which information should be gathered must be very clearly defined. Definition of the problem will determine which information must be clearly acquired so that only relevant data is gathered.
- **Gathering relevant information:** Gathering information serves a dual purpose. Firstly, it provides sufficient data for the information need that is required to solve a problem, and secondly, it serves as a basis for the choice of particular methods of measurement and/or forecasting that are to be used.
- **Selecting the methods of market measurement and forecasting:** The choice of measurement and forecasting methods begins with the evaluation of the data that has been gathered. There must be sufficient data of the right quality to provide a satisfactory answer to the problem by means of existing methods of analysis. Thereafter a suitable method can be selected by comparing the information needed and the abilities of the methods to meet the needs.

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

- The nature and availability of data. Is there sufficient data of the right nature that can be processed with the help of the specific method? What pattern does the data follow? Certain methods of forecasting can only handle some data patterns effectively. The following patterns can appear in the data: tendencies, seasonal fluctuations and conjuncture patterns (the flowing together of brands).
- The accuracy that is required for decision making is influenced by the choice of methods, as some methods supply a much more accurate answer than others.
- Costs play a role here, in the same way as they do in most business activities. Just as in the case of marketing research, the costs involved in the chosen method must be weighed up against the accuracy and importance of the required information. Some methods are able to deliver very reliable information, but at extra cost and time.
- Time: Careful consideration is necessary in deciding whether the period of time needed for measurement or forecasting will provide the desired result. Furthermore, the application of certain methods takes much more time than others.
- Application: The results must be useful to the people who have to base their decisions thereon. This means that the results must be of a nature that will enable these people to interpret and understand it effectively.

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

Key Terms in Forecasting: There are a few terms which are commonly used in forecasting exercise:

- Market
- Potential Market
- Target Market
- Market Penetration
- Market Potential

The three aspects involved in defining market potential include:

- Defined Market Environment
- Marketing Expenditure by the industry
- Market Demand

4.7 REVIEW QUESTIONS

1. Discuss the factors that have led to the increasing importance of market research in India.
2. One of the key trends today is that organizations are becoming increasingly market driven. Outline a market research plan and marketing intelligence system for a home appliances company that wishes to become market driven.
3. What issues will you consider in designing a questionnaire for assessing distribution equity?
4. What are the different scales used in data collection? Discuss each of these scales and the situation in which you would like to use them?
5. A manufacturer of toiletries is interested in estimating the demand for herbal shampoo in urban centers in India. What factors will you consider in estimating this demand?

MARKETING ENVIRONMENT - INTERNAL & EXTERNAL

Structure

5.1 MARKETING ENVIRONMENT FORCES

The **market environment** is a marketing term and refers to all of the forces outside of marketing that affect marketing management's ability to build and maintain successful relationships with target customers. The market environment consists of both the macro environment and the microenvironment. The microenvironment refers to the forces that are close to the company and affect its ability to serve its customers. It includes the company itself, its suppliers, marketing intermediaries, customer markets, competitors, and publics.

The company aspect of microenvironment refers to the internal environment of the company. This includes all departments, such as management, finance, research and development, purchasing, operations and accounting. Each of these departments has an impact on marketing decisions. For example, research and development have input as to the features a product can perform and accounting approves the financial side of marketing plans and budgets.

The suppliers of a company are also an important aspect of the microenvironment because even the slightest delay in receiving supplies can result in customer dissatisfaction. Marketing managers must watch supply availability and other trends dealing with suppliers to ensure that product will be delivered to customers in the time frame required in order to maintain a strong customer relationship.
Marketing intermediaries refers to resellers, physical distribution firms, marketing services agencies, and financial intermediaries. These are the people that help the company promote, sell, and distribute its products to final buyers. Resellers are those that hold and sell the company's

product. They match the distribution to the customers and include places such as Wal-Mart, Target, and Best Buy. Physical distribution firms are places such as warehouses that store and transport the company's product from its origin to its destination. Marketing services agencies are companies that offer services such as conducting marketing research, advertising, and consulting. Financial intermediaries are institutions such as banks, credit companies and insurance companies.

Another aspect of microenvironment is the customers. There are different types of customer markets including consumer markets, business markets, government markets, international markets, and reseller markets. The consumer market is made up of individuals who buy goods and services for their own personal use or use in their household. Business markets include those that buy goods and services for use in producing their own products to sell. This is different from the reseller market which includes businesses that purchase goods to resell as is for a profit. These are the same companies mentioned as market intermediaries. The government market consists of government agencies that buy goods to produce public services or transfer goods to others who need them. International markets include buyers in other countries and includes customers from the previous categories.

Competitors are also a factor in the microenvironment and include companies with similar offerings for goods and services. To remain competitive a company must consider who their biggest competitors are while considering its own size and position in the industry. The company should develop a strategic advantage over their competitors.

The final aspect of the microenvironment is publics, which is any group that has an interest in or impact on the organization's ability to meet its goals. For example, financial publics can hinder a company's ability to obtain funds affecting the level of credit a company has. Media publics include newspapers and magazines that can publish articles of interest regarding the company and editorials that may influence customers' opinions. Government publics can affect the company by passing legislation and laws that put restrictions on the company's actions. Citizen-action publics include environmental groups and minority groups and can question the actions of a company and put them in the public spotlight. Local publics are neighborhood and community organizations and will also question a company's impact on the local area and the level of responsibility of their actions. The general public can greatly affect the company as any change in their attitude, whether positive or negative, can cause sales to go up or down because the general public is often the company's customer base. And finally, the internal publics include all those who are employed within the company and deal with the organization and construction of the company's product.

The macro environment refers to all forces that are part of the larger society and affect the microenvironment. It includes concepts such as demography, economy, natural forces, technology, politics, and culture. Demography refers to studying human populations in terms of size, density, location, age, gender, race, and occupation. This is a very important factor to study for marketers and helps to divide the population into market segments and target markets. An example of demography is classifying groups of people according to the year they were born. These classifications can be referred to as baby boomers, who are born between 1946 and 1964, generation X, who are born between 1965 and 1976, and generation Y, who are born between

1977 and 1994. Each classification has different characteristics and causes they find important. This can be beneficial to a marketer as they can decide who their product would benefit most and tailor their marketing plan to attract that segment. Demography covers many aspects that are important to marketers including family dynamics, geographic shifts, work force changes, and levels of diversity in any given area.

Another aspect of the macro environment is the economic environment. This refers to the purchasing power of potential customers and the ways in which people spend their money. Within this area are two different economies, subsistence and industrialized. Subsistence economies are based more in agriculture and consume their own industrial output. Industrial economies have markets that are diverse and carry many different types of goods. Each is important to the marketer because each has a highly different spending pattern as well as different distribution of wealth.

The natural environment is another important factor of the macro environment. This includes the natural resources that a company uses as inputs and affects their marketing activities. The concern in this area is the increased pollution, shortages of raw materials and increased governmental intervention. As raw materials become increasingly scarcer, the ability to create a company's product gets much harder. Also, pollution can go as far as negatively affecting a company's reputation if they are known for damaging the environment. The last concern, government intervention can make it increasingly harder for a company to fulfill their goals as requirements get more stringent.

The technological environment is perhaps one of the fastest changing factors in the macro environment. This includes all developments from antibiotics and surgery to nuclear missiles and chemical weapons to automobiles and credit cards. As these markets develop it can create new markets and new uses for products. It also requires a company to stay ahead of others and update their own technology as it becomes outdated. They must stay informed of trends so they can be part of the next big thing, rather than becoming outdated and suffering the consequences financially.

The political environment includes all laws, government agencies, and groups that influence or limit other organizations and individuals within a society. It is important for marketers to be aware of these restrictions as they can be complex. Some products are regulated by both state and federal laws. There are even restrictions for some products as to who the target market may be, for example, cigarettes should not be marketed to younger children. There are also many restrictions on subliminal messages and monopolies. As laws and regulations change often, this is a very important aspect for a marketer to monitor.

The final aspect of the macro environment is the cultural environment, which consists of institutions and basic values and beliefs of a group of people. The values can also be further categorized into core beliefs, which passed on from generation to generation and very difficult to change, and secondary beliefs, which tend to be easier to influence. As a marketer, it is important to know the difference between the two and to focus your marketing campaign to reflect the values of a target audience.

When dealing with the marketing environment it is important for a company to become proactive. By doing so, they can create the kind of environment that they will prosper in and can become more efficient by marketing in areas with the greatest customer potential. It is important to place equal emphasis on both the macro and microenvironment and to react accordingly to changes within them. The marketing environment surrounds and impacts upon the organization. There are three key perspectives on the marketing environment, namely the 'macro-environment,' the 'micro-environment' and the 'internal environment'.

The micro-environment: This environment influences the organization directly. It includes suppliers that deal directly or indirectly, consumers and customers, and other local stakeholders. Micro tends to suggest small, but this can be misleading. In this context, micro describes the relationship between firms and the driving forces that control this relationship. It is a more local relationship, and the firm may exercise a degree of influence.

The macro-environment: This includes all factors that can influence and organization, but that are out of their direct control. A company does not generally influence any laws (although it is accepted that they could lobby or be part of a trade organization). It is continuously changing, and the company needs to be flexible to adapt. There may be aggressive competition and rivalry in a market. Globalization means that there is always the threat of substitute products and new entrants. The wider environment is also ever changing, and the marketer needs to compensate for changes in culture, politics, economics and technology.

The internal environment: All factors that are internal to the organization are known as the 'internal environment'. They are generally audited by applying the 'Five Ms' which are **M**en, **M**oney, **M**achinery, **M**aterials and **M**arkets. The internal environment is as important for managing change as the external. As marketers we call the process of managing internal change 'internal marketing.' Essentially we use marketing approaches to aid communication and change management. The external environment can be audited in more detail using other approaches such as SWOT Analysis, Michael Porter's Five Forces Analysis or PEST Analysis.

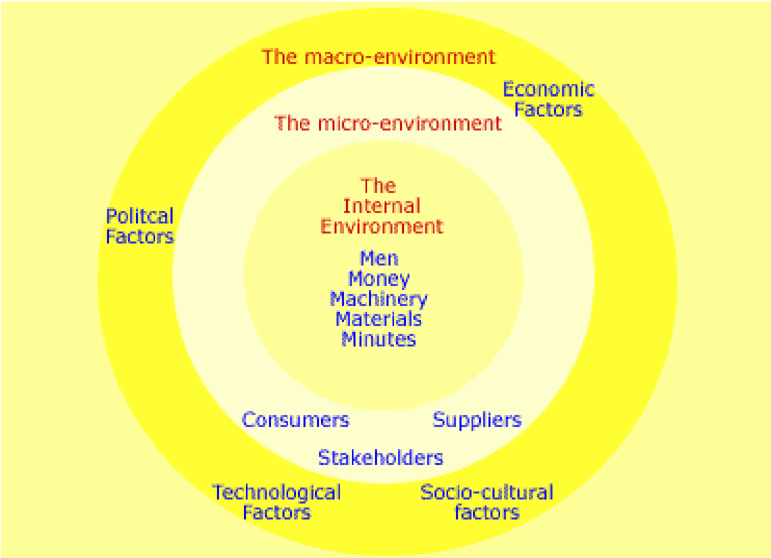

Figure 5.1: The Marketing Environment

Five Forces Analysis helps the marketer to contrast a competitive environment. It has similarities with other tools for environmental audit, such as PEST analysis, but tends to focus on the single, stand alone, business or SBU (Strategic Business Unit) rather than a single product or range of products. For example, Dell would analyze the market for Business Computers i.e. one of its SBUs. Five forces analysis looks at five key areas namely the threat of entry, the power of buyers, the power of suppliers, the threat of substitutes, and competitive rivalry.

The threat of entry:

- Economies of scale e.g. the benefits associated with bulk purchasing.
- The high or low cost of entry e.g. how much wills it cost for the latest technology?
- Ease of access to distribution channels e.g. Do our competitors have the distribution channels sewn up?
- Cost advantages not related to the size of the company e.g. personal contacts or knowledge that larger companies do not own or learning curve effects.
- Will competitors retaliate?
- Government action e.g. will new laws be introduced that will weaken our competitive position?
- How important is differentiation? e.g. The Champagne brand cannot be copied. This desensitizes the influence of the environment.

The power of buyers:

- This is high where there a few, large players in a market e.g. the large grocery chains.
- If there are a large number of undifferentiated, small suppliers e.g. small farming businesses supplying the large grocery chains.
- The cost of switching between suppliers is low e.g. from one fleet supplier of trucks to another.

The power of suppliers:

- The power of suppliers tends to be a reversal of the power of buyers.
- Where the switching costs are high e.g. switching from one software supplier to another.
- Power is high where the brand is powerful e.g. Cadillac, Pizza Hut, Microsoft.
- There is a possibility of the supplier integrating forward e.g. Brewers buying bars.
- Customers are fragmented (not in clusters) so that they have little bargaining power e.g. Gas/Petrol stations in remote places.

The threat of substitutes:

- Where there is product-for-product substitution e.g. email for fax Where there is substitution of need e.g. better toothpaste reduces the need for dentists.
- Where there is generic substitution (competing for the currency in your pocket) e.g. Video suppliers compete with travel companies.
- We could always do without e.g. cigarettes.

Competitive Rivalry:

- This is most likely to be high where entry is likely; there is the threat of substitute products, and suppliers and buyers in the market attempt to control. This is why it is always seen in the center of the diagram.

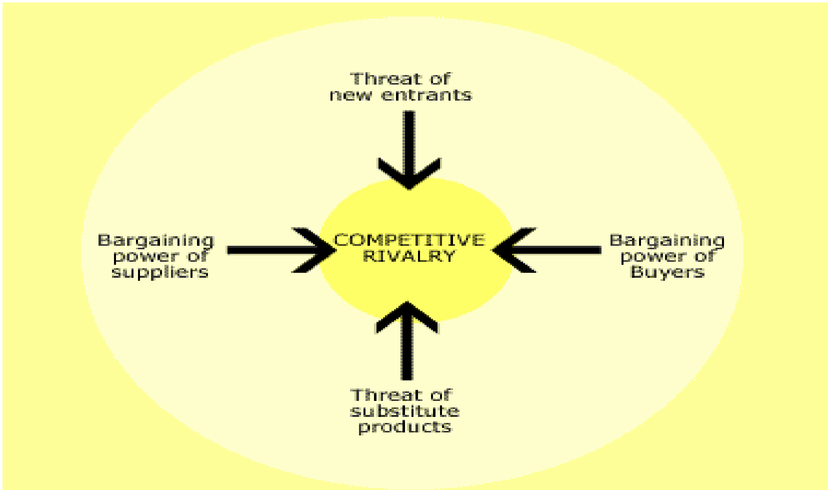

Figure 5.2: Five Forces Analysis

It is very important that an organization considers its environment before beginning the marketing process. In fact, environmental analysis should be continuous and feed all aspects of planning. The organization's marketing environment is made up of:

- The internal environment e.g. staff (or internal customers), office technology, wages and finance, etc.
- The micro-environment e.g. our external customers, agents and distributors, suppliers, our competitors, etc.
- The macro-environment e.g. Political (and legal) forces, Economic forces, Sociocultural forces, and Technological forces. These are known as **PEST** factors.

Political Factors: The political arena has a huge influence upon the regulation of businesses, and the spending power of consumers and other businesses. You must consider issues such as:

- How stable is the political environment?
- Will government policy influence laws that regulate or tax your business?
- What is the government's position on marketing ethics?
- What is the government's policy on the economy?
- Does the government have a view on culture and religion?
- Is the government involved in trading agreements such as EU, NAFTA, ASEAN, or others?

Economic Factors: Marketers need to consider the state of a trading economy in the short and long-terms. This is especially true when planning for international marketing. You need to look at:

- Interest rates.
- The level of inflation Employment level per capita.
- Long-term prospects for the economy Gross Domestic Product (GDP) per capita, and so on.

Sociocultural Factors: The social and cultural influences on business vary from country to country. It is very important that such factors are considered. Factors include:

- What is the dominant religion?
- What are attitudes to foreign products and services?
- Does language impact upon the diffusion of products onto markets?
- How much time do consumers have for leisure?
- What are the roles of men and women within society?
- How long are the population living? Are the older generations wealthy?
- Does the population have a strong/weak opinion on green issues?

Technological Factors: Technology is vital for competitive advantage, and is a major driver of globalization. Consider the following points:

- Does technology allow for products and services to be made more cheaply and to a better standard of quality?
- Do the technologies offer consumers and businesses more innovative products and services such as Internet banking, new generation mobile telephones, etc?
- How is distribution changed by new technologies e.g. books via the Internet, flight tickets, auctions, etc?
- Does technology offer companies a new way to communicate with consumers e.g. banners, Customer Relationship Management (CRM), etc?

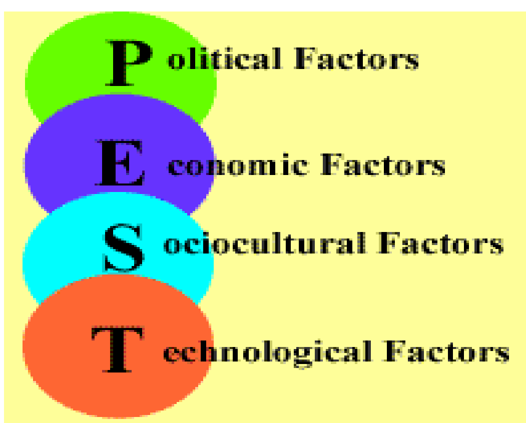

Figure 5.3: PEST Analysis

5.2 MACRO ENVIRONMENT

Universe of sociological elements that affect a company's ability to serve its customers or sell its goods and services is called micro environment There are six major macro environment forces: cultural, demographic, economic, natural, political, and technological. The cultural environment includes institutions and other forces that affect the basic values, behaviors, and preferences of the society-all of which have an effect on consumer marketing decisions. The demographic environment includes the study of human populations in terms of size, density, location, age, sex, race, occupation, and other statistical information. The economic environment consists of all factors-such as salary levels, credit trends, and pricing patterns- that affect consumer spending habits and purchasing power. The natural environment involves all the natural resources, such as raw materials or energy sources, needed by or affected by marketers and marketing activities. The political environment includes all laws, government agencies, and lobbying groups that influence or restrict individuals or organizations in the society. The technological environment consists of those forces that affect the technology and which can create new products, new markets, and new marketing opportunities.

PESTEL analysis of the macro-environment: There are many factors in the macro-environment that will effect the decisions of the managers of any organization. Tax changes, new laws, trade barriers, demographic change and government policy changes are all examples of macro change. To help analyze these factors managers can categories them using the PESTEL model. This classification distinguishes between:

- **Political factors.** These refer to government policy such as the degree of intervention in the economy. What goods and services does a government want to provide? To what extent does it believe in subsidizing firms? What are its priorities in terms of business support? Political decisions can impact on many vital areas for business such as the education of the workforce, the health of the nation and the quality of the infrastructure of the economy such as the road and rail system.
- **Economic factors.** These include interest rates, taxation changes, economic growth, inflation and exchange rates. As you will see throughout the "Foundations of Economics" book economic change can have a major impact on a firm's behavior. For example: higher interest rates may deter investment because it costs more; to borrow a strong currency may make exporting more difficult because it may raise the price in terms of foreign currency; inflation may provoke higher wage demands from employees and raise costs; higher national income growth may boost demand for a firm's products
- **Social factors**. Changes in social trends can impact on the demand for a firm's products and the availability and willingness of individuals to work. In the UK, for example, the population has been ageing. This has increased the costs for firms who are committed to pension payments for their employees because their staffs are living longer. It also means some firms such as Asda have started to recruit older employees to tap into this growing labor pool. The ageing population also has impact on demand: for example, demand for sheltered accommodation and medicines have increased whereas demand for toys is falling.

- **Technological factors:** new technologies create new products and new processes. MP3 players, computer games, online gambling and high definition TVs are all new markets created by technological advances. Online shopping, bar coding and computer aided design are all improvements to the way we do business as a result of better technology. Technology can reduce costs, improve quality and lead to innovation. These developments can benefit consumers as well as the organizations providing the products.
- **Environmental factors:** environmental factors include the weather and climate change. Changes in temperature can impact on many industries including farming, tourism and insurance. With major climate changes occurring due to global warming and with greater environmental awareness this external factor is becoming a significant issue for firms to consider. The growing desire to protect the environment is having an impact on many industries such as the travel and transportation industries (for example, more taxes being placed on air travel and the success of hybrid cars) and the general move towards more environmentally friendly products and processes is affecting demand patterns and creating business opportunities.
- **Legal factors***:* these are related to the legal environment in which firms operate. In recent years in the UK there have been many significant legal changes that have affected firms' behavior. The introduction of age discrimination and disability discrimination legislation, an increase in the minimum wage and greater requirements for firms to recycle are examples of relatively recent laws that affect an organization’s actions. Legal changes can affect a firm's costs (e.g. if new systems and procedures have to be developed) and demand (e.g. if the law affects the likelihood of customers buying the good or using the service).

Different categories of law include:

- **Consumer laws:** these are designed to protect customers against unfair practices such as misleading descriptions of the product

- **Competition laws:** these are aimed at protecting small firms against bullying by larger firms and ensuring customers are not exploited by firms with monopoly power

- **Employment laws:** these cover areas such as redundancy, dismissal, working hours and minimum wages. They aim to protect employees against the abuse of power by managers

- **Health and safety legislation:** these laws are aimed at ensuring the workplace is as safe as is reasonably practical. They cover issues such as training, reporting accidents and the appropriate provision of safety equipment

Typical PESTEL factors to consider include:

Factor	Could include:
Political	e.g. EU enlargement, the euro, international trade, taxation policy
Economic	e.g. interest rates, exchange rates, national income, inflation, unemployment, Stock Market
Social	e.g. ageing population, attitudes to work, income distribution
Technological	e.g. innovation, new product development, rate of technological obsolescence
Environmental	e.g. global warming, environmental issues
Legal	e.g. competition law, health and safety, employment law

By using the PESTEL framework we can analyze the many different factors in a firm's macro environment. In some cases particular issues may fit in several categories. For example, the creation of the Monetary Policy Committee by the Labor government in 1997 as a body that was independent of government but had the ability to set interest rates was a political decision but has economic consequences; meanwhile government economic policy can influence investment in technology via taxes and tax credits. If a factor can appear in several categories managers simply make a decision of where they think it best belongs.

However, it is important not to just list PESTEL factors because this does not in itself tell managers very much. What managers need to do is to think about which factors are most likely to change and which ones will have the greatest impact on them i.e. each firm must identify the key factors in their own environment. For some such as pharmaceutical company's government regulation may be critical; for others, perhaps firms that have borrowed heavily, interest rate changes may be a huge issue. Managers must decide on the relative importance of various factors and one way of doing this is to rank or score the likelihood of a change occurring and also rate the impact if it did. The higher the likelihood of a change occurring and the greater the impact of any change the more significant this factor will be to the firm's planning.

It is also important when using PESTEL analysis to consider the level at which it is applied. When analyzing companies such as Sony, Chrysler, Coca Cola, BP and Disney it is important to remember that they have many different parts to their overall business - they include many different divisions and in some cases many different brands. Whilst it may be useful to consider the whole business when using PESTEL in that it may highlight some important factors, managers may want to narrow it down to a particular part of the business (e.g. a specific division of Sony); this may be more useful because it will focus on the factors relevant to that part of the business. They may also want to differentiate between factors which are very local, other which are national and those which are global.

For example, a retailer undertaking PESTEL analysis may consider:

- *Local factors* such as planning permission and local economic growth rates

- *National factors* such as UK laws on retailer opening hours and trade descriptions legislation and UK interest rates
- *Global factors* such as the opening up of new markets making trade easier. The entry of Bulgaria and Rumania into the European Union might make it easier to enter that market in terms of meeting the various regulations and provide new expansion opportunities. It might also change the labor force within the UK and recruitment opportunities.

This version of PESTEL analysis is called LONGPESTEL. This is illustrated below:

	LOCAL	**NATIONAL**	**GLOBAL**
POLITICAL	Provision of services by local council	UK government policy on subsidies	World trade agreements e.g. further expansion of the EU
ECONOMIC	Local income	UK interest rates	Overseas economic growth
SOCIAL	Local population growth	Demographic change (e.g. ageing population)	Migration flows
TECHNOLOGICAL	Improvements in local technologies e.g. availability of Digital TV	UK wide technology e.g. UK online services	International technological breakthroughs e.g. internet
ENVIRONMENTAL	Local waste issues	UK weather	Global climate change
LEGAL	Local licenses/planning permission	UK law	International agreements on human rights or environmental policy

In "Foundations of Economics" we focus on the economic environment. We examine issues such as the effect of interest rate changes, changes in exchange rates, changes in trade policy, government intervention in an economy via spending and taxation and economic growth rates. These can be incredibly important factors in a firm's macro-environment. The growth of China and India, for example, has had massive effects on many organizations. Firms can relocate production there to benefit from lower costs; these emerging markets are also providing enormous markets for firms to aim their products at. With a population of over 1 billion, for example, the Chinese market is not one you would want to ignore; at the same time Chinese producers should not be ignored either. However, the relative importance of economic factors compared to other factors will depend on the particular position of a business. Exchange rate fluctuations may be critically important to a multinational but less significant to a local window cleaner. Rapid economic growth or economic decline may be very significant to a construction business that depends heavily on the level of income in the economy but may be slightly less significant to a milk producer whose product is less sensitive to income. So whilst the economy is important to all firms on both the supply side (e.g. unemployment levels affect the ease of recruitment) and demand side (e.g. income tax affects spending power) the relative importance of specific economic factors and the relative importance of the economy compared to, say, regulation or social trends will vary. Whilst we hope this book provides a good insight into the economy and the possible effects of economic change on a business these must be considered in the light of other macro and micro factors that influence a firms' decisions and success.

5.3 MICRO AND INTERNAL ENVIRONMENT

These are internal factors close to the company that have a direct impact on the organizations strategy. These factors include:

- **Customers:** Organizations survive on the basis of meeting the needs, wants and providing benefits for their customers. Failure to do so will result in a failed business strategy.
- **Employees:** Employing the correct staff and keeping these staff motivated is an essential part of the strategic planning process of an organization. Training and development plays an essential role particular in service sector marketing in-order to gain a competitive edge. This is clearly apparent in the airline industry.
- **Suppliers:** Increase in raw material prices will have a knock on affect on the marketing mix strategy of an organization. Prices may be forced up as a result. Closer supplier relationships are one way of ensuring competitive and quality products for an organization.
- **Shareholders:** As organization requires greater inward investment for growth they face increasing pressure to move from private ownership to public. However this movement unleashes the forces of shareholder pressure on the strategy of organizations. Satisfying shareholder needs may result in a change in tactics employed by an organization. Many internet companies who share prices rocketed in 1999 and early 2000 have seen the share price tumble as they face pressures from shareholders to turn in a profit. In a market which has very quickly become overcrowded many have failed.
- **Media:** Positive or adverse media attention on an organizations product or service can in some cases make or break an organization. Consumer programmes with a wider and more direct audience can also have a very powerful and positive impact, enforcing organizations to change their tactics.
- **Competitors:** The name of the game in marketing is differentiation. What benefit can the organization offer which is better then their competitors? Can they sustain this differentiation over a period of time from their competitors?. Competitor analysis and monitoring is crucial if an organization is to maintain its position within the market.

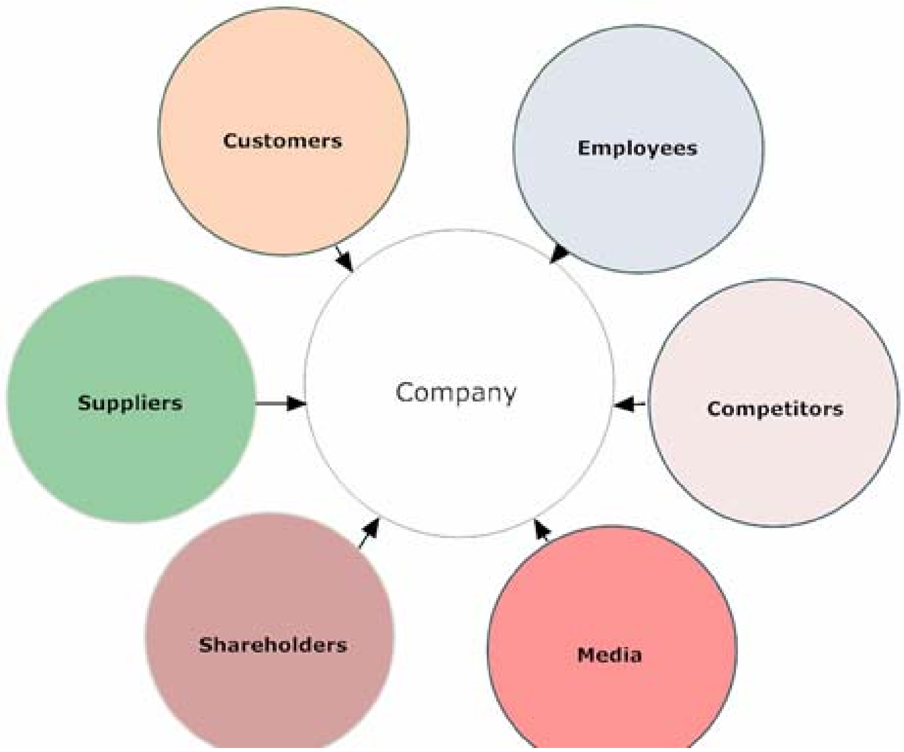

Figure 5.4: Micro Environmental Factor/Stakeholder Analysis

An organization's *internal environment* is composed of the elements within the organization, including current employees, management, and especially corporate culture, which defines employee behavior. Although some elements affect the organization as a whole, others affect only the manager. A manager's philosophical or leadership style directly impacts employees. Traditional managers give explicit instructions to employees, while progressive managers empower employees to make many of their own decisions. Changes in philosophy and/or leadership style are under the control of the manager. The following sections describe some of the elements that make up the internal environment. The resource strength, behavior, weakness, synergy and distinctive competences are major components of the internal environment of an organization.

An organization uses different types of resources which lead to its advantage (synergy) or disadvantage disynergy within an organization. It is the effective use of these resources that leads to synergistic advantage of the firm over another firm in the industry (strengths) weakness of over a period of time. Organizational capability in the design and implementation of corporate policy and strategy rest on an organizations capacity and ability to use its distinctive competences to excel in a particular operation.

Some of the constituents of internal environments of an organization are:

Organizational Resources: These are all the inputs physical or human used in the organization to create outputs in the firm of product or services through a transformation process. Some other resources of organizations are money, facilities, systems, knowledge, materials and manpower.

The cost and availability of these resources are important factors that determine the success of an organizations policy and strategy.

Organizational Behavior: These behaviors an organization demonstrates as a result of influences and forces operating in the internal environment of determine the ability or constraints in the usage of resources is termed organizational behavior

Synergistic Advantage: This is a situation where the whole is greater than the sum of its parts within an organization. 1 + 1 = 3. It is a situation where attributes do not add up mathematically but combine to yield an enhanced or reduced impact i.e. (synergistic effect). Two or more department could combine to support each other, in order to realize higher output or to share an impact within the organization. For instance, marketing, distribution and promotion may support each other for higher level of marketing strategy. Conversely, marketing inefficiency on the other hand, reduces production efficiency (dysenergy) i.e. negative synergy occurs.

Strengths and Weaknesses: The strength of an organization is the attributes the organization has over another organization. The strength gave the organization the competitive edge over another in the same industry, while weaknesses are areas within the organization where the competitors in the same industry can take advantage of as their competitive edge.

Distinctive Competence: This is a comparative quality of one organization over the other. A distinctive competence of an organization is the ability of that firm to do what its competitors cannot do or do better whet they can do. This concept is useful for strategy formulation. Use of trained and qualified manpower could be organization distinct competences over the other who may resolve to use the unskilled and low paid workers.

Functional Strategies: This strategy is relatively a restricted plan which spells out the specific function, for the allocation of resources among different competing operations within the functional areas. This is necessary because it fosters easy co-ordination for optimal contribution to the achievement of the business and corporate level objectives.

Functional strategies are obtained from the business and corporate strategy which are implemented through functional or operational strategy. A very important task of strategy implementation is to align or fit the activities and capabilities of and organization with its strategies.

Strategies are operated at different levels and there has to be congruence and coordination among these strategies. Such congruence is the VERTICAL FIT. The congruence and coordination among the different activities taking place at the same level is the Horizontal Fit.

Vertical Fit: Discussions on vertical fit will make it necessary to define functional strategies in terms of the capability of the functional strategies to contribute to the strategic advantage of the organization from which it is derived. Below are some of the functional Strategies.

- Strategic marketing management which implies the focusing on the alignment of marketing management within the organization alongside its corporate and business strategies to gain a strategic advantage.
- Strategic financial management focusing on alignment of financial management within an organization with its corporate and business strategies to gain a strategic advantage.
- Strategic operations management – This implies focusing on the alignment of operations management within an organization with its corporate and business strategies to gain a strategic advantage.
- Strategic human resources management means focusing on the alignment of human resource management within an organization with its corporate and business strategies to gain a strategic advantage.
- Strategic information management means focusing on the alignment of information management within an organization with its corporate and business strategies to gain a strategic advantage.

Horizontal Fit: This means that there has to be integration of the operational activities undertaken to provide a product or service to a customer. This can only take place in the course of operational implementation.

Operational Implementation: It is the approach adopted by an organization to achieve operational effectiveness. When an organization engaged in (value creating activities) optimally and in a way which is better than its competitors. It results in operational effectiveness. Ability of organization to achieve operational effectiveness has a lot to do with its effective coordination of its (value chain).

Value chain is a set of interlinked value creating activities performed by organization. These activities may begin with the activity of procurement of basic raw materials and include the act of processing in its successive stages right up to actual end of the product which may be marketed to the ultimate consumer. The value chain of a manufacturing organization is divided into primary and support activities.

Primary activities are directly related to the flow of products to the customer and include (5) sub-activities.

- Inbound logistics (receiving and storing, etc)
- Operations – transformation of raw materials into finished products
- Outbound logistics (order-processing, physical distribution etc)
- Marketing and sales (pricing, promotion etc)
- Service – (installation, repairs etc)

Support activities are provided to sustain the primary activities. These consist of the infrastructure (including, finance, accounting, general management etc) human resource management, technology development and procurement. The consideration of vertical fit and horizontal fit help to explain why integration is necessary for the different subsets of functional strategies.

Functional Plans and Policies: The beauty of business strategy or corporate strategy is the extent to which it can serve as direction to functional managers regarding the plans and policies to be adopted. Infact, the effectives of strategic management depends critically on the manner in which strategies are implemented.

Need for Functional Plans and Policies: Among so many reasons for functional plans and policies, Gluck has suggested five reasons to show why functional plans and policies are needed.

These are:

1. To ensure that strategic decisions are implemented by all the parts of an organization
2. There is a basis for controlling activities in the different functional areas of a business
3. The time spent by functional managers on decision making may be reduced as the plans lay down clearly what has to be done and the policies provide the discretionary framework within which decisions need to be taken
4. Similar situations occurring in different functional areas are landed by the functional managers in a consisted manner.
5. Coordination across the different functions takes place where necessary.

Functional Strategic Planning/ (Check List) Financial Plans and Policies: The financial plans and policies of an organization are related to the availability, usage and management of funds. Strategists need to formulate plans and policies in these areas so that strategies may be implemented effectively. Some of these checklists in the financial resources of an organization are:

- Sources of funds
- Usage of funds
- Management of funds

Sources of Funds: This refers to sources of financing or capital-mix decisions. Plan and policies have to be directed at major factors as: capital structure, capital procurement and working capital borrowings; reserves and surplus as sources of funds. These plans and policies are important for determining the financial strengths or weakness of an organization.

Usage of Funds: Plans and policies for the usage of funds deals with investment or asset-mix decisions. The major considerations that are relevant here are:

- Capital investment
- Fixed asset acquisition
- Current assets
- Loans and advances
- Dividends decisions and the relationship with shareholders

Management of Funds: The management of funds is an important area of financial plans and policies it basically deals with decision related to the systematic aspects of financial management. The major areas related to the management of funds are:

- System of finance
- Accounting and budgeting
- Management control system
- Cash
- Credit
- Risk management
- Cost control and reduction
- Tax-planning and advantages

Marketing Plans and Policies: Plans and policies related to marketing have to be formulated and implemented on the basis of 4ps of marketing mix, that is, product, pricing, place (distribution) and promotion. The major issues and decisions related to these marketing mix factors are question such as:

- What types of product to offer?
- At what prices?
- Through which distribution channels?
- By which of the promotional tool?

1. **Product:** Product denotes the goods and services that an organization offers to its target markets. Plans and policies related to product and markets need to be formulated and implemented on the basis of characteristics such as quality, features, choice of models, brand names, packaging and so on.
2. **Pricing:** Pricing denotes the money customers pay for exchange of goods and services. It is important to the seller because it is the reward for his efforts. To a buyer, price is the value that is assigned to the satisfaction of its needs and wants. Several price characteristics, such as, discount, mode of payment, allowances, payment period, credit terms, and so on, affect pricing plans and policies.
3. **Place:** Place (or distribution) is the process by which goods or services are made available to the customers. Distribution plans and policies address themselves to issue, such as the channels to be used; transportation, logistics and storage inventory management, coverage of market and so on.
4. **Promotion:** This deals with the marketing communication intended to convey the company's and its product's or service's image to prospective buyers. A promotional mix consists of four activities advertising, personal selling, sales promotion and publicity.
5. **Production System:** The production system is concerned with the capacity, location, layout, product or service design, work systems, degree of automation, extent of vertical integration and other factors.
6. **Operations planning and Control:** Plans and policies related to operations planning: materials supply, inventory, cost and quality management: maintenance of plant and equipment.

The aim of strategy implementation is to see how efficiently resources are utilized and in what manner the day-to-day operations can be managed in the light of long term objectives.

Research and Development: Plans and policies for research and development deal with product development, personnel and facilities, level of technology used, technology transfer and absorption. Technological collaboration and support, and so on. Research and development is sued in strategy implementation as a foundation for implementing strategies like product development and diversification.

Personnel Plans and Policies: Personnel plans and policies relate to the personnel system, organizational and employee characteristics, and industrial relations.

Personnel System: Plans and policies related to the personnel system deal with factors like manpower planning, selection, development, compensation, communication and appraisal.

Information Management Plans and Policies: Information capability factors relate to the design and management of the flow of information from within and outside into an organization. The value of information as a tangible resource and as a source of strategic advantage has been recognized by organizations. Other area of information management are acquisition and retention of information which regards the processing and synthesis of information with factors such as the sources, quantity, quality and timeliness of information retention capacity and the security of information. Having examined not serious analysis on the functional areas earlier mentioned it would be necessary to evaluate the organizational strengths and weakness for decision making on the basis of the following:

- Evaluating an organization's strengths
- Common ORGANISATIONAL STRENGTH

A common strength is an organizational capability possessed by numerous competing firms. For example all the major strong wood film studios possess common strength in lighting sound recording, set and costume design and make up. Competitive parity exists when large numbers of competing firms can implement the same strategy. Thus a firm company that exploit sonly its common strengths in choosing and implementing strategies is not likely to go beyond average performance.

Distinctive Competences: A distinctive competency is a strength possessed by only a small number of competing firms. Distinctive competencies are rare among a set of competitors. Organizations that exploit their distinctive competencies often obtain competitive advantage and attain above-normal economic performance. Distinctive competencies are competencies that could be found in the functional areas in the organization. For example in finance, personnel, research and development; marketing and information management organization weakness can be evaluated in forms of skills and capabilities that do not enable an organization to choose and implement strategies that support its mission.

Organizations have essentially two ways of addressing weakness. First, it may need to make investments to obtain the strength required to implement strategies that support its mission, secondly, it may need to modify its mission so that it can be accomplished with the skills and capabilities that the organization already possesses.

5.4 FACTORS INFLUENCING CONSUMER BUYER BEHAVIOR

What is Consumer Buying Behavior?

Definition of Buying Behavior: Buying Behavior is the decision processes and acts of people involved in buying and using products. We need to understand:

- Why consumers make the purchases that they make?
- What factors influence consumer purchases?
- The changing factors in our society.

Consumer Buying Behavior refers to the buying behavior of the ultimate consumer. A firm needs to analyze buying behavior for:

- Buyer's reactions to a firms marketing strategy has a great impact on the firm's success.
- The marketing concept stresses that a firm should create a *Marketing Mix* (MM) that satisfies (gives utility to) customers, therefore need to analyze the what, where, when and how consumers buy.
- Marketers can better predict how consumers will respond to marketing strategies.

Stages of the Consumer Buying Process: Six Stages to the Consumer Buying Decision Process (For complex decisions). Actual purchasing is only one stage of the process. Not all decision processes lead to a purchase. All consumer decisions do not always include all 6 stages, determined by the degree of complexity...discussed next.
The 6 stages are:

- *Problem Recognition* (awareness of need)--difference between the desired state and the actual condition. Deficit in assortment of products. Hunger--Food. Hunger stimulates your need to eat. Can be stimulated by the marketer through product information--did not know you were deficient? I.E., see a commercial for a new pair of shoes, stimulates your recognition that you need a new pair of shoes.

- *Information search* Internal search, memory; External search if you need more information. Friends and relatives (word of mouth). Marketer dominated sources; comparison shopping; public sources etc. A successful information search leaves a buyer with possible alternatives, the *evoked set*. Hungry, want to go out and eat, evoked set is chinese food; indian food; burger king; klondike kates etc

- *Evaluation of Alternatives*--need to establish criteria for evaluation, features the buyer wants or does not want. Rank/weight alternatives or resume search. May decide that you want to eat something spicy, Indian gets highest rank etc.
If not satisfied with your choice then returns to the search phase. Can you think of another restaurant? Look in the yellow pages etc. Information from different sources may be treated differently. Marketers try to influence by "framing" alternatives.

- *Purchase decision*--Choose buying alternative, includes product, package, store, method of purchase etc.

- *Purchase*--May differ from decision, time lapse between 4 & 5, product availability.

- *Post-Purchase Evaluation*--outcome: Satisfaction or Dissatisfaction. ***Cognitive Dissonance***, have you made the right decision. This can be reduced by warranties, after sales communication etc. After eating an indian meal, may think that really you wanted a chinese meal instead.

Types of Consumer Buying Behavior: Types of consumer buying behavior are determined by:

- Level of Involvement in purchase decision. Importance and intensity of interest in a product in a particular situation.
- Buyer's level of involvement determines why he/she is motivated to seek information about a certain products and brands but virtually ignores others.

High involvement purchases--Honda Motorbike, high priced goods, products visible to others, and the higher the risk the higher the involvement. Types of risk:

- Personal risk
- Social risk
- Economic risk

The four type of consumer buying behavior are:

- Routine Response/Programmed Behavior--buying low involvement frequently purchased low cost items; need very little search and decision effort; purchased almost automatically. Examples include soft drinks, snack foods, milk etc.
- Limited Decision Making--buying product occasionally. When you need to obtain information about unfamiliar brand in a familiar product category, perhaps. Requires a moderate amount of time for information gathering. Examples include Clothes--know product class but not the brand.
- Extensive Decision Making/Complex high involvement, unfamiliar, expensive and/or infrequently bought products. High degree of economic/performance/psychological risk. Examples include cars, homes, computers, education. Spend a lot of time seeking information and deciding. Information from the companies MM; friends and relatives, store personnel etc. Go through all six stages of the buying process.
- Impulse buying, no conscious planning.

The purchase of the same product does not always elicit the same Buying Behavior. Product can shift from one category to the next. For example: Going out for dinner for one person may be extensive decision making (for someone that does not go out often at all), but limited decision making for someone else. The reason for the dinner, whether it is an anniversary celebration, or a meal with a couple of friends will also determine the extent of the decision making.

Consumer purchases are influenced strongly by or there are four factors.

- Cultural Factor
- Social Factor
- Personal Factor
- Psychological Factor.

Cultural Factor: Cultural factor divided into three sub factors (i) Culture (ii) Sub Culture (iii) Social Class

- **Culture:** The set of basic values perceptions, wants, and behaviors learned by a member of society from family and other important institutions. Culture is the most basic cause of a person's wants and behavior. Every group or society has a culture, and cultural influences on buying behavior may vary greatly from country to country.

- **Sub Culture: A** group of people with shared value systems based on common life experiences and situations. Each culture contains smaller sub cultures a group of people with shared value system based on common life experiences and situations. Sub culture includes nationalities, religions, racial group and geographic regions. Many sub culture make up important market segments and marketers often design products.

- **Social Class:** Almost every society has some form of social structure; social classes are society's relatively permanent and ordered divisions whose members share similar values, interests and behavior.

Social Factors: A consumer's behavior also is influenced by social factors, such as the (i) Groups (ii) Family (iii) Roles and status

- **Groups:** Two or more people who interact to accomplish individual or mutual goals. A person's behavior is influenced by many small groups. Groups that have a direct influence and to which a person belongs are called membership groups. Some are primary groups includes family, friends, neighbors and coworkers. Some are secondary groups, which are more formal and have less regular interaction. These include organizations like religious groups, professional association and trade unions.

- **Family:** Family members can strongly influence buyer behavior. The family is the most important consumer buying organization society and it has been researched extensively. Marketers are interested in the roles, and influence of the husband, wife and children on the purchase of different products and services.

- **Roles and Status:** A person belongs to many groups, family, clubs, and organizations. The person's position in each group can be defined in terms of both role and status. For example. M & "X" plays the role of father, in his family he plays the role of husband, in his company, he plays the role of manager, etc. A Role consists of the activities people are expected to perform according to the persons around them.

Personal Factors: It includes (i) Age and life cycle stage (ii) Occupation (iii) Economic situation (iv) Life Style (v) Personality and self concept.

- **Age and Life cycle Stage:** People change the goods and services they buy over their lifetimes. Tastes in food, clothes, furniture, and recreation are often age related. Buying is also shaped by the stage of the family life cycle.

- **Occupation:** A person's occupation affects the goods and services bought. Blue collar workers tend to buy more rugged work clothes, whereas white-collar workers buy more business suits. A Co. can even specialize in making products needed by a given occupational group. Thus, computer software companies will design different products for brand managers, accountants, engineers, lawyers, and doctors.

- **Economic situation:** A person's economic situation will affect product choice

- **Life Style:** Life Style is a person's Pattern of living, understanding these forces involves measuring consumer's major AIO dimensions. i.e. activities (Work, hobbies, shopping, support etc) interest (Food, fashion, family recreation) and opinions (about themselves, Business, Products)

- **Personality and Self concept:** Each person's distinct personality influences his or her buying behavior. Personality refers to the unique psychological characteristics that lead to relatively consistent and lasting responses to one's own environment.

Psychological Factors: It includes these Factors. (i) Motivation (ii) Perception (iii) Learning (iv) Beliefs and attitudes

- **Motivation :** Motive (drive) a need that is sufficiently pressing to direct the person to seek satisfaction of the need

- **Perception:** The process by which people select, Organize, and interpret information to form a meaningful picture of the world.

- **Learning:** Changes in an individual's behavior arising from experience.

- **Beliefs and attitudes:** Belief is a descriptive thought that a person holds about something. Attitude, a Person's consistently favorable or unfavorable evaluations, feelings, and tendencies towards an object or idea.

5.5 BUYER DECISION PROCESS

Buyer decision processes are the decision making processes undertaken by consumers in regard to a potential market transaction before, during, and after the purchase of a product or service. More generally, decision making is the cognitive process of selecting a course of action from among multiple alternatives. Common examples include shopping deciding what to eat. Decision making is said to be a psychological construct. This means that although we can never "see" a decision, we can infer from observable behavior that a decision has been made. Therefore we conclude that a psychological event that we call "decision making" has occurred. It is a construction that imputes commitment to action. That is, based on observable actions, we assume that people have made a commitment to effect the action. In general there are three ways of analyzing consumer buying decisions. They are:

- Economic models - These models are largely quantitative and are based on the assumptions of rationality and near perfect knowledge. The consumer is seen to maximize their utility. See consumer theory. Game theory can also be used in some circumstances.
- Psychological models - These models concentrate on psychological and cognitive processes such as motivation and need recognition. They are qualitative rather than quantitative and build on sociological factors like cultural influences and family influences.
- Consumer behavior models - These are practical models used by marketers. They typically blend both economic and psychological models.

Nobel laureate Herbert Simon sees economic decision making as a vain attempt to be rational. He claims (in 1947 and 1957) that if a complete analysis is to be done, a decision will be immensely complex. He also says that peoples' information processing ability is very limited. The assumption of a perfectly rational economic actor is unrealistic. Often we are influenced by emotional and non-rational considerations. When we try to be rational we are at best only partially successful.

Models of buyer decision making: In an early study of the buyer decision process literature, Frank Nicosia identified three types of buyer decision making models. They are the univariate model (He called it the "simple scheme".) in which only one behavioral determinant was allowed in a stimulus-response type of relationship; the multi-variate model (He called it a "reduced form scheme".) in which numerous independent variables were assumed to determine buyer behavior; and finally the "system of equations" model (He called it a "structural scheme" or "process scheme".) in which numerous functional relations (either univariate or multi-variate) interact in a complex system of equations. He concluded that only this third type of model is capable of expressing the complexity of buyer decision processes. Nicosia built a comprehensive model involving five modules. The encoding module includes determinants like "attributes of the brand", "environmental factors", "consumer's attributes", "attributes of the organization", and "attributes of the message". Other modules in the system include consumer decoding, search and evaluation, decision, and consumption.

General model: A general model of the **buyer decision process** consists of the following steps:

1. Problem recognition;
2. Gathering Information
3. Alternative education
4. Purchase decision
5. Post-purchase behavior/buyer's remorse (cognitive dissonance)

There are a range of alternative models, but that of AIUAPR, which most directly links to the steps in the marketing/promotional process is often seen as the most generally useful;

- **Awareness** - before anything else can happen the potential customers must become aware that the product or service exists. Thus, the first task must be to gain the attention of the target audience. All the different models are, predictably, agreed on this first step. If the audience never hears the message, they will not act on it, no matter how powerful it is.
- **Interest** - but it is not sufficient to grab their attention. The message must interest them and persuade them that the product or service is relevant to their needs. The content of the message(s) must therefore be meaningful and clearly relevant to that target audience's needs, and this is where marketing research can come into its own.
- **Understanding** - once an interest is established, the prospective customer must be able to appreciate how well the offering may meet his or her needs, again as revealed by the marketing research. This may be no small achievement where the copywriter has just fifty words, or ten seconds, to convey everything there is to say about it.
- **Attitudes** - but the message must go even further; to persuade the reader to adopt a sufficiently positive attitude towards the product or service that he or she will purchase it, albeit as a trial. There is no adequate way of describing how this may be achieved. It is simply down to the magic of the copywriter's art, or based on the strength of the product or service itself.
- **Purchase** - all the above stages might happen in a few minutes while the reader is considering the advertisement; in the comfort of his or her favorite armchair. The final buying decision, on the other hand, may take place some time later; perhaps weeks later, when the prospective buyer actually tries to find a shop which stocks the product.
- **Repeat Purchase** - but in most cases this first purchase is best viewed as just a trial purchase. Only if the experience is a success for the customer will it be turned into repeat purchases. These repeats, not the single purchase which is the focus of most models, are where the vendors focus should be, for these are where the profits are generated. The earlier stages are merely a very necessary prerequisite for this!

This is a very simple model, and as such does apply quite generally. Its lessons are that you cannot obtain repeat purchasing without going through the stages of building awareness and then obtaining trial use; which has to be successful. It is a pattern which applies to all repeat purchase products and services; industrial goods just as much as baked beans. This simple theory is rarely taken any further - to look at the series of transactions which such repeat purchasing implies. The consumer's growing experience over a number of such transactions is often the determining factor in the later - and future - purchases. All the succeeding transactions are, thus, interdependent - and the overall decision-making process may accordingly be much more complex than most models allow for.

Cognitive and personal biases in decision making: It is generally agreed that biases can creep into our decision making processes, calling into question the correctness of a decision. Below is a list of some of the more common cognitive biases.

- Selective search for evidence - We tend to be willing to gather facts that support certain conclusions but disregard other facts that support different conclusions.
- Premature termination of search for evidence - We tend to accept the first alternative that looks like it might work.
- Conservatism and inertia - Unwillingness to change thought patterns that we have used in the past in the face of new circumstances.
- Experiential limitations - Unwillingness or inability to look beyond the scope of our past experiences; rejection of the unfamiliar.
- Selective perception - We actively screen-out information that we do not think is salient.
- Wishful thinking or optimism - We tend to want to see things in a positive light and this can distort our perception and thinking.
- Recency - We tend to place more attention on more recent information and either ignore or forget more distant information.
- Repetition bias - A willingness to believe what we have been told most often and by the greatest number of different of sources.
- Anchoring - Decisions are unduly influenced by initial information that shapes our view of subsequent information.
- Group think - Peer pressure to conform to the opinions held by the group.
- Source credibility bias - We reject something if we have a bias against the person, organization, or group to which the person belongs: We are inclined to accept a statement by someone we like.
- Incremental decision making and escalating commitment - We look at a decision as a small step in a process and this tends to perpetuate a series of similar decisions. This can be contrasted with **zero-based decision making**.
- Inconsistency - The unwillingness to apply the same decision criteria in similar situations.
- Attribution asymmetry - We tend to attribute our success to our abilities and talents, but we attribute our failures to bad luck and external factors. We attribute other's success to good luck, and their failures to their mistakes.
- Role fulfillment - We conform to the decision making expectations that others have of someone in our position.
- Underestimating uncertainty and the illusion of control - We tend to underestimate future uncertainty because we tend to believe we have more control over events than we really do.
- Faulty generalizations - In order to simplify an extremely complex world, we tend to group things and people. These simplifying generalizations can bias decision making processes.
- Ascription of causality - We tend to ascribe causation even when the evidence only suggests correlation. Just because birds fly to the equatorial regions when the trees lose their leaves, does not mean that the birds migrate *because* the trees lose their leaves.

5.6 INPUTS FOR BUYING DECISION PROCESS

Understanding the Buyer's Decision Process: Many of the world's best sales forces are the best because they have developed and used the systematic sales process. Having a map of the things that have to happen before a sale can be made which provides a framework for sales planning and activity, reduces mistakes, and shortens new hire ramp-up time. However, what is conspicuously absent from most of these process maps are the things that prospective customers have to do each step of the way in order to buy. The truth is that the things that are done at any particular step or stage in the process could be a complete waste of time if the client doesn't do what they must do to move forward to the next step or stage in their buying process.

As sales professionals, you don't retire quota or earn commissions for anything that you do. You get paid on what your prospects do. When they sign a contract or issue a purchase order, then you make some money. You have to accept that you cannot control your prospects. Account Managers or Sales Managers often ask, "What do we have to do to close this deal?" That is the wrong question. What you should be asking is, "What does the prospect have to do in order to buy?" and then the follow-on question is, "What do we have to do to get them to do those things?"

Whether or not you have or follow a systematic sales process, you should endeavor to understand and document your prospect's buying process. You must understand not only the things that have to happen throughout the selection and approval process, but who will be involved along the way. Armed with a thorough understanding of the steps and stages of your prospects buying process, you can plan your work accordingly. Then every single move you make can be made with the specific intent of enabling or empowering your prospect to take the next step they need to take in order to buy. In order for you and the buyer to understand the buying process, you need to ask questions. Lots of questions. Here are some questions that will help you and the buyer define and clarify what has to happen before a decision will be made:

1. What kind of results are you having with your current advertising campaign?
2. If your current campaign is not providing for you what you need it to how do you plan on discovering if another campaign might work better?
3. How have you managed to do so well in spite of the fact that you are not receiving from your current campaign what you really need?
4. How did you come to accept these less than satisfactory results from your existing campaign? What needs to happen before you and the other decision makers in this company will decide to do something different?
5. Can your existing advertising provide the results needed to take your business to the next level? If so, what has stopped it from providing the results before?
6. What do you and the other decision makers need to know or understand before you will be willing to solve this problem?
7. Since bringing in a new advertising strategy and plan would necessitate changes, what would your decision team need to understand before they'd be willing to help you through the change process?
8. What would they need to see or hear before they would be able to understand that this new process would not create chaos for them?
9. What I hear you saying is that you need blah, blah and blah from me to have the confidence that we can help you. Is that correct? What would you like for me to do next?

Before you proceed to any next step, you should know and understand exactly what has to happen next in their buying process, and what you're going to do to make that happen. If you spend the time and money to go visit a prospect without a plan of what you intend to say and do to help them take the next step in their buying process then you are little more than a professional visitor.

Defining and documenting a useful map of our prospects buying process will take time, it will take effort, and it will require that you reach, qualify, and sell to all of the people who will play a part in the selection and approval process. You will need a lot of input and perspective because simply accepting any one person's opinion of their process leaves too many variables to chance and ultimately leaves you with too much exposure and opportunity for failure. Taking the time to thoroughly understand all of the things that the prospect needs to do in order to buy often makes the difference between the very successful and those who simply get by.

How do customers buy? Research suggests that customers go through a five-stage decision-making process in any purchase. This is summarized in the diagram below:

This model is important for anyone making marketing decisions. It forces the marketer to consider the whole buying process rather than just the purchase decision (when it may be too late for a business to influence the choice!) The model implies that customers pass through all stages in every purchase. However, in more routine purchases, customers often skip or reverse some of the stages. For example, a student buying a favorite hamburger would recognize the need (hunger) and go right to the purchase decision, skipping information search and evaluation. However, the model is very useful when it comes to understanding any purchase that requires some thought and deliberation. The buying process starts with need recognition. At this stage, the buyer recognizes a problem or need (e.g. I am hungry, we need a new sofa, I have a headache) or responds to a marketing stimulus (e.g. you pass Starbucks and are attracted by the aroma of coffee and chocolate muffins).

An "aroused" customer then needs to decide how much information (if any) is required. If the need is strong and there is a product or service that meets the need close to hand, then a purchase decision is likely to be made there and then. If not, then the process of information search begins. A customer can obtain information from several sources:

- Personal sources: family, friends, neighbors etc
- Commercial sources: advertising; salespeople; retailers; dealers; packaging; point-of-sale displays
- Public sources: newspapers, radio, television, consumer organizations; specialist magazines
- Experiential sources: handling, examining, using the product

The usefulness and influence of these sources of information will vary by product and by customer. Research suggests that customer's value and respect personal sources more than commercial sources (the influence of "word of mouth"). The challenge for the marketing team is to identify which information sources are most influential in their target markets. In the evaluation stage, the customer must choose between the alternative brands, products and services.

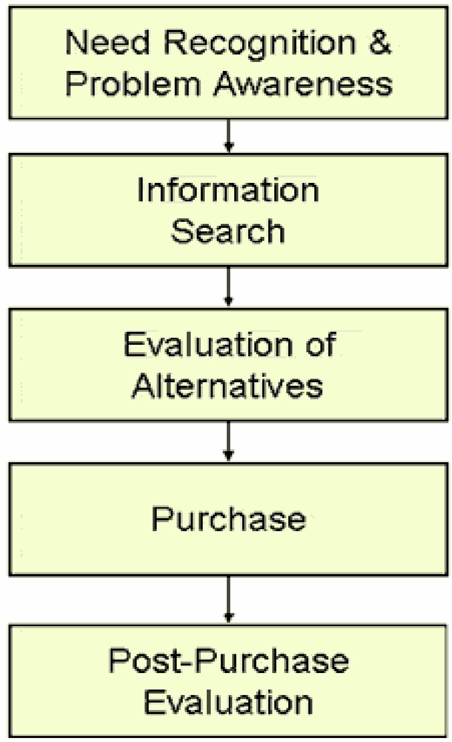

Figure 5.5: How Customers buy?

How does the customer use the information obtained? An important determinant of the extent of evaluation is whether the customer feels "involved" in the product. By involvement, we mean the degree of perceived relevance and personal importance that accompanies the choice. Where a purchase is "highly involving", the customer is likely to carry out extensive evaluation.

- **High-involvement purchases** include those involving high expenditure or personal risk – for example buying a house, a car or making investments.
- **Low involvement purchases** (e.g. buying a soft drink, choosing some breakfast cereals in the supermarket) have very simple evaluation processes.

Why should a marketer need to understand the customer evaluation process? The answer lies in the kind of information that the marketing team needs to provide customers in different buying situations. In high-involvement decisions, the marketer needs to provide a good deal of information about the positive consequences of buying. The sales force may need to stress the important attributes of the product, the advantages compared with the competition; and maybe even encourage "trial" or "sampling" of the product in the hope of securing the sale.

Post-purchase evaluation - Cognitive Dissonance: The final stage is the post-purchase evaluation of the decision. It is common for customers to experience concerns after making a purchase decision. This arises from a concept that is known as "cognitive dissonance". The customer, having bought a product, may feel that an alternative would have been preferable. In these circumstances that customer will not repurchase immediately, but is likely to switch brands next time. To manage the post-purchase stage, it is the job of the marketing team to persuade the potential customer that the product will satisfy his or her needs. Then after having made a purchase, the customer should be encouraged that he or she has made the right decision.

5.7 CONSUMER TRENDS

Top Ten Consumer trends according to **Daphne Kasriel.** All expectations are that this will be a year of guarded consumption for credit-crunched consumers globally – but consumption is more resilient than people might think and many commentators point out that the global consumer mindset is tuned to recession-spending.

Considered but resilient consumption: "The Lipstick Effect" is the phenomenon of the rise of small self-treating on make-up and gadgets when people forego extravagant purchases such as cars and holidays in times of recession. This tendency is all about consumers' sustained need to enjoy consumption and express their identity despite their pressured lives. Overall, consumers may scale down on purchases and live with delayed gratification by saving and investing more in retraining and putting more energy into getting better value. But the definition of value will be different for different products. For instance, consumers will seek the lowest price for products that serve basic needs such as food, whereas in self-treating and small luxuries, the value of feeling indulged is given precedence. The Lipstick Effect endures.

Age of uncertainty: "When there's so much uncertainty, volatility and anxiety, it's harder to define trends. You're not so much trying to predict the future as trying to create a conversation about where the future might go. Most of the time you're illuminating the present," says Sydney-based futurist Richard Watson, author of new book "Future Files".

Commentators, journalists and bloggers are certainly signalling 2009 as a year of fear, anxiety and uncertainty for consumers who, in order to fight back against these pressures, will need to engage with them using resourceful coping strategies. These include immersing themselves in the safety and comfort of their home cocoons, voluntarily trimming spending, redefining their relationship with brands so that this becomes more of a dialogue rather than a one-way brand-to-consumer communication and reinventing and re-launching themselves through retraining, thrift, bargain hunting, revised leisure time aspirations etc.

A new shopping aesthetic: Value redefined as quality: Value rather than cheapness will now count when consumers have to choose between brands when making purchasing decisions in the year ahead. Hence consumers will reward brands focusing on quality with loyalty. In this new retail landscape, value equates to quality, longevity, sustainability and meaning. This last attribute indicates that consumers seek consumption that they also perceive as adding value to their lives.

Popular international consumer rating site, Qype, stands for quality not hype. This revival of consumer interest in lasting quality replaces the "little and often" approach of recent years. Mass consumption has also led to mountains of discarded cheap synthetic clothing at landfill sites that worry ethical consumers. Commentators and bloggers are arguing that fast, throwaway fashion, central to our transient, disposable culture is slowing down. Says a spokesperson from UK supermarket ASDA: “We did a survey with our customers at the beginning of the year. They said they are now making product choices around quality and value for money.”

This consumer perception of value in quality will extend to clothing, food and the home – e.g. timeless pieces that will remain stylish rather than one-season fast fashion outfits. The design boom of recent years has been fuelled by fast-turnaround trends and seasonal collections that ape the fashion industry. Expectations are for a design aesthetic reverting to the original premise of design: creating useful things that last.

The death of bling? The definition of lavish is morphing before our eyes write Jeff Barrett and Robin Turner in the UK's Times. Concurring that the ultra-cheap, throwaway purchase feels wrong, they also stress that bling may have to take a rest cure as “whatever your financial circumstances, being seen to spend unseemly amounts of money is no longer fashionable.” With conspicuous consumption looking like bad taste, high-end labels benefiting from the new discretion include Bottega Veneta and others evoking consumer perceptions of luxury that is sustainable. The best luxury marketers will offer consumers reassurance about making non-essential purchases.

Designer Karl Lagerfeld recently declared the age of bling over due to the economic crisis. Celebrities are noticeably pared down in monochrome colors and minimal adornment. Stylists are busy seeking conspicuously inconspicuous red carpet looks. This is not a global fact, however. According to consumer expert Arund Singhal, Indian consumers, particularly middle income urbanites and the relatively young segment will display a more visible consumption of bling in 2009, with some consumers willing to pay a premium for it.

Malaysians are still packing shopping malls, though the slowdown has turned them into bargain hunters. An international Synovate consumer survey showed that 53% of Malaysians were worried, but spending earnestly. It was the highest proportion out of nine countries – Brazil, Taiwan, Turkey, Japan, Russia, the USA, France and South Africa - surveyed. The 1,000 Malaysian respondents aged 50-64 had been quick to trim spending on non-essentials however, such as leisure travel, branded items, meals with loved-ones, big-ticket items and foodstuffs considered treats.

Uber-cocooning: In times of economic upheaval and anxiety, people often resort to virtual escapes (everything from films to virtual worlds) and indulge in cocooning – retreating into a home-centered lifestyle. This trend which involves equipping the home with gadgets and touches of indulgence is likely to intensify. "As we fret about what is happening in the wider world, people's natural instinct is to cocoon themselves away," says designer and trend spotter Mark Garside. "Homely details [inspired by the natural world] are creeping into every aspect of design.” The new do-it-at-home culture will thrive. Commentators are in agreement that consumers will be less likely to waste money buying time and a fast-track route to consumption through convenience. One old maxim about the consumer economy was that “people have to eat” - the basis by which food companies are deemed recession-proof. But people don't have to eat out at expensive restaurants nor eat high-priced luxury or organic health foods - three food sectors which now look vulnerable.

With less disposable income, consumers are cutting back on non-essentials, fixing rather than discarding, downsizing to a smaller car, getting rid of second homes, possibly renting rather than buying, and retreating all the more into their comforting spaces – ideal settings for the enjoyment of in-home entertainment which is relatively inexpensive after the initial outlay. This is why there is still huge consumer demand for electronics, albeit more affordable models. Personal gadgets from cell phones to media players are also a form of "outdoor cocooning". Television producers like Sally Haynes, the controller of drama commissioning at the UK's ITV channel have noted that rising interest in escapist drama is perfectly geared to the mood.

Female "Frugalistas": Brands keen on recession-proof marketing to women will need to realize that women are currently serving not just as the family CPO (Chief Purchasing Officer) but the CTO (Chief Thrift Officer). Time-starved women have heavily relied on convenience products and services to manage their multiple responsibilities. While money is tight, women will feel obliged to forgo the price premiums they have been paying for this kind of help and take on the labor themselves. By shifting their marketing focus from super-convenience to ingredients (like jarred sauces), food brands, for instance, will capture their share of women now seeking 'made from scratch' foods. The best messages will focus on the bright side of home cooking such as making memories cooking together etc. Fast food chains are already jumping on the bandwagon. Builders, estate agents, manufacturers, retailers and e-tailers can also adopt new strategies to keep women buying. Psychologist Judy James says the frugal attitude of women doesn't seem to have caught on among men. She sees the downturn as having brought out the Alpha Female 'warrior' side of women, bringing their competitive and strategic skills to the fore.
Interest in financial services will rise. Former Fashionistas are now researching on investments to justify their purchases. One blogger describes this as a shift from "indulgence shopping" to "investment shopping". Even Gen Y is expected to "do" delayed gratification.

Focus on wellbeing and DIY healthcare: Health and wellbeing translated as consumer satisfaction looks set to be a resilient consumer concern – even if it is accompanied by more self-treating and "DIY doctors" as part of the fashion for self sufficiency, itself driven by uncertainty. The huge consumer interest in "alli" the only FDA-approved over-the-counter weight loss product is significant. The product's strap line urges consumers who don't like what they see in the mirror to "change your vision, challenge yourself to do things differently." These capsules prevent the body from absorbing all fat consumed, while this diet plan is accompanied by "mialliplan", which includes an interactive online journal for users and other motivational tools. Consumers will remain concerned about their surrounding environment – including nature, society and public policy. Countless consumers are still aspiring to aspects of celebrity lifestyles to feel good about themselves: "This season is all about celebrity fragrances and endorsements," says Felicia Milewicz, beauty director of Glamour magazine. Dolce & Gabbana have just called on Scarlett Johansson to front their debut make-up campaign.

Cyberspace as lifestyle need, cheap entertainment and work arena: Millions of consumers will continue to feel that being online wherever they are is a basic lifestyle need. In the current economic context, the internet and the whole phenomenon of Web 2.0 is also about the internet as cheap sanctuary, communications, entertainment, socializing and dating tool as well as “word of mouse” haven where consumers can compare notes on brands (data firm Jupiter found that 77% of online shoppers are using reviews and ratings when making their purchasing decisions) and where savvy brands can reach out to them by joining in and responding to online 'market conversations'.

Consumers can also get into cyberspace more easily, now that the industry has finally responded to strong consumer demand for cheap, small, stylish laptops (net books) and phones acting as better on-the-go pocket-sized telecoms and web-browsers. Online consumers will continue to influence what other consumers buy through peer-to-peer reviewing. Trend commentators such as trend watching are stressing the market as a conversation in the future and Feedback 3.0. According to trend watching, it “will be all about companies joining the conversation, if only to get their side of the story in front of the mass audience that now scans reviews.”

Major brands including Starbucks, Ford and Pepsi-Co are already using micro-blogging site Twitter to micro-manage their PR. For instance, PR staff at PepsiCo posted messages on the site after users began criticizing one of the company's advertisements, which depicted a cartoon calorie committing suicide. One member "tweeted" back: "Thank you for having the guts to get on Twitter on behalf of Pepsi and give us an update on the suicide ad." Innovative online campaigns are thriving. Lastminutetravel.com's newly launched 'world for a $' teaser offers visitors 15,000 hotels for US$1 per night for 15 minutes every workday. When this happens is the catch but the one million plus viewers to date of their comedy viral ad clips are promised clues. While millions are still buying online albeit after extensive comparison shopping and a heightened interest in second-hand sites and rental sites, others are also using the web to find and do additional work to top up employed income – sometimes called the “5pm to 9am economy”.

A parallel return to the real world and old world values: Paradoxically, a degree of “unplugging” is predicted too, as many consumers relinquish digital acquaintances for more human contact, reclaiming personal or family time. Recent eye-catching ads from Dentyne chewing gum play upon this unplugging trend. For instance: “chatroom full” features a photo of happy youths and then the strap line: “minimize buddy list, maximize buddies. Make face time.”

While people will be more self reliant, “we” not me will thrive and family and community will be pushed back together. This return to the familiar means consumers may be less likely to experiment dealing with people and brands they don't know, because they don't trust them - brands will become more receptive to values as a result. There is an aspirational element at work here stresses futurist Richard Watson. Just as owning a mobile phone was once seen as a mark of sophistication, using one sparingly or not at all is becoming a signal that a person has sorted out their priorities or has staff to do this: hence the phrase 'digital diets' and an interest in analogue products such as fountain pens and vinyl records.

This feeling is also behind a lasting interest in the authentic and the enduring in consumption, which is craved by consumers to give them a sense of safety and control in uncertain times. Imbys (in my back yard) will continue to be vocal proponents of buying from small businesses, handmade items and importantly, local and national products. This quest can be met by a myriad of products and services from comfort foods, to retro themes to holidays etc. Meanwhile, more consumers will be joining LOHAS (lifestyles of health and sustainability consumers) or 'deep greens' and downsizing with a greater awareness of the natural world, even though to city dwellers, the thought of growing their own food or hiking without a personal sat nav is faintly terrifying!

Thrift meets green: One trend picks up on many we will find in 2009, that of green thrift. Some commentators are highlighting “eco-fatigue”, and that green considerations come second in times of financial crisis. “Eco-cynics” underline “green washing” by brands and the hypocrisy of celebrities who drive a Toyota Prius and then hop on a private jet but there is a clear crossover between thrift and green in consumer behavior. Consumers are realizing that on so many levels these two trends meet each others' needs – consuming less per se is both green and economical. This crossover is leading to interesting new consumer activity driving the mushrooming of swapping and recycling sites that help put mismatched presents and receivers out of their misery and the proliferation of home exchange websites. Free cycle had over 1.5 million members at the beginning of the year. Swapz.co.uk had half a million visits at the start of a January 2009 alone. This trend puts consumers directly in touch with each other, bypassing mediation by companies.

5.8 MARKET SEGMENTATION PROCESS

The division of a market into different homogeneous groups of consumers is known as **market segmentation**.

Rather than offer the same marketing mix to vastly different customers, market segmentation makes it possible for firms to tailor the marketing mix for specific target markets, thus better satisfying customer needs. Not all elements of the marketing mix are necessarily changed from one segment to the next. For example, in some cases only the promotional campaigns would differ.

A market segment should be:

- measurable
- accessible by communication and distribution channels
- different in its response to a marketing mix
- durable (not changing too quickly)
- substantial enough to be profitable

A market can be segmented by various bases, and industrial markets are segmented somewhat differently from consumer markets, as described below.

Consumer Market Segmentation: A basis for segmentation is a factor that varies among groups within a market, but that is consistent within groups. One can identify four primary bases on which to segment a consumer market**:**

- **Geographic segmentation** is based on regional variables such as region, climate, population density, and population growth rate.

- **Demographic segmentation** is based on variables such as age, gender, ethnicity, education, occupation, income, and family status.
- **Psychographic segmentation** is based on variables such as values, attitudes, and lifestyle.
- **Behavioral segmentation** is based on variables such as usage rate and patterns, price sensitivity, brand loyalty, and benefits sought.

The optimal bases on which to segment the market depend on the particular situation and are determined by marketing research, market trends, and managerial judgment. The purpose for segmenting a market is to allow your marketing/sales program to focus on the subset of prospects that are "most likely" to purchase your offering. If done properly this will help to insure the highest return for your marketing/sales expenditures. Depending on whether you are selling your offering to individual consumers or a business, there are definite differences in what you will consider when defining market segments.

Category of Need: The first thing you can establish is a category of need that your offering satisfies. The following classifications may help.

For businesses:

- Strategic - your offering is in some way important to the enterprise mission, objectives and operational oversight. For example, a service that helped evaluate capital investment opportunities would fall into this domain of influence. The purchase decision for this category of offering will be made by the prospect's top level executive management.
- Operations - your offering affects the general operating policies and procedures. Examples might be, an employee insurance plan or a corporate wide communications system. This purchase decision will be made by the prospect's top level operations management.
- Functional - your offering deals with a specific function within the enterprise such as data processing, accounting, human resources, plant maintenance, engineering design, manufacturing, inventory control, etc. This is the most likely domain for a product or service, but you must recognize that the other domains may also get involved if the purchase of the product or service becomes a high profile decision. This purchase decision will be made by the prospect's functional management.

For the individual consumer:

- Social Esteem or Pleasure - your offering satisfies a purely emotional need in the consumer. Examples are a mink coat or a diamond ring. There are some products that are on the boundary between this category and the Functional category such as a Rolex watch (a Timex would satisfy the functional requirement and probably keep time just as well).
- Functional - your offering meets a functional requirement of the consumer such as a broom, breakfast cereal or lawnmower.

Segmentation of Needs: Then you should establish what the need is and who is most likely to experience that need. Your segmentation will be determined by a match between the benefits offered by your offering and the need of the prospect. Some "need" categories for segmentation include:

- **Reduction in expenses:** Prospects might be businesses that are downsizing (right sizing), businesses that have products in the mature stage of their life cycle or individuals with credit rating problems.

- **Improved cash flow:** Prospects might be businesses that have traditionally low profit margins, businesses that have traditionally high inventory costs or individuals that live in expensive urban areas.

- **Improved productivity:** Prospects might be businesses that have traditionally low profit margins, businesses that have recently experienced depressed earnings or individuals with large families.

- **Improved manufacturing quality:** Prospects might be businesses with complex, multi-discipline manufacturing processes.

- **Improved service delivery:** Prospects might be service businesses in highly competitive markets, product businesses requiring considerable post-sale support or individuals in remote or rural areas.

- **Improved employee working conditions/benefits:** Prospects might be businesses where potential employees are in short supply.

- **Improvement in market share/competitive position:** Prospects might be new entrants to a competitive market.

- **Need for education:** Prospects might be businesses or individuals looking for books on business planning, or seminars on Total Quality Management.

- **Involvement with social trends:** Prospects might be businesses concerned with environmental protection, employee security, etc. or individuals who believe in say 'no' to drugs, anti-crime, etc.

- **Specific - relating to product/service characteristics:** Prospects might be businesses or individuals interested in safety, security, economy, comfort, speed, quality, durability, etc.

Factors that segment prospects: Having determined the more general segmentation characteristics you can proceed to a more detailed analysis of the market. There are literally thousands of ways to segment a market, but the following are some of the more typical segmentation categories.

For businesses:

- **Industry by SIC code:** This is especially beneficial for vertical market offerings.
- **Size - revenues, # employees, # locations:** In general if your offering is highly sophisticated, requires significant resources or provides greater value based on volume, then the target should be the larger enterprises.
- **Job position/responsibility:** Examples of offerings might be planning software for managers or cleaning agents for maintenance managers.
- **Climate:** Examples of offerings might be dehumidifiers in areas near the ocean or snow plows in northern areas.
- **Time related factors**: Some services in this category are vacation related industries in summer and tax planners in the spring.
- **Language:** An example of a language specific service is a Spanish TV channel.
- Status in the industry: You might want to target businesses that are the technology leader or revenue leader or employee satisfaction leader, etc.
- **Accessibility:** To minimize promotion and sales expense you may want to target urban rather than rural or local rather than national prospects.
- **Future potential:** A good example is how Apple Computer supplied products to schools at all levels to condition students graduating into the marketplace.
- **Ability to make a quick purchase decision:** Targeting individual purchasers versus business committees can significantly reduce marketing expense and increase the probability of a quick close.
- **Access (or lack of access) to competitive offerings:** Cable TV business's significant investment in their service delivery system has allowed a near monopoly for some time. IBM's service reputation insured minimal competition during the mainframe days.
- **Need for customization:** Offerings such as police cars, busses for municipalities and specialized computer systems fall into this category.
- **Product or service application to a business function:** Examples are data processing, accounting, human resources and plant maintenance.

For Individual Consumers:

- **Physical Size:** Offerings might be big men's clothing, golf clubs for shorter players, etc.
- Creation of or response to a fad: Examples are hula hoops, Jurassic Park T-shirts, pet rock, physical fitness, etc.
- **Geographic location:** Marketers take advantage of location by selling suntan lotion in Hawaii, fur coats in Alaska, etc.
- **Time related factors:** You may be able to target vacationers in summer, impulse buyers during the holidays or commuters at 7AM.
- **Demographics/culture/religion:** Ethnic products would fall into this category.
- **Gender:** Product examples are scarves for women, ties for men, etc.
- **Age:** Product examples are toys for children, jewelry for women, etc.
- **Social status:** This could include country club memberships, philanthropic contributions, etc.

- **Education:** Product and service examples are encyclopedias, scientific calculators, learning to read tools and financial counseling.
- **Avocation:** This could include products for hunting, fishing, golf, art work, knitting, etc.
- Special Interests: You could target cat lovers, science fiction readers, jazz music collectors, etc.
- **Accessibility:** Because the individual is more difficult to reach you may want to segment by urban versus rural, train commuters, people who read Wall Street Journal, etc.
- **Access (or lack of access) to competitive offerings:** Due to high investment capital requirements or timing of market entry you may be able to capture a significant market share in a specific geographical area. Examples might be a trash service, emergency medical support, etc.
- **Need for specific information:** Based on features or content of your offering you can target a market segment. A product might be books on how to start a business or a service might be seminars on how to quit smoking.
- **Need for customization:** Product/service examples are home decoration, fashion wear, personal portraits, etc.
- **Need for quality, durability, etc.:** Product examples are mountain climbing gear, carpenter's tools, etc.
- **Degree of a product/service ingredient:** Segmentation based on prospect preferences is common. An example is dark chocolate for some tastes, light chocolate for others.

Purchase decision influencers: Once you have isolated a specific segment of the market on which to focus, then you can consider more subtle influences on the purchase decision. Some of these are:

- **Preference for channel of distribution:** Many prospects prefer to buy through a specific distributor or wholesaler. For individuals this may be due to subtle, as well as, economic reasons. For example, an individual prospect may immediately think of Wal-Mart or Home Depot when considering an offering like yours. A business often has a preference so they can have a single communication point for all purchases. This also often results in lower purchase prices.
- **Number of decision makers:** When selling to consumers or businesses, the more individuals or groups involved in the purchase decision, the more difficult the sale. Marketing costs for selling bread can stay low because one person normally makes the purchase decision. Car purchases are more complex because the purchase decision normally involves a husband and wife. Business sales to committees often require months to achieve a decision.
- **Financial strength of the prospect:** Less affluent prospects may desire time payments versus a cash purchase and Chevrolets instead of Cadillacs.
- **Quantity/volume requirements:** Restaurants will want large jars of pickles while individuals want small jars. Businesses use large amounts of electricity at predictable times.
- **Ability to use the offering:** Trying to sell to a prospect who lacks either the knowledge or resources to properly benefit from your offering will result in a 'no sale' situation or an unhappy customer. The prospect should have knowledge and resources such as time, equipment, facilities, personnel and complementary products/services.

- **Commitment required:** If the offering requires a high commitment in terms of time, resources or money by the customer then the target should be prospects who 'really need' the offering rather than prospects who get some, but not a lot, of benefits.
- **Brand awareness/users:** Examples are prospects who ask for IBM compatible PC's or Pitney Bowes mailing machines or Winnebago R.V.s
- **Attitude toward a personality or enterprise:** Reputation helps sell AT&T long distance service, IBM computers, Michael Jordan tennis shoes, etc.
- **Attitude toward price versus value:** For example, purchasers of collector's items aren't price sensitive while purchasers of commodity items are price sensitive.
- **Experience with other products/services your enterprise has offered:** You are looking for a reaction like "I liked your first product so I'll try your second."
- **Prospect bias:** Examples are, 'Buy USA', I want a car with a 'solid' feel, fast cars, sweet wines, large print playing cards, etc.
- **Affiliation with other organizations:** Such as the U.S. Chamber of Commerce, AMA, IEEE, doctors, attorneys, pastors, franchisors, entrepreneurs, etc.
- **After sale support expectations:** It is often beneficial to target prospects who have enough expertise that they will require a minimum of after sale support.

Seller Characteristics that can influence purchase decision: Another form of influence is how the prospect perceives your offering and/or enterprise. If you can determine the characteristics your prospects most value in an enterprise they purchase from, you can identify those your organization possesses and promote them to the prospect.

- **Unique employee skills, knowledge:** Extensive experience with a specific market segment or field of scientific inquiry can be a powerful promotional tool. For example if an enterprise could sat, "Our scientists knows more about corn silk genetic structures than anyone in the world" they would have a strong sales statement.

- **Special relationships with distribution channels:** Product or service accessibility is a critical factor in sales success. If an enterprise could say, "Due to a unique relationship, the XYZ video stores give us more shelf space than any competitor" prospects will likely respond positively.

- **Customer service capabilities:** Prospects like to know that they can depend on post sale support from the product or service provider. A statement like, "We have more service outlets in New Hampshire than any competitor" will help secure sales.

- **Unique product forms:** Credible uniqueness such as, "Our product is the only one that offers dynamic digi-whirling" is appealing to the market.

- **Manufacturing expertise:** The market is always interested in purchasing from the "best". If an enterprise can confidently state, "We are the only enterprise that can manufacture molecular engineered widgets", they have created an image of being the "best".

- **Longevity:** Reliability is important. A statement like, "We have been in business for 50 years, so you can count on us to be there when you need us" is usually a strong selling point.

Purchase Decision Makers: Finally, a point to consider is, given the characteristics of your offering, what type of decision maker will most likely be interested in purchasing from you. It may be beneficial to rank your prospects based on the following classifications. While you may not be able to make this classification of the prospect prior to the first contact, if your sales personnel are sensitive to these characteristics it can strongly influence your sales strategy.

Ultra Conservative - don't rock the boat, whatever they purchase must be consistent with their current way of doing things.

- They are most likely interested in products/services that are improvements to existing offerings rather than something new.
- Once established as a customer they are seldom inclined to review alternatives.
- Very negative to technically complex offerings or offerings requiring extensive user education.
- Cost effective offerings are only of interest if they don't disturb the status quo.
- They are likely to react positively to any volume purchasing opportunities.

Conservatives - are willing to change, but only in small increments and only in a very cost effective manner.

- Will consider new products/services but only if related concept has been proven to be effective. More likely to purchase improvements to existing offerings.
- Will probably want to review competitive offerings, but will gravitate to best known offering with lowest risk decision.
- Negative to neutral when considering technically complex offerings or offerings requiring extensive user education.
- Strongly influenced by cost effective offerings and/or 'best price' opportunities

Liberals - regularly looking for new solutions, willing to make change (even major change) if the benefit can be shown.

- Will usually consider new products/services even if the related concept has not yet been proven to be effective, but only if the potential benefits can be specified and understood.
- Wants offerings that make effective use of technology, but is not interested in offerings just because they use a certain technology.
- Will always want to review competitive offerings, but will usually choose the one offering the greatest benefit, even if there is some risk involved.
- Neutral to positive when considering technically complex offerings or offerings requiring extensive user education.
- Usually concerned with keeping employees informed and educated, so will often consider educational offerings.

- Strongly influenced by offerings that most closely delivers the 'end results' desired, even if they are not the most cost effective.
- Often are on social trend bandwagons so react positively to offerings that address these needs.

Technical Liberals - enamored with the benefits provided by high tech solutions and any purchase decision will be biased by the technical content of the offering.

- Usually consider new products/services even if the related concept has not yet been proven to be effective.
- Often consider just because they use a certain technology.
- Will always want to review competitive offerings, but will usually choose the one offering the most hi-tech features, even if there is some risk involved.
- Consider themselves technically competent and will expect leading edge use of technology.
- Positive to fanatic when considering technically complex offerings even when requiring extensive user education.
- Conversion costs usually not a major concern if technical benefits are there.
- Not particularly concerned with keeping employees informed and educated, so educational offerings are not of great interest.
- Strongly influenced by offerings that most closely deliver the 'end results' desired, even if they are not the most cost effective.

Self Helpers - consistently defines/designs solutions to their problems, likes to acquire tools that help in the innovation process.

- Will usually consider new products/services, but the related concept must have been proven to be effective.
- Often consider just because they use a certain technology that is relevant to the development program they have underway.
- Will always want to review competitive offerings, but will usually choose the one offering the most effective 'do it yourself' features.
- Usually consider themselves technically competent and will expect very effective use of proven technology.
- Not especially inclined toward technically complex offerings, would rather have user friendly, but thought provoking, offerings.
- Conversion costs usually not a major concern if offering promises potential for innovation.
- Usually concerned with keeping employees informed and educated, so educational offerings are of interest.

Business Market Segmentation: While many of the consumer market segmentation bases can be applied to businesses and organizations, the different nature of business markets often leads to segmentation on the following bases:

- **Geographic segmentation** - based on regional variables such as customer concentration, regional industrial growth rate, and international macroeconomic factors.
- **Customer type** - based on factors such as the size of the organization, its industry, position in the value chain, etc.
- Buyer behavior - based on factors such as loyalty to suppliers, usage patterns, and order size.

Profiling the Segments: The identified market segments are summarized by profiles, often gives a descriptive name. From these profiles, the attractiveness of each segment can be evaluated and a target market segment selected.

5.9 REVIEW QUESTIONS

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1. Based on an understanding of organizational buyer behavior, evolve a marketing strategy to market a switch gear project to the airport authority of India.
2. Based on buying centre analysis, what marketing strategy would you suggest to an industrial valves company
3. How do buying influences on a public sector firm differ from that of a private sector firm within the same industry, for example, petroleum?
4. Explain market segmentation and its need.
5. Discuss on the key terms in forecasting.

DEVELOPING MARKET STRATEGIES AND THE OFFERINGS PART -I

Structure

6.1 POSITIONING AND DIFFERENTIATION

In marketing, **positioning** has come to mean the process by which marketers try to create an image or identity in the minds of their target market for its product, brand, or organization. It is the 'relative competitive comparison' their product occupies in a given market as perceived by the target market. **Re-positioning** involves changing the identity of a product, relative to the identity of competing products, in the collective minds of the target market. **De-positioning** involves attempting to change the identity of competing products, relative to the identity of your own product, in the collective minds of the target market.

The original work on Positioning was consumer marketing oriented, and was not as much focused on the question relative to competitive products as much as it was focused on cutting through the ambient "noise" and establishing a moment of real contact with the intended recipient. In the classic example of Avis claiming "No.2, We Try Harder", the point was to say something so shocking (it was by the standards of the day) that it cleared space in your brain and made you forget all about who was #1, and not to make some philosophical point about being "hungry" for business.

The growth of high-tech marketing may have had much to do with the shift in definition towards competitive positioning.

Definitions: Although there are different definitions of Positioning, probably the most common is: "A product's position is how potential buyers see the product", and is expressed relative to the position of competitors. Positioning is a concept in marketing which was first popularized by Al Ries and Jack Trout in their bestseller book “Positioning - a battle for your mind".

This differs slightly from the context in which the term was first published in 1969 by Jack Trout in the paper *"Positioning" is a game people play in today’s me-too market place"* in the publication *Industrial Marketing*, in which the case is made that the typical consumer is overwhelmed with unwanted advertising, and has a natural tendency to discard all information that does not immediately find a comfortable (and empty) slot in the consumers mind. It was then expanded into their ground-breaking first book, "*Positioning: The Battle for Your Mind*", in which they define Positioning as "an organized system for finding a window in the mind. It is based on the concept that communication can only take place at the right time and under the right circumstances."

What most will agree on is that Positioning is something (perception) that happens in the minds of the target market. It is the aggregate perception the market has of a particular company, product or service in relation to their perceptions of the competitors in the same category. It will happen whether or not a company's management is proactive, reactive or passive about the on-going process of evolving a position. But a company can positively influence the perceptions through enlightened strategic actions.

Product positioning process: Generally, the product positioning process involves:

1. Defining the market in which the product or brand will compete (who the relevant buyers are)
2. Identifying the attributes (also called dimensions) that define the product 'space'
3. Collecting information from a sample of customers about their perceptions of each product on the relevant attributes
4. Determine each product's share of mind
5. Determine each product's current location in the product space
6. Determine the target market's preferred combination of attributes (referred to as an *ideal vector*)
7. Examine the fit between:
    - The position of your product
    - The position of the ideal vector
8. Position.

The process is similar for positioning your company's services. Services, however, don't have the physical attributes of products - that is, we can't feel them or touch them or show nice product pictures. So you need to ask first your customers and then yourself, what value do clients get from my services? How are they better off from doing business with me? Also ask: is there a characteristic that makes my services different?

Write out the value customers derive and the attributes your services offer to create the first draft of your positioning. Test it on people who don't really know what you do or what you sell, watch their facial expressions and listen for their response. When they want to know more because you've piqued their interest and started a conversation, you'll know you're on the right track.

Positioning concepts: More generally, there are three types of positioning concepts:

1. Functional positions
    - Solve problems
    - Provide benefits to customers
    - Get favorable perception by investors (stock profile) and lenders
2. Symbolic positions
    - Self-image enhancement
    - Ego identification
    - Belongingness and social meaningfulness
    - Affective fulfillment
3. Experiential positions
    - Provide sensory stimulation
    - Provide cognitive stimulation

Measuring the positioning: Positioning is facilitated by a graphical technique called perceptual mapping as well as various survey techniques and statistical techniques like multi dimensional scaling, factor analysis, conjoint analysis and logic analysis.

Repositioning a company: In volatile markets, it can be necessary - even urgent - to reposition an entire company, rather than just a product line or brand. Take, for example, when Goldman Sachs and Morgan Stanley suddenly shifted from investment to commercial banks. The expectations of investors, employees, clients and regulators all need to shift and each company will need to influence how these perceptions change. Doing so involves repositioning the entire firm.

This is especially true of small and medium-sized firms, many of which often lack strong brands for individual product lines. In a prolonged recession, business approaches that were effective during healthy economies often become ineffective and it becomes necessary to change a firm's positioning. Upscale restaurants, for example, which previously flourished on expense account dinners and corporate events, may for the first time need to stress value as a sale tool.

Repositioning a company involves more than a marketing challenge. It involves making hard decisions about how a market is shifting and how a firm's competitors will react. Often these decisions must be made without the benefit of sufficient information, simply because the definition of "volatility" is that change becomes difficult or impossible to predict.

Here are 4 product positioning tips to differentiate your business. Luckily, it’s not all that hard to stand out from the crowd, as long you realize the importance of product positioning. Positioning is the art of matching your marketing message, with the desires, feelings, & beliefs of the particular type of customer that you know you can service better than anybody else. You make yourself "visible" as the kind of business this individual would naturally be attracted to.

Why would I say that it’s not that hard? Well, you really don’t have to look very far to see that effective product positioning is about as common as caviar at a McDonald’s outlet. Just look in the yellow pages, look on the net, and you’ll soon see what I mean. It’s more of the same old same old, look at us were #1 for pricing, service & selection nonsense. It’s just meaningless drivel. Anyone can say these things & everyone does, & I ask you this.

Are you guilty of spouting these "buy from us for no apparent reason" platitudes? Don’t feel guilty if you are. Just take these product positioning tips to heart. What happens when everybody in your industry says the same thing? Customers don’t know how to tell the difference between one product & another, so they make their decision based on price. And everybody loses. The customer doesn’t get the product that best fits their needs. You don’t make nearly as many sales as you could, and those that you do make, are at less margin than you would like. Listen, if you can just get the principle that I’m about to reveal hammered into your head, you’ll have more business than you can handle, and you won’t worry about having to undercut the competition.

That sounds pretty good doesn’t it? Here’s the secret. Just take the time to communicate, clearly, specifically, & thoroughly why you‘re different & how that difference makes a difference in your customer’s perception of his or her life. Such a simple concept, but so rare, it can’t help but differentiate you. You see, people really don’t buy on price at all. They buy on value. If they bought a cheaper product, it’s because you didn’t demonstrate the value of yours. Admittedly, there is a certain percentage of the market that is best served by an inferior low end product, but this segment is much smaller than it appears. More often than not, people cannot differentiate, buy based on price, & live to regret it. This is a crying shame, & were not going to stand for it much longer, are we? As you absorb this material you will become intimate with the following 4 product positioning principles that will set your business apart.

Unique Selling Proposition: Something unique, that you have to offer. Not necessarily entirely unique. You can appear unique by simply packaging your product or service in a unique way. For example, a lawyer, might advertise flat rate incorporation, and attract a lot of customers because the market fears the open ended legal bill. In reality, it is all of the other "back end" services that come about as a result of incorporation that generate incorporation revenues. But who do you think will end up getting more of that lucrative business, the flat rate USP savvy attorney, or Mr. Conventional?

Risk Reversal: Differentiate yourself with outrageously bold guarantees, that you're competition don't have the guts for. Most people are genuinely honest, and if your service is what you say it is, you've got nothing to worry about. The increased sales volume will be well worth it.

Inordinate Value: Leverage your advertising, by offering to let complimentary businesses come along for the ride, in exchange for a free sample of their wares. Then bundle those into your offering. Cut the right deals, & your offer will appear "irresistible", compared to your competition.

Clear, Complete, & Concise Customer Education: Here’s were most advertisers fall down, and you can stand head & shoulders above the crowd. Tell your full story. Don't make people try to figure out on their own why they should be doing business with you. Spell it out for them.

Spend some time thinking deeply about these product positioning ideas, and how you can use them to your advantage. Your market share is predicated on how well you assimilate them & applies them to the promotion of your business

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6.2 VARIOUS TOOLS OF DIFFERENTIATION

The issues discussed in the area of differentiating and positioning the market offering is:

- Tools for Competitive Differentiation
- Developing a Positioning Strategy
- Communicating the Company's Positioning

Tools for Competitive Differentiation: Differentiation is the act of designing a set of meaningful differences to distinguish the company's offering from competitor's offerings. Boston Consulting Group's differentiation opportunities matrix: Actually it is a competitive advantage matrix applicable to differentiation opportunities. Four types of industries identified by BCG matrix are:

Volume industry: Only a few but very large competitive advantages are possible. The benefit of the advantage is proportional with company size and market share. Example given - construction industry

Stalemated industry: in this type there are only few opportunities and the benefit from each is small. The benefit is also not proportional to the size or market share. Example: Steel industry - It is hard to differentiate the product or decrease its manufacturing cost.

Fragmented industry: in this type, there are many opportunities, but the benefit of each of them is small. Benefit does not depend on size or market share.

Specialized industry: in this type, the opportunities are more and benefit of each opportunity is high. The benefit is not related to size or market share.

Kotler mentions, Milind Lele's observation that companies differ in their potential maneuverability along five dimensions: their target market, product, place (channels), promotion, and price. The freedom of maneuver is affected by the industry structure and the firm's position in the industry. For each potential competitive opportunity or option limited by the maneuverability, the company needs to estimate the return. Those opportunities that promise the highest return define the company's strategic leverage. The concept of maneuverability brings out the fact that a strategic option that worked very well in one industry may not work equally well in the other industry because of low maneuverability of that option in the different industry and by the firm in consideration.

Five Dimensions of Differentiation: Regarding the tools of differentiation, five dimensions can be utilized to provide differentiation.

- Product

- Services that accompany marketing, sales and after sales services.
- Personnel that interact with the customer
- Channel
- Image

Features of differentiating a product include: Quality: performance and conformance.

Performance - the performance of the prototype or the exhibited sample, **Conformance** - The performance of every item made by the company under the same specification which include Durability; Reliability; Reparability; Style; Design

Services differentiation:

- Ordering ease
- Delivery
- Installation
- Customer training
- Customer consulting
- Miscellaneous services

Personnel Differentiation:

- Competence
- Courtesy
- Credibility
- Reliability
- Responsiveness
- Communication

Channel differentiation:

- Coverage
- Expertise of the channel managers
- Performance of the channel in ease of ordering, and service, and personnel

Image differentiation: First distinction between Identity and Image - Identity is designed by the company and through its various actions company tries to make it known to the market. Image is the understanding and view of the market about the company. An effective image does three things for a product or company.

- It establishes the product's planned character and value proposition.
- It distinguishes the product from competing products.
- It delivers emotional power and stirs the hearts as well as the minds of buyers.

The identity of the company or product is communicated to the market by

- Symbols
- Written and audiovisual media
- Atmosphere of the physical place with which customer comes into contact
- Events organized or sponsored by the company.

Developing a Positioning Strategy: Levitt and others have pointed out dozens of ways to differentiate an offering. While a company can create many differences, each difference created has a cost as well as consumer benefit. A difference is worth establishing when the benefit exceeds the cost. More generally, a difference is worth establishing to the extent that it satisfies the following criteria.

- Important: The difference delivers a highly valued benefit to a sufficient number of buyers.
- Distinctive: The difference either isn't offered by others or is offered in a more distinctive way by the company.
- Superior: The difference is superior to the ways of obtaining the same benefit.
- Communicable: The difference is communicable and visible to the buyers.
- Preemptive: The difference cannot be easily copied by competitors.
- Affordable: The buyer can afford to pay the higher price
- Profitable: The Company will make profit by introducing the difference.

Positioning: It is the result of differentiation decisions. It is the act of designing the company's offering and identity (that will create a planned image) so that they occupy a meaningful and distinct competitive position in the target customer's minds. The end result of positioning is the creation of a market-focused value proposition, a simple clear statement of why the target market should buy the product. Example: Volvo (station wagon) ; Target customer-Safety conscious upscale families; Benefit - Durability and Safety; Price - 20% premium; Value proposition - The safest, most durable wagon in which your family can ride.

How many differences to promote? Many marketers advocate promoting only one benefit in the market (Your market offering may have many differentiators, actually should have many differentiators in product, service, personnel, channel, and image). Kotler mentions that double benefit promotion may be necessary, if some more firms claim to be best on the same attribute. Kotler gives the example of Volvo, which says and "safest" and "durable".

Four major positioning errors:

- **Underpositioning:** Market only has a vague idea of the product**.**
- **Overpositioning:** Only a narrow group of customers identify with the product.
- **Confused positioning:** Buyers have a confused image of the product as it claims too many benefits or it changes the claim too often.
- **Doubtful positioning:** Buyers find it difficult to believe the brand's claims in view of the product's features, price, or manufacturer.

Different positioning strategies or themes

- **Attribute positioning:** The message highlights one or two of the attributes of the product.
- **Benefit positioning**: The message highlights one or two of the benefits to the customer.
- **Use/application positioning**: Claim the product as best for some application.
- **User positioning:** Claim the product as best for a group of users. - Children, women, working women etc.
- **Competitor positioning:** Claim that the product is better than a competitor.
- **Product category positioning:** Claim as the best in a product category Ex: Mutual fund ranks – Lipper.
- **Quality/Price positioning:** Claim best value for price

Which differences to promote: This issue is related to the discussion of worthwhile differences to incorporate into the market offering done earlier. But now competitors positioning also needs to be considered to highlight one or two exclusive benefits offered by the product under consideration.

Communicating the Company's positioning: Once the company has developed a clear positioning strategy, the company must choose various signs and cues that buyers use to confirm that the product delivers the promise made by the company.

6.3 PRODUCT DECISIONS AND STRATEGIES

Basic concepts: A product can be defined as a collection of physical, service and symbolic attributes which yield satisfaction or benefits to a user or buyer. A product is a combination of physical attributes say, size and shape; and subjective attributes say image or "quality". A customer purchases on both dimensions. A product's physical properties are characterized the same the world over. They can be convenience or shopping goods or durables and non-durables; however, one can classify products according to their degree of potential for global marketing:

- Local products - seen as only suitable in one single market.
- International products - seen as having extension potential into other markets.
- Multinational products - products adapted to the perceived unique characteristics of national markets.
- Global products - products designed to meet global segments.

Quality, method of operation or use and maintenance (if necessary) are catchwords in international marketing. A failure to maintain these will lead to consumer dissatisfaction. This is typified by agricultural machinery where the lack of spares and/or foreign exchange can lead to lengthy downtimes. It is becoming increasingly important to maintain quality products based on the ISO 9000 standard, as a prerequisite to export marketing. Consumer beliefs or perceptions also affect the "world brand" concept. World brands are based on the same strategic principles, same positioning and same marketing mix but there may be changes in message or other image. World brands in agriculture are legion. In fertilizers, brands like Norsk Hydro are universal; in tractors, Massey Ferguson; in soups, Heinz; in tobacco, BAT; in chemicals, Bayer. These world brand names have been built up over the years with great investments in marketing and production. Few world brands, however, have originated from developing countries. This is hardly surprising given the lack of resources. In some markets product saturation has been reached, yet surprisingly the same product may not have reached saturation in other similar markets. Whilst France has long been saturated by avocadoes, the UK market is not yet, hence raising the opportunity to enter deeper into this market.

Product design: Changes in design are largely dictated by whether they would improve the prospects of greater sales, and this, over the accompanying costs. Changes in design are also subject to cultural pressures. The more culture-bound the product is, for example food, the more adaptation is necessary. Most products fall in between the spectrum of "standardization" to "adaptation" extremes. The application the product is put to also affect the design. In the UK, railway engines were designed from the outset to be sophisticated because of the degree of competition, but in the US this was not the case. In order to burn the abundant wood and move the prairie debris, large smoke stacks and cowcatchers were necessary. In agricultural implements a mechanized cultivator may be a convenience item in a UK garden, but in India and Africa it may be essential equipment. As stated earlier "perceptions" of the product's benefits may also dictate the design. A refrigerator in Africa is a very necessary and functional item, kept in the kitchen or the bar. In Mexico, the same item is a status symbol and, therefore, kept in the living room.

Factors encouraging standardization are:

- economies of scale in production and marketing
- consumer mobility - the more consumers travel the more is the demand
- technology
- Image, for example "Japanese", "made in".

The latter can be a factor both to aid or to hinder global marketing development. Often a price premium is charged to reinforce the "imported means quality" image. If the foreign source is negative in effect, attempts are made to disguise or hide the fact through, say, packaging or labeling. Mexicans are loathe to take products from Brazil. By putting a "made in elsewhere" label on the product this can be overcome, provided the products are manufactured elsewhere even though its company maybe Brazilian.

Factors encouraging adaptation are:

- **Differing usage conditions:** These may be due to climate, skills, level of literacy, culture or physical conditions. Maize, for example, would never sell in Europe rolled and milled as in Africa. It is only eaten whole, on or off the cob. In Zimbabwe, kapenta fish can be used as a relish, but wilt always be eaten as a "starter" to a meal in the developed countries.
- **General market factors:** incomes, tastes etc. Canned asparagus may be very affordable in the developed world, but may not sell well in the developing world.
- **Government:** taxation, import quotas, non tariff barriers, labeling, health requirements. Non tariff barriers are an attempt, despite their supposed impartiality, at restricting or

eliminating competition. A good example of this is the Florida tomato growers, cited earlier, who successfully got the US Department of Agriculture to issue regulations establishing a minimum size of tomatoes marketed in the United States. The effect of this was to eliminate the Mexican tomato industry which grew a tomato that fell under the minimum size specified. Some non-tariff barriers may be legitimate attempts to protect the consumer, for example the ever stricter restrictions on horticultural produce insecticides and pesticides use may cause African growers a headache, but they are deemed to be for the public good.

- **History:** Sometimes, as a result of colonialism, production facilities have been established overseas. Eastern and Southern Africa is littered with examples. In Kenya, the tea industry is a colonial legacy, as is the sugar industry of Zimbabwe and the coffee industry of Malawi. These facilities have long been adapted to local conditions.
- **Financial considerations:** In order to maximize sales or profits the organization may have no choice but to adapt its products to local conditions.
- **Pressure:** Sometimes, as in the case of the EU, suppliers are forced to adapt to the rules and regulations imposed on them if they wish to enter into the market.

Production decisions: In decisions on producing or providing products and services in the international market it is essential that the production of the product or service is well planned and coordinated, both within and with other functional area of the firm, particularly marketing. For example, in horticulture, it is essential that any supplier or any of his "out grower" (sub-contractor) can supply what he says he can. This is especially vital when contracts for supply are finalized, as failure to supply could incur large penalties. The main elements to consider are the production process itself, specifications, culture, the physical product, packaging, labeling, branding, warranty and service.

Production process: The key question is, can we ensure continuity of supply? In manufactured products this may include decisions on the type of manufacturing process - artisanal, job, batch, flow line or group technology. However in many agricultural commodities factors like seasonality, perishability and supply and demand have to be taken into consideration. Table 8.1 gives a checklist of questions on product requirements for horticultural products as an example[6]

Checklist of questions on product requirements by market

Existing sources of supply	Recommendations for new suppliers, or increased supply
Current important suppliers? Seasonality of supply, start of season, peak season and end of season? Packaging specifications, weight of produce per packaging unit, type of packaging? Grading and quality standards? Prices obtained and net profit returned to farmer, average price, maximum and minimum prices, effect of different quality standards on price? Problems with existing suppliers and produce? Volumes sold daily, monthly, annually?	Best period of supply? Type and size of packaging material? Grading and quality standards: *acceptable size ranges? *whether different sized produce should be packed separately or jumble-packed? *state of ripeness and should produce of the same ripeness be packed together? *acceptable level of blemishes? *important appearance characteristics

Popularity trend? Types of buyers and consumers? Use of crop? Factors affecting sales, e.g. weather, special festivals, day of arrival in market? Is the crop stored; if so where and by whom?	such as color, variety, shape, presence of stalks, bunch size? Budget gross and net prices? Volumes required? Frequency of shipment, best day and arrival time on market? Transport arrangements, e.g. whose responsibility is it to arrange transport? Storage arrangements, if any? Potential and techniques for developing sales?

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

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

Culture: Product packaging, labeling, physical characteristics and marketing have to adapt to the cultural requirements when necessary. Religion, values, aesthetics, language and material culture all affect production decisions. Effects of culture on production decisions have been dealt with already in chapter three.

Physical product: The physical product is made up of a variety of elements. These elements include the physical product and the subjective image of the product. Consumers are looking for benefits and these must be conveyed in the total product package. Physical characteristics include range, shape, size, color, quality, quantity and compatibility. Subjective attributes are determined by advertising, self image, labeling and packaging. In manufacturing or selling produce, cognizance has to be taken of cost and country legal requirements.

Again a number of these characteristics is governed by the customer or agent. For example, in beef products sold to the EU there are very strict quality requirements to be observed. In fish products, the Japanese demand more "exotic" types than, say, would be sold in the UK. None of the dried fish products produced by the Zambians on Lake Kariba, and sold into the Lusaka market, would ever pass the hygiene laws if sold internationally. In sophisticated markets like seeds, the variety and range is so large that constant watch has to be kept on the new strains and varieties in order to be competitive.

Packaging: Packaging serves many purposes. It protects the product from damage which could be incurred in handling and transportation and also has a promotional aspect. It can be very expensive. Size, unit type, weight and volume are very important in packaging. For aircraft cargo the package needs to be light but strong, for sea cargo containers are often the best form. The customer may also decide the best form of packaging. In horticultural produce, the developed countries often demand blister packs for mangetouts, beans, strawberries and so on, whilst for products like pineapples a sea container may suffice. Costs of packaging have always to be weighed against the advantage gained by it.
Increasingly, environmental aspects are coming into play. Packaging which is non-degradable - plastic, for example - is less in demanded. Bio-degradable, recyclable, reusable packaging is now the order of the day. This can be both expensive and demanding for many developing countries.

Labeling: Labeling not only serves to express the contents of the product, but may be promotional The EU is now putting very stringent regulations in force on labeling, even to the degree that the pesticides and insecticides used on horticultural produce have to be listed. This could be very demanding for producers, especially small scale, ones where production techniques may not be standardized. Government labeling regulations vary from country to country. Bar codes are not widespread in Africa, but do assist in stock control. Labels may have to be multilingual, especially if the product is a world brand. Translation could be a problem with many words being translated with difficulty. Again labeling is expensive, and in promotion terms non-standard labels are more expensive than standard ones. Requirements for crate labeling, etc. for international transportation will be dealt with later under documentation.

Branding and trademarks: As mentioned in chapter four, it is difficult to protect a trademark or brand, unless all countries are members of a convention. Brand "piracy" is widespread in many developing countries. Other aspects of branding include the promotional aspects. A family brand of products under the Zeneca (ex ICI) label or Sterling Health are likely to be recognized worldwide, and hence enhance the "subjective" product characteristics.

Warranty: Many large value agricultural products like machinery require warranties. Unfortunately not everyone upholds them. It is common practice in Africa that if the original equipment has not been bought through an authorized dealer in the country, that dealer refuses to honor the warranty. This is unfortunate, because not only may the equipment have been legitimately bought overseas; it also actually builds up consumer resistance to the dealer. When the consumer is eventually offered a choice, the reticent dealer will suffer. For example when new dealers spring up.

Service: In agricultural machinery, processing equipment and other items which are of substantial value and technology, service is a prerequisite. In selling many developing countries, manufacturers have found their negotiations at stake due to the poor back-up service. Often, this is no fault of the agent, distributor or dealer in the foreign country, but due to exchange regulations, which make obtaining spare parts difficult. Many organizations attempt to get around this by insisting that a Third World buyer purchases a percentage of parts on order with the original items. Allied to this problem is the poor quality of service due to insufficient training. Good original equipment manufacturers will insist on training and updating as part of the agency agreement. In order to illustrate the above points, cotton can be used as an example.

Product strategies: There are five major product strategies in international marketing.

Product communications extension: This strategy is very low cost and merely takes the same product and communication strategy into other markets. However it can be risky if misjudgments are made. For example CPC International believed the US consumer would take to dry soups, which dominate the European market. It did not work.

Extended product - communications adaptation: If the product basically fits the different needs or segments of a market it may need an adjustment in marketing communications only. Again this is a low cost strategy, but different product functions have to be identified and a suitable communications mix developed.

Product adaptation - communications extension: The product is adapted to fit usage conditions but the communication stays the same. The assumption is that the product will serve the same function in foreign markets under different usage conditions.

Product adaptation - communications adaptation: Both product and communication strategies need attention to fit the peculiar need of the market.

Product invention: This needs a totally new idea to fit the exclusive conditions of the market. This is very much a strategy which could be ideal in a Third World situation. The development costs may be high, but the advantages are also very high. The Table below summarizes the strategic alternatives with examples. The choice of strategy will depend on the most appropriate product/market analysis and is a function of the product itself defined in terms of the function or need it serves, the market defined in terms of the conditions under which the product is used, the preferences of the potential customers and the ability to buy the product in question, and the costs of adaptation and manufacture to the company considering these product - communications approaches.

International strategic alternatives

Product strategy	Communications strategy	Product/functions Met	Conditions of product use	Examples
1 Extension	Extension	Same	Same	Pepsi
2 Extension	Adaptation	Different	Same	Soups
3 Adaptation	Extension	Same	Different	Agriculture chemicals
4 Adaptation	Adaptation	Different	Different	Farm implements
5 Invention	New	Same	-	Tyson turbine water pump
				Thailand tuna

6.4 PRODUCT MIX

Product mix is a combination of products manufactured or traded by the same business house to reinforce their presence in the market, increase market share and increase the turnover for more profitability. Normally the product mix is within the synergy of other products for a medium size organization. However large groups of Industries may have diversified products within core competency. Larsen & Toubro Ltd, Godrej, Reliance in India are some of the examples.

One of the realities of business is that most firms deal with multi-products .This helps a firm diffuse its risk across different product groups/Also it enables the firm to appeal to a much larger group of customers or to different needs of the same customer group .So when Videocon chose to diversify into other consumer durables like music systems, washing machines and refrigerators, it sought to satisfy the needs of the middle and upper middle income group of consumers.

Likewise, Bajaj Electricals a household name in India has almost ninety products in its portfolio ranging from low value items like bulbs to high priced consumer durables like mixers and luminaries and lighting projects .The number of products carried by a firm at a given point of time is called its product mix. This product mix contains product lines and product items .In other words it's a composite of products offered for sale by a firm.

Product Mix Decisions: Often firms take decisions to change their product mix. These decisions are dictated by the above factors and also by the changes occurring in the market place. Like the changing life-styles of Indian consumers led BPL-Sanyo to launch an entire range of white goods like refrigerators, washing machines, and microwave ovens .It also motivate the firm to launch other entertainment electronics. Rahejas, a well-known builders firm in Bombay, took a major decision to convert one of its theatre buildings in the western suburbs of Bombay into a large garments and accessories store for men ,women and children, perhaps the first of its kind in India to have almost all products required by these customer groups Competition from low priced washing powders (mainly Nirma) forced Hindustan Levers to launch different brands of detergent powder at different price levels positioned at different market segments .Customer preferences for herbs, mainly shikakai motivated Lever to launch black Sunsilk Shampoo ,which has shikakai .Also ,low purchasing power and cultural bias against shampoo market made Hindustan Lever consider smaller packaging mainly sachets , for single use .So, it is the changes or anticipated changes in the market place that motivates a firm to consider changes in its product mix.

Product-Mix Management and Responsibilities: It is extremely important for any organization to have a well-managed product mix. Most organizations break down managing the product mix, product line, and actual product into three different levels. Product-mix decisions are concerned with the combination of product lines offered by the company. Management of the companies' product mix is the responsibility of top management. Some basic product-mix decisions include: (1) reviewing the mix of existing product lines; (2) adding new lines to and deleting existing lines from the product mix; (3) determining the relative emphasis on new versus existing product lines in the mix; (4) determining the appropriate emphasis on internal development versus external acquisition in the product mix; (5) gauging the effects of adding or deleting a product line in relationship to other lines in the product mix; and (6) forecasting the effects of future external change on the company's product mix.

Product-line decisions are concerned with the combination of individual products offered within a given line. The product-line manager supervises several product managers who are responsible for individual products in the line. Decisions about a product line are usually incorporated into a marketing plan at the divisional level. Such a plan specifies changes in the product lines and allocations to products in each line. Generally, product-line managers have the following responsibilities: (1) considering expansion of a given product line; (2) considering candidates for deletion from the product line; (3) evaluating the effects of product additions and deletions on the profitability of other items in the line; and (4) allocating resources to individual products in the line on the basis of marketing strategies recommended by product managers.

Decisions at the first level of product management involve the marketing mix for an individual brand/product. These decisions are the responsibility of a brand manager (sometimes called a product manager). Decisions regarding the marketing mix for a brand are represented in the product's marketing plan. The plan for a new brand would specify price level, advertising expenditures for the coming year, coupons, trade discounts, distribution facilities, and a five-year statement of projected sales and earnings. The plan for an existing product would focus on any changes in the marketing strategy. Some of these changes might include the product's target market, advertising and promotional expenditures, product characteristics, price level, and recommended distribution strategy.

Product-Mix Analysis: Since top management is ultimately responsible for the product mix and the resulting profits or losses, they often analyze the company product mix. The first assessment involves the area of opportunity in a particular industry or market. Opportunity is generally defined in terms of current industry growth or potential attractiveness as an investment. The second criterion is the company's ability to exploit opportunity, which is based on its current or potential position in the industry. The company's position can be measured in terms of market share if it is currently in the market or in terms of its resources if it is considering entering the market. These two factors—opportunity and the company's ability to exploit it—provide four different options for a company to follow.

1. High opportunity and ability to exploit it result in the firm's introducing new products or expanding markets for existing products to ensure future growth.
2. Low opportunity but a strong current market position will generally result in the company's attempting to maintain its position to ensure current profitability.
3. High opportunity but a lack of ability to exploit it results in either (a) attempting to acquire the necessary resources or (b) deciding not to further pursue opportunity in these markets.
4. Low opportunity and a weak market position will result in either (a) avoiding these markets or (b) divesting existing products in them.

These options provide a basis for the firm to evaluate new and existing products in an attempt to achieve balance between current and future growth. This analysis may cause the product mix to change, depending on what management decides. The most widely used approach to product portfolio analysis is the model developed by the Boston Consulting Group (BCG). The BCG analysis emphasizes two main criteria in evaluating the firm's product mix: the market growth rate and the product's relative market share. BCG uses these two criteria because they are closely related to profitability, which is why top management often uses the BCG analysis. Proper analysis and conclusions may lead to significant changes to the company's product mix, product line, and product offerings. The market growth rate represents the products' category position in the product life cycle. Products in the introductory and growth phases require more investment because of research and development and initial marketing costs for advertising, selling, and distribution. This category is also regarded as a high-growth area (e.g., the Internet). Relative market share represents the company's competitive strength (or estimated strength for a new entry). Market share is compared to that of the leading competitor. Once the analysis has been done using the market growth rate and relative market share, products are placed into one of four categories as discussed earlier in BCG model.

6.5 PRODUCT LIFE CYCLE

A new product progresses through a sequence of stages from introduction to growth, maturity, and decline. This sequence is known as the **product life cycle** and is associated with changes in the marketing situation, thus impacting the marketing strategy and the marketing mix. The product revenue and profits can be plotted as a function of the life-cycle stages as shown in the graph below:

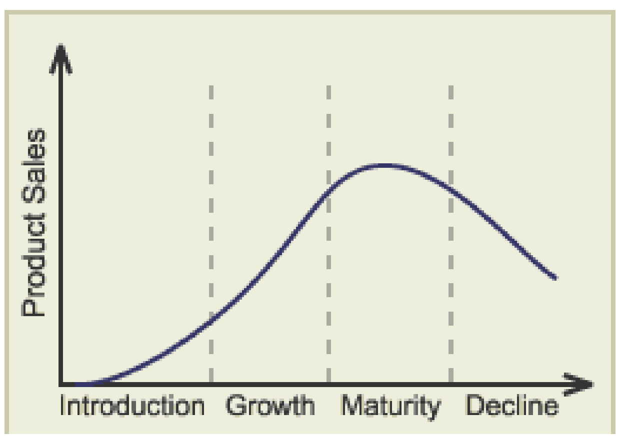

Figure 6.1: Product Life Cycle Diagram

Introduction Stage: In the introduction stage, the firm seeks to build product awareness and develop a market for the product. The impact on the marketing mix is as follows:

- **Product** branding and quality level is established and intellectual property protection such as patents and trademarks are obtained.
- **Pricing** may be low penetration pricing to build market share rapidly, or high skim pricing to recover development costs.
- **Distribution** is selective until consumers show acceptance of the product.

- **Promotion** is aimed at innovators and early adopters. Marketing communications seeks to build product awareness and to educate potential consumers about the product.

Growth Stage: In the growth stage, the firm seeks to build brand preference and increase market share.

- **Product** quality is maintained and additional features and support services may be added.
- **Pricing** is maintained as the firm enjoys increasing demand with little competition.
- **Distribution** channels are added as demand increases and customers accept the product.
- Promotion is aimed at a broader audience.

Maturity Stage: At maturity, the strong growth in sales diminishes. Competition may appear with similar products. The primary objective at this point is to defend market share while maximizing profit.

- **Product** features may be enhanced to differentiate the product from that of competitors.
- **Pricing** may be lower because of the new competition.
- **Distribution** becomes more intensive and incentives may be offered to encourage preference over competing products.
- Promotion emphasizes product differentiation.

Decline Stage: As sales decline, the firm has several options:

- Maintain the product, possibly rejuvenating it by adding new features and finding new uses.
- Harvest the product - reduce costs and continue to offer it, possibly to a loyal niche segment.
- Discontinue the product, liquidating remaining inventory or selling it to another firm that is willing to continue the product.

The marketing mix decisions in the decline phase will depend on the selected strategy. For example, the product may be changed if it is being rejuvenated, or left unchanged if it is being harvested or liquidated. The price may be maintained if the product is harvested, or reduced drastically if liquidated.

6.6 BRAND POSITIONING

Positioning can be defined as follows: Positioning is how a product appears in relation to other products in the market. Brands can be positioned against competing brands on a **perceptual map.** A perceptual map defines the market in terms of the way buyers perceive key characteristics of competing products. The basic perceptual map that buyers use maps products in terms of their price and quality, as illustrated below:

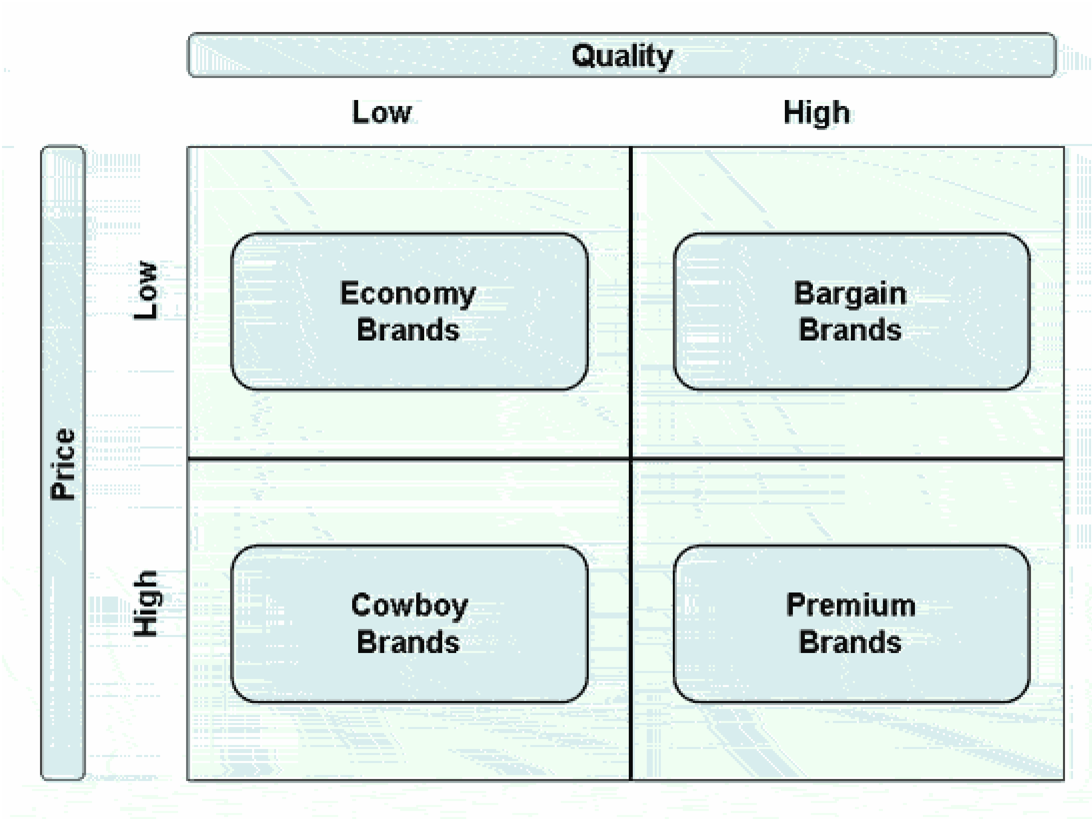

Figure 6.2: Perceptual map on brand positioning

Another decision in the commercialization of a new product is how to differentiate it in the midst of the already over-communicated society of ours were an average consumer screens out most messages. The strategy to differentiate the brand or product is to place it in an appropriate cell of the human mind so that whenever the customer recalls the product, the firm's brand is the first to be recalled. This strategy is called Positioning. Positioning" is the act of communicating company's offer so that it occupies a distinct and valued place in the customer's mind"

The concept of positioning was first advocated by A1 Ries and Jack Trout, two advertising executives, in their article titled 'The Positioning Era: A view ten years later' in the advertising age in 1972, and later in their book, Positioning: The Battle for your Mind, in 1982.[4] According to them, "Positioning is not what you do to a product. But what you do to the mind of the prospect. That is, you position the product in the mind of the prospect."

Ries and Trout believe that marketing is like a war which is fought in the mind of consumers.[6] The advocate that the marketer should perceive each consumer to mentally have a product ladder. The customer often knows brands in the forms of the ladder. There is a brand on the top of the ladder (brand leader) and there are others that occupy the second and third steps in this ladder. Sometimes the top slot may be vacant and at other times there may be two or three brands vying for this prestigious slot in the customer's mind. The rush for the top slot is understandable as people remember the number one. Illustrating this, Ries and Trout ask "who was the first person to successfully fly alone over the Atlantic Ocean?", and the answer is "Charles

Lindbergh”, but we are not bale to recall the second or the third person. Firms, therefore, attempt to achieve this number one position by some valued attribute, not necessarily by size.

Ways to Position the Brand: The ways to position the brand are: (a) Use situations; (b) emphasizing Tangible Benefits; (c) Linking to uses; (d) Head-on competitive positioning; (e) Life-style positioning, and (f) Benefits offered.

- **Use Situation:** the marketer can identify use situations for his brand or product and analyze customer perception of existing competitor brands in different use situations. Based on this analysis the firms can position its brand.Consider the example of Rasna, the soft drink concentrate. None of the soft drink brands offer the convenience, economy, and rang of flavours that Rasna does. Hence, its positioning as a soft drink when one is fatigued after shopping or a day’s work, when you have a party, when you have guests arriving suddenly or when you feel thirsty. The brand’s claim is that it is so simple to make that even a child can do it. Rasna was the first brand of soft drink concentrate to position itself in this manner. Many other brands subsequently tried to penetrate Rasna’s market share, but could not succeed. Emphasizing Tangible Benefits: the brand may even be positioned on the basis of tangible benefits that it offers to customers. These are in the form of specific features and sometimes through its prices and distribution. Consider the example of Ariel that offers the specific benefit of cleaning even the dirtiest of clothes because of the micro cleaning system in the product. Colgate offers benefits of preventing cavities and ensuring fresh breath. Promise, Balsara’s toothpaste, could break Colgate’s stronghold by being the first to claim that it contained clove oil, a feature that differentiated it from the leader. Nirma offered the benefit of low prices over Hindustan Lever’s Surf to become a success. Maruti Suzuki offers benefits of maximum fuel efficiency and safety over its competitors. This strategy helped it to capture 60 percent of the Indian automobile market. Several automobile brands use this positioning platform. However, it may be emphasized that positioning on tangible benefits alone, cannot provide a long-term sustainable advantage in today’s highly competitive market-place. Hence, firms use several dimensions of the products and target market profile to position their brands.

- **Linking to Uses:** A third approach to position a brand is to identify the possible uses which the firm’s brand can be put to. In a way it may appear to be the same as use situations, but it is different here as we are talking about all the possible uses of a product or brand. For Example, Video cassette recorders (VCR) could be used for playing, recording, and regulating the pace at which different scenes can be watched (like pause, fast forward). Most customers saw it as a distinct development over the video cassette player and the demand for the VCR boomed.

- **Head-on Competitive Positioning:** This is the strategy of placing a firm’s brand next to the leader in the market and trying to uproot it on a specific tangible variable. Ries and Trout give the examples of AVIS, the auto rental agency, which knew it was number two in the business, but made a strong point about it. “We are number two. We try harder.” Onida was positioned against the giants in the television industry through this strategy, Onida colour TV was launched with the message that all others were clones and only

Onida was the leader. (Today, Onida has been able to uproot all of yesteryear's leaders in the TV market.) Likewise, the Wheel brand of detergent powder took a head-on position with Nirma and claimed that it was better a s it washed whiter (because of the lemon component in it) and was gentle on the hands, a claim which Nirma counters by showing the user using a spoon to take out washing powder from the bag. Kinetic Honda adopted this strategy to uproot the Bajaj scooter when it claimed that it offered more mileage to a litre of petrol than the leader and supported it with road test results.

- **Lifestyle Positioning:** A firm may even position the brand as a lifestyle concept—contemporary or futuristic. Many of today's new kitchen appliances (like the microwave oven), Ready-made garments, textiles and, watches are positioned accordingly. One of the dimensions of the lifestyle is aspirations. Given the upword mobility of the Indian market, it is not uncommon for the marketer to use aspirations for positioning his brand. In order to do so, the brand has top communicate an exclusive image which the consumer is willing to pay for. Also, it should reflect the aspirations of the target market. Longings range of watches or Nakshatra Brand of diamonds of range of diamond jewellery is today endorsed by beauty icons. Likewise, luxury homes and villas by DLF and Unitech are positioned as aspirational products.

- **Benefits Offered:** Another way to position a brand is to highlight the benefits that customer get by using the product. Emotional relationship is one of the strong reasons to by a brand. Master Card has successfully used this positioning platform when it campaign emphasizes that the only thing that the consumer cannot buy using Master Card is "emotions". Likewise, Chevrolet Optra used this toposition its luxury car in the young, successful and upwardly mobile Indian professionals market.

6.7 BRAND IDENTITY

A **brand** is a name or trademark connected with a product or producer. Brands have become increasingly important components of culture and the economy, now being described as "cultural accessories and personal philosophies". Some people distinguish the psychological aspect of a brand from the experiential aspect. The experiential aspect consists of the sum of all points of contact with the brand and is known as the **brand experience**. The psychological aspect, sometimes referred to as the **brand image**, is a symbolic construct created within the minds of people and consists of all the information and expectations associated with a product or service.

People engaged in branding seek to develop or align the expectations behind the brand experience, creating the impression that a brand associated with a product or service has certain qualities or characteristics that make it special or unique. A brand is therefore one of the most valuable elements in an advertising theme, as it demonstrates what the brand owner is able to offer in the marketplace. The art of creating and maintaining a brand is called brand management. Orientation of the whole organization towards its brand is called integrated marketing.

Careful brand management, supported by a cleverly crafted advertising campaign, can be highly successful in convincing consumers to pay remarkably high prices for products which are inherently extremely cheap to make. This concept, known as creating value, essentially consists of manipulating the projected image of the product so that the consumer sees the product as being worth the amount that the advertiser wants him/her to see, rather than a more logical valuation that comprises an aggregate of the cost of raw materials, plus the cost of manufacture, plus the cost of distribution. Modern value-creation branding-and-advertising campaigns are highly successful at inducing consumers to pay, for example, 50 dollars for a T-shirt that cost a mere 50 cents to make, or 5 dollars for a box of breakfast cereal that contains a few cents' worth of wheat.

Brands should be seen as more than the difference between the actual cost of a product and its selling price - they represent the sum of all valuable qualities of a product to the consumer. There are many intangibles involved in business, intangibles left wholly from the income statement and balance sheet which determine how a business is perceived. The learned skill of a knowledge worker, the type of metal working, the type of stitch: all may be without an 'accounting cost' but for those who truly know the product, for it is these people the company should wish to find and keep, the difference is incomparable. By failing to recognize these assets that a business, any business, can create and maintain will set an enterprise at a serious disadvantage.

A brand which is widely known in the marketplace acquires **brand recognition**. When brand recognition builds up to a point where a brand enjoys a critical mass of positive sentiment in the marketplace, it is said to have achieved **brand franchise**. One goal in brand recognition is the identification of a brand without the name of the company present. For example, Disney has been successful at branding with their particular script font (originally created for Walt Disney's "signature" logo), which it used in the logo for go.com.

Consumers may look on branding as an important value added aspect of products or services, as it often serves to denote a certain attractive quality or characteristic (see also brand promise). From the perspective of brand owners, branded products or services also command higher prices. Where two products resemble each other, but one of the products has no associated branding (such as a generic, store-branded product), people may often select the more expensive branded product on the basis of the quality of the brand or the reputation of the brand owner.

Brand name: The brand name is often used interchangeably within "brand", although it is more correctly used to specifically denote written or spoken linguistic elements of any product. In this context a "brand name" constitutes a type of trademark, if the brand name exclusively identifies the brand owner as the commercial source of products or services. A brand owner may seek to protect proprietary rights in relation to a brand name through trademark registration. Advertising spokespersons have also become part of some brands, for example: Mr. Whipple of Charmin toilet tissue and Tony the Tiger of Kellogg's. Brand names will fall into one of three spectrums of use - Descriptive, Associative or Freestanding.

- **Descriptive brand names** assist in describing the distinguishable selling point(s) of the product to the customer (e.g. Snap, Crackle and Pop or Bitter Lemon).
- **Associative brand names** provide the customer with an associated word for what the product promises to do or be (e.g. Walkman, Sensodyne or Natrel)

- Finally, **Freestanding brand names** have no links or ties to either descriptions or associations of use. (e.g. Mars Bar or Pantene)

The act of associating a product or service with a brand has become part of pop culture. Most products have some kind of brand identity, from common table salt to designer jeans. A brandnomer is a brand name that has colloquially become a generic term for a product or service, such as Band-Aid or Kleenex, which are often used to describe any kind of adhesive bandage or any kind of facial tissue respectively.

Brand identity: A product identity, or brand image are typically the attributes one associates with a brand, how the brand owner wants the consumer to perceive the brand - and by extension the branded company, organization, product or service. The brand owner will seek to bridge the gap between the brand image and the brand identity. Effective brand names build a connection between the brand personality as it is perceived by the target audience and the actual product/service. The brand name should be conceptually on target with the product/service (what the company stands for). Furthermore, the brand name should be on target with the brand demographic. Typically, sustainable brand names are easy to remember, transcend trends and have positive connotations. Brand identity is fundamental to consumer recognition and symbolizes the brand's differentiation from competitors.

Brand identity is what the owner wants to communicate to its potential consumers. However, over time, a products brand identity may acquire (evolve), gaining new attributes from consumer perspective but not necessarily from the marketing communications an owner percolates to targeted consumers. Therefore, brand associations become handy to check the consumer's perception of the brand.

Brand identity needs to focus on authentic qualities - real characteristics of the value and brand promise being provided and sustained by organizational and/or production characteristics.

Brand parity: Brand parity is the perception of the customers that all brands are equivalent.

Branding approaches:

Company name: Often, especially in the industrial sector, it is just the company's name which is promoted (leading to one of the most powerful statements of "branding"; the saying, before the company's downgrading, "No one ever got fired for buying IBM"). In this case a very strong brand name (or company name) is made the vehicle for a range of products (for example, Mercedes-Benz or Black & Decker) or even a range of subsidiary brands (such as Cadbury Dairy Milk, Cadbury Flake or Cadbury Fingers in the United States)

Individual branding: Each brand has a separate name (such as Seven-Up or Nivea Sun (Beiersdorf)), which may even compete against other brands from the same company (for example, Persil, Omo, Surf and Lynx are all owned by Unilever).

Attitude branding and Iconic brands: Attitude branding is the choice to represent a larger feeling, which is not necessarily connected with the product or consumption of the product at all.

Marketing labeled as attitude branding include that of Nike, Starbucks, The Body Shop, Safeway, and Apple Computer. In the 2000 book *No Logo*, Naomi Klein describes attitude branding as a "fetish strategy". "A great brand raises the bar -- it adds a greater sense of purpose to the experience, whether it's the challenge to do your best in sports and fitness, or the affirmation that the cup of coffee you're drinking really matters." - Howard Schultz (president, CEO, and chairman of Starbucks)

Iconic brands are defined as having aspects that contribute to consumer's self-expression and personal identity. Brands whose value to consumers comes primarily from having identity value comes are said to be "identity brands". Some of these brands have such a strong identity that they become more or less "cultural icons" which makes them iconic brands. Examples of iconic brands are: Apple Computer, Nike and Harley Davidson. Many iconic brands include almost ritual-like behavior when buying and consuming the products.

There are four key elements to creating iconic brands: 1. "Necessary conditions" - The performance of the product must at least be ok preferably with a reputation of having good quality. 2. "Myth-making" - A meaningful story-telling fabricated by cultural "insiders". These must be seen as legitimate and respected by consumers for stories to be accepted. 3. "Cultural contradictions" - Some kind of mismatch between prevailing ideology and emergent undercurrents in society. In other words a difference with the way consumers are and how they some times wish they were. 4. "The cultural brand management process" - Actively engaging in the myth-making process making sure the brand maintains its position as an icon.

"No-brand" branding: Recently a number of companies have successfully pursued "No-Brand" strategies; examples include the Japanese company Muji, which means "No label" in English. "No brand quality goods". Although there is a distinct Muji brand, Muji products are not branded. This no-brand strategy means that little is spent on advertisement or classical marketing and Muji's success is attributed to the word-of-mouth, a simple shopping experience and the anti-brand movement.

Derived brands: In this case the supplier of a key component, used by a number of suppliers of the end-product, may wish to guarantee its own position by promoting that component as a brand in its own right. The most frequently quoted example is Intel, which secures its position in the PC market with the slogan "Intel Inside".

Brand extension: The existing strong brand name can be used as a vehicle for new or modified products; for example, many fashion and designer companies extended brands into fragrances, shoes and accessories, home textile, home decor, luggage, (sun-) glasses, furniture, hotels, etc. Mars extended its brand to ice cream, Caterpillar to shoes and watches, Michelin to a restaurant guide, Adidas and Puma to personal hygiene. Dunlop extended its brand from tires to other rubber products such as shoes, golf balls, tennis racquets and adhesives.

There is a difference between brand extension and line extension. When Coca-Cola launched "Diet Coke" and "Cherry Coke" they stayed within the originating product category: non-alcoholic carbonated beverages. Procter & Gamble (P&G) did likewise extending its strong lines (such as Fairy Soap) into neighboring products (Fairy Liquid and Fairy Automatic) within the same category, dish washing detergents.

Multi-brands: Alternatively, in a market that is fragmented amongst a number of brands a supplier can choose deliberately to launch totally new brands in apparent competition with its own existing strong brand (and often with identical product characteristics); simply to soak up some of the share of the market which will in any case go to minor brands. The rationale is that having 3 out of 12 brands in such a market will give a greater overall share than having 1 out of 10 (even if much of the share of these new brands is taken from the existing one). In its most extreme manifestation, a supplier pioneering a new market which it believes will be particularly attractive may choose immediately to launch a second brand in competition with its first, in order to pre-empt others entering the market. Individual brand names naturally allow greater flexibility by permitting a variety of different products, of differing quality, to be sold without confusing the consumer's perception of what business the company is in or diluting higher quality products. Once again, Procter & Gamble is a leading exponent of this philosophy, running as many as ten detergent brands in the US market. This also increases the total number of "facings" it receives on supermarket shelves. Sara Lee, on the other hand, uses it to keep the very different parts of the business separate — from Sara Lee cakes through Kiwi polishes to L'Eggs pantyhose. In the hotel business, Marriott uses the name Fairfield Inns for its budget chain (and Ramada uses Rodeway for its own cheaper hotels).

Cannibalization is a particular problem of a "multibrand" approach, in which the new brand takes business away from an established one which the organization also owns. This may be acceptable (indeed to be expected) if there is a net gain overall. Alternatively, it may be the price the organization is willing to pay for shifting its position in the market; the new product being one stage in this process.

Own brands and generics: With the emergence of strong retailers the "own brand", a retailer's own branded product (or service), also emerged as a major factor in the marketplace. Where the retailer has a particularly strong identity (such as Marks & Spencer in the UK clothing sector) this "own brand" may be able to compete against even the strongest brand leaders, and may outperform those products that are not otherwise strongly branded.

Concerns were raised that such "own brands" might displace all other brands (as they have done in Marks & Spencer outlets), but the evidence is that — at least in supermarkets and department stores — consumers generally expect to see on display something over 50 percent (and preferably over 60 percent) of brands other than those of the retailer. Indeed, even the strongest own brands in the UK rarely achieve better than third place in the overall market.

This means that strong independent brands (such as Kellogg's and Heinz), which have maintained their marketing investments, are likely to continue their strong performance. More than 50 per cent of UK FMCG brand leaders have held their position for more than two decades, although it is arguable that those which have switched their budgets to "buy space" in the retailers may be more exposed.

The strength of the retailers has, perhaps, been seen more in the pressure they have been able to exert on the owners of even the strongest brands (and in particular on the owners of the weaker third and fourth brands). Relationship marketing has been applied most often to meet the wishes of such large customers (and indeed has been demanded by them as recognition of their buying power). Some of the more active marketers have now also switched to 'category marketing' - in which they take into account all the needs of a retailer in a product category rather than more narrowly focusing on their own brand.

At the same time, probably as an outgrowth of consumerism, "generic" (that is, effectively unbranded) goods have also emerged. These made a positive virtue of saving the cost of almost all marketing activities; emphasizing the lack of advertising and, especially, the plain packaging (which was, however, often simply a vehicle for a different kind of image). It would appear that the penetration of such generic products peaked in the early 1980s, and most consumers still appear to be looking for the qualities that the conventional brand provides.

6.8 BRAND EQUITY

A *brand* is a name or symbol used to identify the source of a product. When developing a new product, branding is an important decision. The brand can add significant value when it is well recognized and has positive associations in the mind of the consumer. This concept is referred to as **brand equity**.

What is Brand Equity? Brand equity is an intangible asset that depends on associations made by the consumer. There are at least three perspectives from which to view brand equity:

- **Financial** - One way to measure brand equity is to determine the price premium that a brand commands over a generic product. For example, if consumers are willing to pay $100 more for a branded television over the same unbranded television, this premium provides important information about the value of the brand. However, expenses such as promotional costs must be taken into account when using this method to measure brand equity.
- **Brand extensions** - A successful brand can be used as a platform to launch related products. The benefits of brand extensions are the leveraging of existing brand awareness thus reducing advertising expenditures, and a lower risk from the perspective of the consumer. Furthermore, appropriate brand extensions can enhance the core brand. However, the value of brand extensions is more difficult to quantify than are direct financial measures of brand equity.
- **Consumer-based** - A strong brand increases the consumer's attitude strength toward the product associated with the brand. Attitude strength is built by experience with a product. This importance of actual experience by the customer implies that trial samples are more effective than advertising in the early stages of building a strong brand. The consumer's awareness and associations lead to perceived quality, inferred attributes, and eventually, brand loyalty.

Strong brand equity provides the following benefits:

- Facilitates a **more predictable income** stream.
- **Increases cash flow** by increasing market share, reducing promotional costs, and allowing premium pricing.
- **Brand equity is an asset** that can be sold or leased.

However, brand equity is not always positive in value. Some brands acquire a bad reputation that results in negative brand equity. Negative brand equity can be measured by surveys in which consumers indicate that a discount is needed to purchase the brand over a generic product.

Building and Managing Brand Equity: In his 1989 paper, *Managing Brand Equity*, Peter H. Farquhar outlined the following three stages that are required in order to build a strong brand:

1. **Introduction** - introduce a quality product with the strategy of using the brand as a platform from which to launch future products. A positive evaluation by the consumer is important.
2. **Elaboration** - make the brand easy to remember and develop repeat usage. There should be accessible brand attitude, that is, the consumer should easily remember his or her positive evaluation of the brand.
3. **Fortification** - the brand should carry a consistent image over time to reinforce its place in the consumer's mind and develop a special relationship with the consumer. Brand extensions can further fortify the brand, but only with related products having a perceived fit in the mind of the consumer.

Alternative Means to Brand Equity: Building brand equity requires a significant effort, and some companies use alternative means of achieving the benefits of a strong brand. For example, brand equity can be borrowed by extending the brand name to a line of products in the same product category or even to other categories. In some cases, especially when there is a perceptual connection between the products, such extensions are successful. In other cases, the extensions are unsuccessful and can dilute the original brand equity.

Brand equity also can be "bought" by licensing the use of a strong brand for a new product. As in line extensions by the same company, the success of brand licensing is not guaranteed and must be analyzed carefully for appropriateness.

Managing Multiple Brands: Different companies have opted for different brand strategies for multiple products. These strategies are:

- **Single brand identity** - a separate brand for each product. For example, in laundry detergents Procter & Gamble offers uniquely positioned brands such as Tide, Cheer, Bold, etc.
- **Umbrella** - all products under the same brand. For example, Sony offers many different product categories under its brand.

- **Multi-brand categories** - Different brands for different product categories. Campbell Soup Company uses Campbell's for soups, Pepperidge Farm for baked goods and V8 for juices.
- **Family of names** - Different brands having a common name stem. Nestle uses Nescafe, Nesquik, and Nestea for beverages.

Brand equity is an important factor in multi-product branding strategies.

Protecting Brand Equity: The marketing mix should focus on building and protecting brand equity. For example, if the brand is positioned as a premium product, the product quality should be consistent with what consumers expect of the brand, low sale prices should not be used compete, the distribution channels should be consistent with what is expected of a premium brand, and the promotional campaign should build consistent associations. Finally, potentially dilutive extensions that are inconsistent with the consumer's perception of the brand should be avoided. Extensions also should be avoided if the core brand is not yet sufficiently strong.

Measurement: There are many ways to measure a brand. Some measurements approaches are at the firm level, some at the product level and still others are at the consumer level.

Firm Level: Firm level approaches measure the brand as a financial asset. In short, a calculation is made regarding how much the brand is worth as an intangible asset. For example, if you were to take the value of the firm, as derived by its market capitalization - and then subtract tangible assets and "measurable" intangible assets- the residual would be the brand equity. One high profile firm level approach is by the consulting firm Interbrand. To do its calculation, Interbrand estimates brand value on the basis of projected profits discounted to a present value. The discount rate is a subjective rate determined by Interbrand and Wall Street equity specialists and reflects the risk profile, market leadership, stability and global reach of the brand.

***Product Level**:* The classic product level brand measurement example is to compare the price of a no-name or private label product to an "equivalent" branded product. The difference in price, assuming all things equal, is due to the brand. More recently a revenue premium approach has been advocated.

***Consumer Level**:* This approach seeks to map the mind of the consumer to find out what associations with the brand that the consumer has. This approach seeks to measure the awareness (recall and recognition) and brand image (the overall associations that the brand has). Free association tests and projective techniques are commonly used to uncover the tangible and intangible attributes, attitudes, and intentions about a brand. Brands with high levels of awareness and strong, favorable and unique associations are high equity brands. All of these calculations are, at best, approximations. A more complete understanding of the brand can occur if multiple measures are used.

Positive Equity Only? An interesting question is raised- can brands have negative brand equity? From one perspective, brand equity cannot be negative. Positive brand equity is created by effective marketing including via advertising, PR and promotion. A second perspective is that negative equity can exist. Looking at a political "brand" example, the "Democrat" brand may be negative to a Republican, and vice versa. The greater a company's brand equity, the greater the probability that the company will use a family branding strategy rather than an individual branding strategy. This is because family branding allows them to leverage the equity accumulated in the core brand. Aspects of brand equity includes: brand loyalty, awareness, association, and perception of quality.

6.9 PACKAGING

Packaging is the science, art and technology of enclosing or protecting products for distribution, storage, sale, and use. Packaging also refers to the *process* of design, evaluation, and production of packages. Packaging can be described as a *coordinated system* of preparing goods for transport, warehousing, logistics, sale, and end use. Packaging contains, protects, preserves, transports, informs, and sells. It is fully integrated into government, business, institutional, industry, and personal use.

Package labeling (BrE) or **labeling** (AmE) is any written electronic, or graphic communications on the packaging or on a separate but associated label

The purposes of packaging and package labels: Packaging and package labeling have several objectives

- **Physical protection** - The objects enclosed in the package may require protection from, among other things, shock, vibration, compression, temperature, etc.
- **Barrier protection** - A barrier from oxygen, water vapor, dust, etc., is often required. Permeation is a critical factor in design. Some packages contain desiccants or Oxygen absorbers to help extend shelf life. Modified atmospheres or controlled atmospheres are also maintained in some food packages. Keeping the contents clean, fresh, sterile and safe for the intended shelf life is a primary function.
- **Containment or agglomeration** - Small objects are typically grouped together in one package for reasons of efficiency. For example, a single box of 1000 pencils requires less physical handling than 1000 single pencils. Liquids, powders, and granular materials need containment.
- **Information transmission** - Packages and labels communicate how to use, transport, recycle, or dispose of the package or product. With pharmaceuticals, food, medical, and chemical products, some types of information are required by governments. Some packages and labels also are used for track and trace purposes.
- **Marketing** - The packaging and labels can be used by marketers to encourage potential buyers to purchase the product. Package graphic design and physical design have been important and constantly evolving phenomenon for several decades. Marketing communications and graphic design are applied to the surface of the package and (in many cases) the point of sale display.
- **Security** - Packaging can play an important role in reducing the security risks of shipment. Packages can be made with improved tamper resistance to deter tampering and also can have tamper-evident features to help indicate tampering. Packages can be engineered to help reduce the risks of package pilferage: Some package constructions are more resistant to pilferage and some have pilfer indicating seals. Packages may include

authentication seals and use security printing to help indicate that the package and contents are not counterfeit. Packages also can include anti-theft devices, such as dye-packs, RFID tags, or electronic article surveillance. Tags, that can be activated or detected by devices at exit points and require specialized tools to deactivate. Using packaging in this way is a means of loss prevention.

- **Convenience** - Packages can have features that add convenience in distribution, handling, stacking, display, sale, opening, reclosing, use, dispensing, and reuse.
- **Portion control** - Single serving or single dosage packaging has a precise amount of contents to control usage. Bulk commodities (such as salt) can be divided into packages that are a more suitable size for individual households. It is also aids the control of inventory: selling sealed one-liter-bottles of milk, rather than having people bring their own bottles to fill themselves.

Figure 6.3: Packaging types

Various household packaging types for foods: Packaging may be looked at as several different types. For example a **transport package** or **distribution package** can be the shipping container used to ship, store, and handle the product or inner packages. Some identify a **consumer package** as one which is directed toward a consumer or household.

Packaging may be discussed in relation to the type of product being packaged: medical device packaging, bulk chemical packaging, over-the-counter drug packaging, retail food packaging, military materiel packaging, pharmaceutical packaging, etc.

Figure 6.4: Aluminum can with a pull tab

It is sometimes convenient to categorize packages by layer or function: "primary", "secondary", etc.

- Primary packaging is the material that first envelops the product and holds it. This usually is the smallest unit of distribution or use and is the package which is in direct contact with the contents.
- Secondary packaging is outside the primary packaging – perhaps used to group primary packages together.
- Tertiary packaging is used for bulk handling, warehouse storage and transport shipping. The most common form is a palletized unit load that packs tightly into containers.

These broad categories can be somewhat arbitrary. For example, depending on the use, a shrink wrap can be primary packaging when applied directly to the product, secondary packaging when combining smaller packages, and tertiary packaging on some distribution packs.

Symbols used on packages and labels: Many types of symbols for package labeling are nationally and internationally standardized. For consumer packaging, symbols exist for product certifications, trademarks, proof of purchase, etc. Some requirements and symbols exist to communicate aspects of consumer use and safety. Examples of environmental and recycling symbols include: Recycling symbol, Resin identification code (below), and Green Dot (symbol).

Figure 6.5: Resin identification code

Bar codes (below), Universal Product Codes, and RFID labels are common to allow automated information management. Country of Origin Labeling is often used.

Wikipedia

Figure 6.6: Bar Code

Figure 6.7: Shipping container labeling

Technologies related to shipping containers are identification codes, bar codes, and electronic data interchange (EDI). These three core technologies serve to enable the business functions in the process of shipping containers throughout the distribution channel. Each has an essential function: identification codes either relate product information or serve as keys to other data, bar codes allow for the automated input of identification codes and other data, and EDI moves data between trading partners within the distribution channel.

Elements of these core technologies include UPC and EAN item identification codes, the SCC-14 (UPC shipping container code), the SSCC-18 (Serial Shipping Container Codes), Interleaved 2-of-5 and UCC/EAN-128 (newly designated GS1-128) bar code symbologies, and ANSI ASC X12 and UN/EDIFACT EDI standards.

Small parcel carriers often have their own formats. For example, United Parcel Service has a MaxiCode 2-D code for parcel tracking. RFID labels for shipping containers are also increasing in usage. A Wal-Mart division, Sam's Club, has also moved in this direction and is putting pressure on its suppliers for compliance. Shipments of hazardous materials or dangerous goods have special information and symbols (labels, plackards, etc) as required by UN, country, and specific carrier requirements. Two examples are below:

Figure 6.8: Examples of Labels of Hazardous material

With transport packages, standardized symbols are also used to communicate handling needs. Some common ones are shown below while others are listed in ASTM D5445 "Standard Practice for Pictorial Markings for Handling of Goods" and ISO 780 "Pictorial marking for handling of goods".

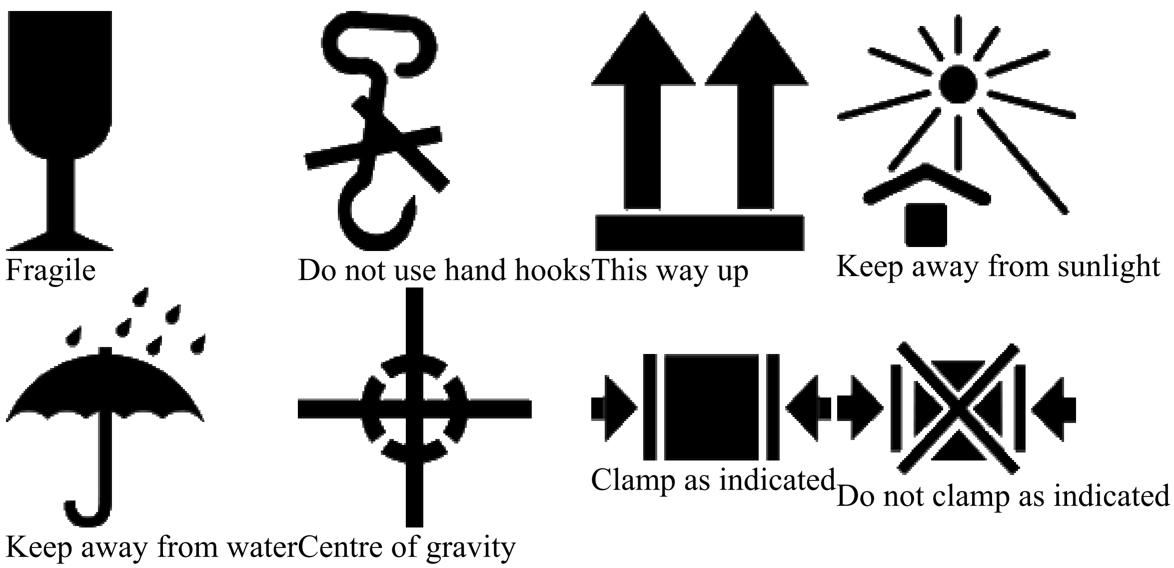

Figure 6.9: symbols are also used to communicate handling

Package development considerations: Package design and development are often thought of as an integral part of the new product development process. Alternatively, development of a package (or component) can be a separate process, but must be linked closely with the product to be packaged. Package design starts with the identification of all the requirements: structural design, marketing, shelf life, quality assurance, logistics, legal, regulatory, graphic design, end-use, environmental, etc. The design criteria, time targets, resources, and cost constraints need to be established and agreed upon.

Transport packaging needs to be matched to its logistics system. Packages designed for controlled shipments of uniform pallet loads may not be suited to mixed shipments with express carriers. An example of how package design is affected by other factors is the relationship to logistics. When the distribution system includes individual shipments by a small parcel carrier, the sortation, handling, and mixed stacking make severe demands on the strength and protective ability of the transport package. If the logistics system consists of uniform palletized unit loads, the structural design of the package can be designed to those specific needs: vertical stacking, perhaps for a longer time frame. A package designed for one mode of shipment may not be suited for another. Sometimes the objectives of package development seem contradictory. For example, regulations for an over-the-counter drug might require the package to be tamper-evident and child resistant. These intentionally make the package difficult to open.. The intended consumer, however, might be handicapped or elderly and be unable to readily open the package. Meeting all goals is a challenge.

Package design may take place within a company or with various degrees of external packaging engineering: contract engineers, consultants, vendor evaluations, independent laboratories, contract packagers, total outsourcing, etc. Some sort of formal Project planning and Project management methodology is required for all but the simplest package design and development programs. An effective quality management system and Verification and Validation protocols are mandatory for some types of packaging and recommended for all.

Package development involves considerations for sustainability, environmental responsibility, and applicable environmental and recycling regulations. It may involve a life cycle assessment which considers the material and energy inputs and outputs to the package, the packaged product (contents), the packaging process, the logistics system, waste management, etc. It is necessary to know the relevant regulatory requirements for point of manufacture, sale, and use. The traditional "three R's" of reduce; reuse, and recycle are part of a waste hierarchy which may be considered in product and package development.

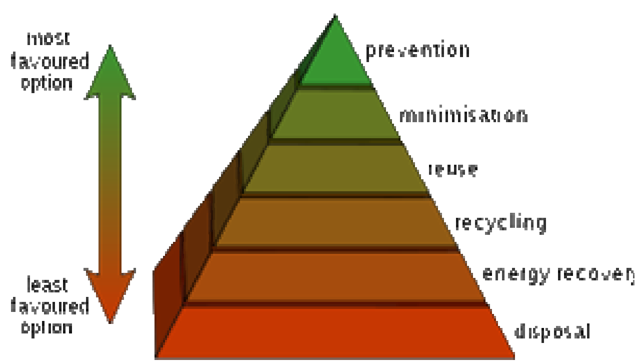

Figure 6.10: The Waste Hierarchy

The waste hierarchy:

- Prevention – Waste prevention is a primary goal. Packaging should be used only where needed. Proper packaging can also help prevent waste. Packaging plays an important part in preventing loss or damage to the packaged-product (contents). Usually, the energy content and material usage of the product being packaged are much greater than that of the package. A vital function of the package is to protect the product for its intended use: if the product is damaged or degraded, its entire energy and material content may be lost.

- Minimization – (also "source reduction") The mass and volume of packaging (per unit of contents) can be measured and used as one of the criteria to minimize during the package design process. Usually "reduced" packaging also helps minimize costs. Packaging engineers continue to work toward reduced packaging.
- Reuse – The reuse of a package or component for other purposes is encouraged. Returnable packaging has long been useful (and economically viable) for closed loop logistics systems. Inspection, cleaning, repair and recouperage are often needed.
- Recycling – Recycling is the reprocessing of materials (pre- and post-consumer) into new products. Emphasis is focused on recycling the largest primary components of a package: steel, aluminum, papers, plastics, etc. Small components can be chosen which are not difficult to separate and do not contaminate recycling operations.
- Energy recovery – Waste-to-energy and Refuse-derived fuel in approved facilities are able to make use of the heat available from the packaging components.
- Disposal – Incineration and placement in a sanitary landfill are needed for some materials. Certain states within the US regulate packages for toxic contents, which have the potential to contaminate emissions and ash from incineration and leachate from landfill. Packages should not be littered.

Development of sustainable packaging is an area of considerable interest by standards organizations, government, consumers, packagers, and retailers.

Figure 6.11 Bottling lines for beer plant

Packaging machines: A choice of packaging machinery includes: technical capabilities, labor requirements, worker safety, maintainability, serviceability, reliability, ability to integrate into the packaging line, capital cost, floor space, flexibility (change-over, materials, etc.), energy usage, quality of outgoing packages, qualifications (for food, pharmaceuticals, etc.), throughput, efficiency, productivity, ergonomics, return on investment, etc.

Packaging machines may be of the following general types:

- Blister packs, skin packs and Vacuum Packaging Machines
- Bottle caps equipment, Over-Capping, Lidding, Closing, Seaming and Sealing Machines
- Box, Case and Tray Forming, Packing, Unpacking, Closing and Sealing Machines
- Cartoning Machines
- Cleaning, Sterilizing, Cooling and Drying Machines
- Converting Machines
- Conveyor belts, Accumulating and Related Machines
- Feeding, Orienting, Placing and Related Machines
- Filling Machines: handling liquid and powdered products
- Inspecting, Detecting and Check weigher Machines
- Label dispensers Help peel and apply labels more efficiently
- Package Filling and Closing Machines
- Palletizing, Depalletizing, Unit load assembly
- Product Identification: labeling, marking, etc.
- Shrink wrap Machines
- Form, Fill and Seal Machines
- Other speciality machinery: slitters, perforating, laser cutters, parts attachment, etc.

6.10 REVIEW QUESTIONS

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1. Briefly describe each of the four main stages of the product life cycle.
2. A leading publishing house wishes to launch web based books, periodicals and magazines. What should be its strategy?
3. What factors contribute to the success or failure of new product?
4. Evaluate the various methods of brand evaluation in the Indian context.
5. Briefly discuss on the topic packaging.

DEVELOPING MARKET STRATEGIES AND THE OFFERINGS - PART II

Structure

7.1 INTRODUCTION TO SERVICE MARKETING

A **service** is the action of doing something for someone or something. It is largely intangible (i.e. not material). A product is tangible (i.e. material) since you can touch it and own it. A service tends to be an experience that is consumed at the point where it is purchased, and cannot be owned since is quickly perishes. A person could go to a café one day and have excellent service, and then return the next day and have a poor experience. So often marketers talk about the nature of a service as:

- **Inseparable** - from the point where it is consumed, and from the provider of the service. For example, you cannot take a live theatre performance home to consume it (a DVD of the same performance would be a product, not a service).

- **Intangible** - and cannot have a real, physical presence as does a product. For example, motor insurance may have a certificate, but the financial service itself cannot be touched i.e. it is intangible.

- **Perishable** - in that once it has occurred it cannot be repeated in exactly the same way. For example, once a 100 metres Olympic final has been run, there will be not other for 4 more years, and even then it will be staged in a different place with many different finalists.

- **Variability**- since the human involvement of service provision means that no two services will be completely identical. For example, returning to the same garage time and time again for a service on your car might see different levels of customer satisfaction, or speediness of work.

- **Right of ownership** - is not taken to the service, since you merely experience it. For example, an engineer may service your air-conditioning, but you do not own the service, the engineer or his equipment. You cannot sell it on once it has been consumed, and do not take ownership of it.

Figure 7.1: Characteristics of a service

Services marketing is marketing based on relationship and value. It may be used to market a service or a product. Marketing a service-base business is different from marketing a goods-base business. There are several major differences, including:

1. The buyer purchases are intangible
2. The service may be based on the reputation of a single person
3. It's more difficult to compare the quality of similar services
4. The buyer cannot return the service

The major difference in the education of services marketing versus regular marketing is that apart from the traditional "4 P's," Product, Price, Place, Promotion, there are three additional "P's" consisting of People, Physical evidence, and Process. Service marketing also includes the servicewomen referring to but not limited to the aesthetic appearance of the business from the outside, the inside, and the general appearance of the employees themselves. Service Marketing has been relatively gaining ground in the overall spectrum of educational marketing as developed economies move farther away from industrial importance to service oriented economies. **What is marketing?** Marketing is the flow of goods and services from the producer to consumer. It is based on relationship and value. In common parlance it is the distribution and sale of goods and services. Marketing can be differentiated as:

- Marketing of products
- Marketing of services.

Marketing includes the services of all those indulged may it be then the wholesaler retailer, Warehouse keeper, transport etc. In this modern age of competition marketing of a product or service plays a key role. It is estimated that almost 50% of the price paid for a commodity goes to the marketing of the product in US. Marketing is now said to be a term which has no particular definition as the definitions change everyday." Managing the evidence" refers to the act of informing customers that the service encounter has been performed successfully. It is best done in subtle ways like providing examples or descriptions of good and poor service that can be used as a basis of comparison. The underlying rationale is that a customer might not appreciate the full worth of the service if they do not have a good benchmark for comparisons.

However, it is worth remembering that many of the concepts, as well as many of the specific techniques, will work equally well whether they are directed at products or services. In particular, developing a marketing strategy is much the same for products and services, in that it involves selecting target markets and formulating a marketing mix. Thus, Theodore Levitt suggested that "instead of talking of 'goods' and of 'services', it is better to talk of 'tangibles' and 'intangibles'". Levitt also went on to suggest that marketing a physical product is often more concerned with intangible aspects (frequently the `product service' elements of the total package) than with its physical sales after service is very important in service sector. Charles Revson made a famous comment regarding the business of Revlon Inc.: `In the factory we make cosmetics. In the store we sell hope.' Arguably, service industry marketing merely approaches the problems from the opposite end of the same spectrum.

Principle of Service marketing: It is the process of making an intangible product into an experience that the customer will value, or benefit from. The four fundamental principles of marketing are product, price, place and promotion. Because of the intangible aspect of services, an additional three principles---people, process, and physical evidence---have been added to the marketing mix. Selling the interpersonal exchange that takes place within the service is a key principle in service marketing.

Features: A service offering is different from a product offering in that the customer can't take the service with them. This means the service and the place that provides it are inseparable. With a tangible product, the customer places a higher value and expectation in the product's performance. With a service offering, value and expectation are placed in the experience had when the service was delivered. This difference of customer focus accounts for the three additional marketing principles.

Function: Marketing a service is, in effect, marketing an experience that the customer will perceive as valuable or necessary. The principles regarding people, process and physical evidence center around what is needed to provide a favorable customer experience. The people aspect has to do with providing the necessary employee training to ensure the proper delivery of the service. The way a company's employees interact with customers is an integral part of service marketing. The process principle involves the systems that are in place to deliver the service and requires developing procedures that match the service being provided. An example of this would be the scripts provided to customer service agents within call centers. A greeting, a series of questions, and a series of action steps are provided to ensure a quick, cordial, solution-based interaction between the caller and the service representative.

Effects: Service marketing campaigns put much of the focus on building relationships with the customers. How processes are structured, how employees interact with the customers, and how comfortable the customer feels at the point of service all affect the relationship between the business and the customer. Processes can be automated in such a way that the customer receives regular contact, be it in the form of newsletters, coupons, or reminders. With service industries, such as restaurants and airline companies, the customer becomes an integral part of the process. The customer's experience while the service is carried out becomes part of the marketing mix. Ensuring a quality service experience means maintaining a positive morale among employees and establishing effective lines of communication between employees and supervisors.

Significance: Integrating the principles of people, process and physical environment with the basic four---product, price, place and promotion---puts the customer experience at the center of the marketing message. Product marketing works to present the benefits and values of a product. Service marketing rather has to render these benefits and values within the context of the customer experience. In essence, the actual product in service marketing is a repeat customer, as the ultimate aim of a quality service for the customer to choose your business over another.

7.2 DIFFERENTIATING SERVICES

We can classify or differentiate services as mentioned below:

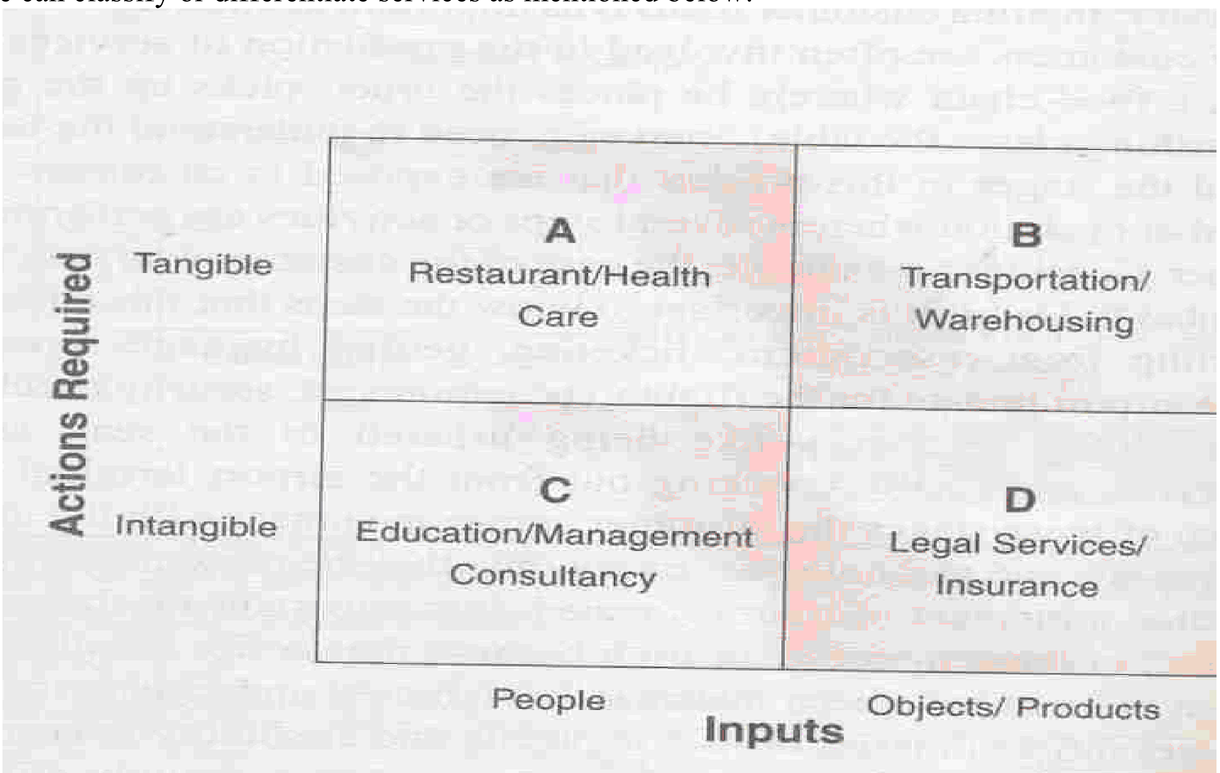

Figure 7.2: Classification of Services

Quadrant A is categorized as people processing services, quadrant 'B' as product or possession processing, while quadrant 'c' is mental stimulus processing, and the last, quadrant 'D' is information processing

- **People processing services:** These services are targeted as customers themselves. In order to receive these types of services the customer must physically enter the service system of a service factory. An example is an aircraft where both people and equipment or technology, or either of them, create and deliver service benefit. Today it is possible that the service producer may come to the to e customer with the necessary tools of his trade. The goal of this service provider is to create a new set of values in the industry for the customers. For example, a banker may walk up to the customer and complete all the necessary transactions that the customer may want to do at his/her place of work or residence at a time most convenient to him/her, From the marketing perspective, it is important to think about these processes and their impact on customers, as it will help identify the benefit package that needs to be created. These benefits are expressed in both financial and non-financial terms.

- **Product Possession Processing Services:** In product processing or possession processing customers are less physically involved. In most such cases, customer involvement is usually limited to calling for the services, explaining the problem, and subsequently making the payment. The pre- and after-sales service here will involve issues relating to customer response management. From the marketing viewpoint, these are a range of services, which are going to add value to the customer and, hence, the marketer needs to understand the, entire 'value chain process of the customer. For example, the logistics services provider needs to understand the role of his .services in the value creation process of an exporter or of the shares department of a large industrial house. It is important to note here that the customer evaluates such services on the basis of tangible promises being delivered within a defined time period and at a pre-negotiated price. Thus the marketer has to ensure that there problems in delivering promised service. Also; he needs to examine all the stages in the customer's operations to identify opportunities for his products.

- **Mental Stimulus Processing:** Services that are categorized under mental stimulus processing include education, entertainment, and management consultancy. It also includes religious services offered by a large number of religious ‘gurus’ and their ashrams. These services impact the consumer mind and have the potential to shape their attitudes, behavior and lifestyle. In a way, this relationship of the marketer with the customer is one of dependency, where the customer is dependent on the 'guru'. This can often lead to problems relating to manipulation, extortion, and even unethical behavior or practices. To avoid such a negative image, such organizations and individuals need to evolve a code of conduct acceptable to the customer and create high ethical standards. The customer must feel that he or she is not being cheated. Ethical marketing in such cases is a prerequisite. Equally important from the marketing perspective is the principal of repetition in consumer learning. These services need to be on a repetitive basis so as to provide the customer the opportunity to use it at a convenient time and place. For example, today there are dedicated television channels like ZED for education, and, for religion-which telecast programmes on Indian television 24 hours a day. This provides the customer the opportunity to see the programme or programmes at a time and for a duration that is convenient to him or her.

- **Information Processing Services:** In the context of information processing services, the marketer has to understand that information is the most intangible form of service output and, in today’s context, most vital from the point of view of the customer's own competitive advantage. In this era of information technology, customers shop for information in areas as diverse as accounting, legal research, medicine, insurance, and financial products. The customer's involvement in these situations is very high and hence are categorized as high involvement purchase decisions. From the customer's viewpoint, these are high cost (both financial and non-financial) and high risk service situations. Hence the customer tries to avoid going into the service factory to shop for the service product. From a marketer's perspective, this poses a challenge to bring the customer to the factory ma motivate him to buy and consume such services. Thus, service as a process has to be viewed in the context of the different stages and categories that have been referred to above. It is equally important to understand that unless and until each of these stages is performed for 100 percent quality results, one cannot have a 100 percent service product.

7.3 PRODUCT AND SERVICE PRICE

Pricing is one of the four Ps of the marketing mix. The other three aspects are product, promotion, and place. It is also a key variable in microeconomic price allocation theory. Price is the only revenue generating element amongst the 4ps, the rest being cost centers. Pricing is the manual or automatic process of applying prices to purchase and sales orders, based on factors such as: a fixed amount, quantity break, promotion or sales campaign, specific vendor quote, price prevailing on entry, shipment or invoice date, combination of multiple orders or lines, and many others. Automated systems require more setup and maintenance but may prevent pricing errors.

What a price should do: A well chosen price should do three things:

- achieve the financial goals of the company (e.g., profitability)
- Fit the realities of the marketplace (Will customers buy at that price?)
- support a product's positioning and be consistent with the other variables in the marketing mix
    - price is influenced by the type of distribution channel used, the type of promotions used, and the quality of the product
        - price will usually need to be relatively high if manufacturing is expensive, distribution is exclusive, and the product is supported by extensive advertising and promotional campaigns
        - a low price can be a viable substitute for product quality, effective promotions, or an energetic selling effort by distributors

From the marketer's point of view, an **efficient price** is a price that is very close to the maximum that customers are prepared to pay. In economic terms, it is a price that shifts most of the consumer surplus to the producer. A good pricing strategy would be the one which could balance between the price floor (the price below which the organization ends up in losses) and the price ceiling (the price beyond which the organization experiences a no demand situation).

Pricing your product or service is one of the most important business decisions you will make. You must offer your products for a price your target market is willing to pay - and one that produces a profit for your company - or you won't be in business for long. There are many approaches to pricing, some scientific, some not. Here is one framework for making pricing decisions that takes into account your costs, the effects of competition and the customer's perception of value.

Definitions:

- Cost is the total of the fixed and variable expenses (costs to you) to manufacturer or offer your product or service.
- Price is the selling price per unit customers pay for your product or service.

So, the price you set is the cost to the customer. Ideally, it should be higher than the costs you incurred in producing the product. Think of your cost as the surface of the ocean. You must set your price above the surface to cover costs or you will quickly drown. Of course, there will be times when you decide to set prices at or below cost for a temporary, specific purpose, such as gaining market entrance or clearing inventory. How the customer perceives the value of the product determines the maximum price customers will pay. This is sometimes described as "the price the market will bear." Perceived value is created by an established reputation, marketing messages, packaging, and sales environments. An obvious and important component of perceived value is the comparison customers and prospects make between you and your competition.

Somewhere between the your cost and "the price the market will bear" is the right price for your product or service - a price that enables you to make a fair profit and seems fair to your customers. Consequently, once you understand your costs and your maximum price, you can make an informed decision about how to price your product or service.

However, while costs are important in setting your prices, don't limit your thinking only to cost-based pricing. Value-based pricing makes you think about your business from the customer's perspective. If the customer doesn't perceive value worth paying for at a price that offers you a fair profit, you need to re-think your game-plan.In business, few decisions are more crucial than the price you charge for your product or service. Interestingly, research indicates that many owners of businesses and professional practices under price their products and services. In theory it might seem that only the seller offering the product or service at the lowest price ought to do any business. But in reality, the highest priced seller might be moving the greatest number of units. As a general principle, you should charge as much as possible for your merchandise or services. But there are dozens of factors (kind of customer you want to appeal to, competition, selling for cash or credit, your willingness to accept returns, guarantees) to examine before you can figure out your best prices.

You can offer the lowest prices possible, but to do so you will probably give up amenities that others in your industry offer: personal attention, delivery service, prompt replacement of defective merchandise, unquestioned refunds, and/or easier credit terms. If you don't offer such service, be prepared to lose shoppers who want it and are willing to pay for it. Many businesses fail to realize that, with low-cost competitors, it's often more effective to position a product/service higher upscale than it is to cut the selling price.

For Example: Japanese motorcycles are priced around 25 percent under Harleys. But Harley-Davidson stresses custom styling, American origin and the mystique of a powerful road machine. The image is reinforced by heavy advertising and the customers' club. The message? Only Harley offers the real thing - anything else is a cheap substitute.

Lower than average prices generally fail to increase sales enough to raise profits if any of the following are true:

- You fail to advertise low prices widely
- Items are rarely bought
- Customers lack a clear basis for comparison
- Luxury items are involved

Pricing a product has three-step process:
Step 1. Figure cost x standard markup: Standard markup is based on the rate of turnover and seasonal factors. The table below indicates what the markup factor is for various ratios of cost of the goods to their sales price. While you want the markup to approximate industry averages, you don't just want to set them across the board. Markups on slow-moving items must be larger to compensate for the cost of carrying the inventory. Faster moving goods should be priced with a lower markup to meet the competition. The key - find an average target markup for your whole store or operation.

Cost of Goods Divided by Sales	Markup Factor
5%	20.00
10%	10.00
15%	6.67
20%	5.00
25%	4.00
30%	3.33
35%	2.86
40%	2.50
45%	2.22
50%	2.00
55%	1.82
60%	1.67
65%	1.54
70%	1.43
75%	1.33
80%	1.25
85%	1.18
90%	1.11
95%	1.05
100%	1.00

Step 2. Fine-tune the price: Consider the following elements in setting prices:

- Laws about unfair sales practices
- Buyer's concern for price
- Estimate of service after the sale
- Competition
- Franchise and manufacturer's recommendations
- Other advantages of your firm (location, convenience, promotion, etc.)

Step 3. Further fine-tune the price: You have the following options in pricing:

- Price some products low to attract sales
- Get a good buy on certain items, put a higher markup on them, and still sell competitively
- Dump products that are deteriorating or going out of style
- Sell high-turnover items at less than standard markup

Consider price and demand, too. Is the cost important to the customer? It's not necessarily important what you sell something for - what is its total contribution to profits? For example, the owner of a bike shop wants to sell a battery-powered light with a cost to him of $6. He estimates the following scenarios:

Selling price	$8	$10	$12
Cost per unit	$6	$6	$6
Gross profit per unit	$2	$4	$6
Units expected to be sold	170	100	60
Contribution to overhead and profits	$340	$400	$360

Based on this analysis, he found that he shouldn't sell the light for the highest price ($12) or for what will move the most number of units ($8). The best price ($10) maximizes the item's contribution to profit and overhead.

Pricing a service has three-step process:

Step 1. Figure billable hours: Very few people can work and bill for 365 days per year. Actually, you're lucky if you bill half that time. You must subtract time for the following:

- Time off Weekends, holidays, vacations and sick days
- Marketing
  To sell the service to prospects (new business owners may spend about half their time in marketing the first year; many existing businesses spend about a day per week)
- Training
  To improve services and stay up with current trends (can take a day per month)
- Administration
  Invoicing, paying bills, dealing with suppliers, finding equipment, etc.

For example if a bike shop owner offers repair services in addition to retail items, he could make the following calculation to figure the rate per hour of his repair person:

Potential hours (52 weeks x 5 days per week x 8 hours per day)	2,080
Less: holidays, vacation, sick time and training (5 days each) (20 days x 8 hours per day)	(160)
Less: administration, shop cleanup, ordering parts, time on the telephone, customer service (49 weeks x 5 days per week x 2 hours per day)	(490)
Less: marketing	(0)
Total billable hours	1,430

Step 2. Figure billing rate costs: You must include the following:

- Salary: Should be comparable to wages the person would be making working in the same type of job for someone else (given the same skills and experience)
- Mandatory benefits: Employment taxes (Social Security, unemployment-both federal and state, worker's compensation); average 14% of salary
- Retirement: Average 10% of salary
- Insurance (health, life): Average $100 per month

Other overhead costs include the following:

- Advertising (Yellow Pages, newspapers, and trade journals)
- Business and professional meetings (lunches, room rentals, and taxis; any direct cost should be billed to the client)
- Car expense (actual, or .31 [1996] per mile)
- Depreciation on equipment (e.g., if it will last 5 years, then 20% of the price)
- Dues, publications, professional fees
- Education and training
- Insurance (fire, liability, malpractice)
- Interest (if you borrow)
- Professional fees (accounting, legal, financial)
- Printing (brochures, stationery)
- Rent (allocate even if you use your home)
- Repairs and maintenance
- Secretarial services
- Supplies and postage
- Taxes (real estate and personal property)
- Telephone
- Travel expenses
- Utilities
- Other

The bike shop owner's total estimated overhead was $45,000. He made the following calculation of billing rate costs:

Salary of repair person ($180 per week)	$9,360
Benefits (14%) and employment taxes	1,310
Retirement	0
Health insurance	1,200
Amount of total estimated overhead allocated to repairs, based on square feet ($45,000 x 20%)	9,000
Total cost	$20,870

Step 3. Figure out minimum hourly rate.
Cost + 10% (for profit) divided by your number of billable hours will yield your hourly rate.
The bike shop owner made the following analysis:

Cost + 10% for profit	$22,957
Billable hours	1,430
Minimum hourly rate	$16.05

He then called several bike shops in the area and found that their rates were from $15 to $25 per hour. Thus, the owner decided that $16.05 per hour was the rate he was going to charge.

7.4 RESPONSE TO CHANGE IN PRICE

The Price Elasticity of Demand (commonly known as just price elasticity) measures the rate of response of quantity demanded due to a price change. The formula for the Price Elasticity of Demand (PEoD) is:

PEoD = (% Change in Quantity Demanded)/(% Change in Price)

Calculating the Price Elasticity of Demand: You may be asked the question "Given the following data, calculate the price elasticity of demand when the price changes from $9.00 to $10.00" Using the chart on the bottom of the page, I'll walk you through answering this question. (Your course may use the more complicated Arc Price Elasticity of Demand formula. If so you'll need to see the article on Arc Elasticity)

First we'll need to find the data we need. We know that the original price is $9 and the new price is $10, so we have Price (OLD) =$9 and Price (NEW) =$10. From the chart we see that the quantity demanded when the price is $9 is 150 and when the price is $10 is 110. Since we're going from $9 to $10, we have QDemand (OLD) =150 and QDemand (NEW) =110, where "QDemand" is short for "Quantity Demanded". So we have:

Price(OLD)=9
Price(NEW)=10
QDemand(OLD)=150
QDemand(NEW)=110

To calculate the price elasticity, we need to know what the percentage change in quantity demand is and what the percentage change in price is. It's best to calculate these one at a time.

Calculating the Percentage Change in Quantity Demanded: The formula used to calculate the percentage change in quantity demanded is:

[QDemand (NEW) - QDemand (OLD)] / QDemand (OLD)

By filling in the values we wrote down, we get:

[110 - 150] / 150 = (-40/150) = -0.2667

We note that **% Change in Quantity Demanded = -0.2667** (We leave this in decimal terms. In percentage terms this would be -26.67%). Now we need to calculate the percentage change in price.

Calculating the Percentage Change in Price: Similar to before, the formula used to calculate the percentage change in price is:

[Price (NEW) - Price (OLD)] / Price (OLD)

By filling in the values we wrote down, we get:

[10 - 9] / 9 = (1/9) = 0.1111

We have both the percentage change in quantity demand and the percentage change in price, so we can calculate the price elasticity of demand.

Final Step of Calculating the Price Elasticity of Demand: We go back to our formula of:

PEoD = (% Change in Quantity Demanded)/(% Change in Price)

We can now fill in the two percentages in this equation using the figures we calculated earlier.

PEoD = (-0.2667)/(0.1111) = -2.4005

When we analyze *price* elasticities we're concerned with their absolute value, so we ignore the negative value. We conclude that the price elasticity of demand when the price increases from $9 to $10 is 2.4005.

How Do We Interpret the Price Elasticity of Demand? A good economist is not just interested in calculating numbers. The number is a means to an end; in the case of price elasticity of demand it is used to see how sensitive the demand for a good is to a price change. The higher the price elasticity, the more sensitive consumers are to price changes. A very high price elasticity suggests that when the price of a good goes up, consumers will buy a great deal less of it and when the price of that good goes down, consumers will buy a great deal more. A very low price elasticity implies just the opposite, that changes in price have little influence on demand.

Often an assignment or a test will ask you a follow up question such as "Is the good price elastic or inelastic between $9 and $10". To answer that question, you use the following rule of thumb:

- If PEoD > 1 then Demand is Price Elastic (Demand is sensitive to price changes)
- If PEoD = 1 then Demand is Unit Elastic
- If PEoD < 1 then Demand is Price Inelastic (Demand is not sensitive to price changes)

Recall that we always ignore the negative sign when analyzing *price* elasticity, so PEoD is always positive. In the case of our good, we calculated the price elasticity of demand to be 2.4005, so our good is price elastic and thus demand is very sensitive to price changes.

7.5 PRICING STRATEGIES

There are many ways to **price** a product. Let's have a look at some of them and try to understand the best policy/strategy in various situations.

- **Premium Pricing:** Use a high price where there is uniqueness about the product or service. This approach is used where a substantial competitive advantage exists. Such high prices are charge for luxuries such as Cunard Cruises, Savoy Hotel rooms, and Concorde flights.

- **Penetration Pricing:** The price charged for products and services is set artificially low in order to gain market share. Once this is achieved, the price is increased. This approach was used by France Telecom and Sky TV.

- **Economy Pricing:** This is a no frills low price. The cost of marketing and manufacture are kept at a minimum. Supermarkets often have economy brands for soups, spaghetti, etc.

- **Price Skimming:** Charge a high price because you have a substantial competitive advantage. However, the advantage is not sustainable. The high price tends to attract new competitors into the market, and the price inevitably falls due to increased supply. Manufacturers of digital watches used a skimming approach in the 1970s. Once other manufacturers were tempted into the market and the watches were produced at a lower unit cost, other marketing strategies and pricing approaches are implemented.

Premium pricing, penetration pricing, economy pricing, and price skimming are the four main pricing policies/strategies. **They form the bases for the exercise**. However there are other important approaches to pricing.

- **Psychological Pricing:** This approach is used when the marketer wants the consumer to respond on an emotional, rather than rational basis. For example 'price point perspective' 99 cents not one dollar.

- **Product Line Pricing:** Where there is a range of product or services the pricing reflect the benefits of parts of the range. For example car washes. Basic wash could be $2, wash and wax $4, and the whole package $6.

- **Optional Product Pricing:** Companies will attempt to increase the amount customer spend once they start to buy. Optional 'extras' increase the overall price of the product or service. For example airlines will charge for optional extras such as guaranteeing a window seat or reserving a row of seats next to each other.

- **Captive Product Pricing:** Where products have complements, companies will charge a premium price where the consumer is captured. For example a razor manufacturer will charge a low price and recoup its margin (and more) from the sale of the only design of blades which fit the razor.

- **Product Bundle Pricing:** Here sellers combine several products in the same package. This also serves to move old stock. Videos and CDs are often sold using the bundle approach.

- **Promotional Pricing:** Pricing to promote a product is a very common application. There are many examples of promotional pricing including approaches such as BOGOF (Buy One Get One Free).

- **Geographical Pricing:** Geographical pricing is evident where there are variations in price in different parts of the world. For example rarity value, or where shipping costs increase price.

- **Value Pricing:** This approach is used where external factors such as recession or increased competition force companies to provide 'value' products and services to retain sales e.g. value meals at McDonalds.

Pricing strategies are a sometimes-overlooked part of the marketing mix. They can have a large impact on profit, so should be given the same consideration as promotion and advertising strategies. A higher or lower price can dramatically change both gross margins and sales volume. This indirectly affects other expenses by reducing storage costs, for example, or creating opportunities for volume discounts with suppliers.

Other factors also determine your optimal pricing strategy. Consider the five forces that influence other business decisions: your competitors, your suppliers, the availability of substitute

products, and your customers. Positioning how you want to be perceived by your target audience is also a consideration. Price a premium item too low, for example, and customers will not believe the quality is good enough. Conversely, put too high a selling price on value lines and customers will purchase competitors' lower-price items.
Some pricing strategies to consider are ...

- **Competitive pricing:** Use competitors' retail (or wholesale) prices as a benchmark for your own prices. Price slightly below, above or the same as your competitors, depending on your positioning strategies. Note you must collect competitor pricing information by observation rather than by asking them. Otherwise it could be seen as collusion, which is illegal in the U.S.

- **Cost plus mark-up:** This is the opposite of competitive pricing. Instead of looking at the market, look at your own cost structure. Decide the profit you want to make and add it to your costs to determine selling price. While using this method will assure a certain per-unit margin, it may also result in prices that are out-of-line with customer expectations, hurting total profit.

- **Loss Leader:** A loss leader is an item you sell at or below cost in order to attract more customers, who will also buy high-profit items. This is a good short-term promotion technique if you have customers that purchase several items at one time.

- **Close out:** Keep this pricing technique in mind when you have excess inventory. Sell the inventory at a steep discount to avoid storing or discarding it. Your goal should be to minimize loss, rather than making a profit.

- **Membership or trade discounting:** This is one method of segmenting customers. Attract business from profitable customer segments by giving them special prices. This could be in the form of lower price on certain items, a blanket discount, or free product rewards.

- **Bundling and quantity discounts:** Other ways to reward people for larger purchases are through quantity discounts or bundling. Set the per-unit price lower when the customer purchases a quantity of five instead of one, for example. Alternately, charge less when the customer purchases a bundle or several related items at one time. Bundle overstocks with popular items to avoid a closeout. Or, bundle established items with a new product to help build awareness.

- **Versioning:** Versioning is popular with services or technical products, where you sell the same general product in two or three configurations. A trial or very basic version may be offered at low or no cost, for example, with upgrades or more services available at a higher price.

7.6 REVIEW QUESTIONS

1. Study a large distance education programme and document its activities. To what extent are physical channels used to supplement the use of electronic channels?
2. Distinguish between core product and supplementary service elements. Which of these provides most opportunities for competitive advantage? Why?
3. Choose a service that you are familiar with and create a simple flowchart of how you use it; commenting on the sequence, your expectations at each stage, and encounters with other people (staff and customers).
4. What is price elasticity? How is it measured? What factors determine price elasticity?
5. What are the factors that should always be considered while making pricing decisions? Would these change in the case of a new product? Why?

DELIVERING MARKETING PROGRAMS – PART I

Structure

8.1 Introduction

8.2 Marketing through Channel Partners

8.2 Wholesalers and Retailers- Current Trend;

8.4 Channel Management.

8.5 Review Questions

8.1 INTRODUCTION

Choosing the best way to enter a market is no simple task. Should the market entry objective be rapid acquisition of significant market share or stay below the radar to secretly build market share? There is no single strategy to fit all companies, products and markets. However the following framework can be used to guide decisions about the right market entry strategy for your venture.

In the Business Buying Behavior, we describe a supply chain as consisting of all parties and their supplied activities that help a marketer create and deliver products to the final customer. For marketers, the distribution decision is primarily concerned with the supply chain's front-end or channels of distribution that are designed to move the product (goods or services) from the hands of the company to the hands of the customer. Obviously when we talk about intangible services the use of the word "hands" is a figurative way to describe the exchange that takes place. But the idea is the same as with tangible goods. All activities and organizations helping with the exchange are part of the marketer's channels of distribution.

Activities involved in the channel are wide and varied though the basic activities revolve around these general tasks:

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

Distribution (or place) is one of the four elements of marketing mix. An organization or set of organizations (go-betweens) involved in the process of making a product or service available for use or consumption by a consumer or business user. The other three parts of the marketing mix are product, pricing, and promotion.

The Distribution Channel: Chain of intermediaries, each passing the product down the chain to the next organization, before it finally reaches the consumer or end-user. This process is known as the 'distribution chain' or the 'channel.' Each of the elements in these chains will have their own specific needs, which the producer must take into account, along with those of the all-important end-user.

Channels: A number of alternate 'channels' of distribution may be available:

- Distributor, who sells to retailers
- Retailer (also called dealer or reseller), who sells to end customers
- Advertisement typically used for consumption goods

Distribution channels may not be restricted to physical products alone. They may be just as important for moving a service from producer to consumer in certain sectors, since both direct and indirect channels may be used. Hotels, for example, may sell their services (typically rooms) directly or through travel agents, tour operators, airlines, tourist boards, centralized reservation systems, etc. There have also been some innovations in the distribution of services. For example, there has been an increase in franchising and in rental services - the latter offering anything from televisions through tools. There has also been some evidence of service integration, with services linking together, particularly in the travel and tourism sectors. For example, links now exist between airlines, hotels and car rental services. In addition, there has been a significant increase in retail outlets for the service sector. Outlets such as estate agencies and building society offices are crowding out traditional grocers from major shopping areas.

Channel members: Distribution channels can thus have a number of levels. Kotler defined the simplest level that of a direct contact with no intermediaries involved, as the 'zero-level' channel. The next level, the 'one-level' channel, features just one intermediary; in consumer goods a retailer, for industrial goods a distributor. In small markets (such as small countries) it is practical to reach the whole market using just one- and zero-level channels. In large markets (such as larger countries) a second level; a wholesaler for example, is now mainly used to extend distribution to the large number of small, neighborhood retailers or dealers. In Japan the chain of distribution is often complex and further levels are used, even for the simplest of consumer goods. In Bangladesh Telecom Operators are using different Chains of Distribution, especially 'second level'.

In IT and Telecom industry levels are named "tiers". A one tier channel means that vendors IT product manufacturers (or software publishers) work directly with the dealers. A one tier / two tier channel means that vendors work directly with dealers and with distributors who sell to dealers. But the most important is the distributor or wholesaler.

The internal market: Many of the marketing principles and techniques which are applied to the external customers of an organization can be just as effectively applied to each subsidiary's, or each department's, 'internal' customers. In some parts of certain organizations this may in fact be formalized, as goods are transferred between separate parts of the organization at a `transfer price'. To all intents and purposes, with the possible exception of the pricing mechanism itself, this process can and should be viewed as a normal buyer-seller relationship. The fact that this is a captive market, resulting in a `monopoly price', should not discourage the participants from employing marketing techniques. Less obvious, but just as practical, is the use of `marketing' by service and administrative departments; to optimize their contribution to their `customers' (the rest of the organization in general, and those parts of it which deal directly with them in particular). In all of this, the lessons of the non-profit organizations, in dealing with their clients, offer a very useful parallel. But in spite of this many, organizations prefer not to operate at a 'transfer' price because costs gradually increase as they undergo the distribution process.

Channel decisions

- Channel strategy
    - Gravity
    - Push and Pull strategy
- Product (or service)<>Cost<>Consumer location

Managerial concerns: The channel decision is very important. In theory at least, there is a form of trade-off: the cost of using intermediaries to achieve wider distribution is supposedly lower. Indeed, most consumer goods manufacturers could never justify the cost of selling direct to their consumers, except by mail order. Many suppliers seem to assume that once their product has been sold into the channel, into the beginning of the distribution chain, their job is finished. Yet that distribution chain is merely assuming a part of the supplier's responsibility; and, if they have any aspirations to be market-oriented, their job should really be extended to managing all the processes involved in that chain, until the product or service arrives with the end-user. This may involve a number of decisions on the part of the supplier:

- Channel membership
- Channel motivation
- Monitoring and managing channels

Channel membership

1. Intensive distribution - Where the majority of resellers stock the 'product' (with convenience products, for example, and particularly the brand leaders in consumer goods markets) price competition may be evident.
2. Selective distribution - This is the normal pattern (in both consumer and industrial markets) where 'suitable' resellers stock the product.
3. Exclusive distribution - Only specially selected resellers or authorized dealers (typically only one per geographical area) are allowed to sell the 'product'.

Channel motivation: It is difficult enough to motivate direct employees to provide the necessary sales and service support. Motivating the owners and employees of the independent organizations in a distribution chain requires even greater effort. There are many devices for achieving such motivation. Perhaps the most usual is `incentive': the supplier offers a better margin, to tempt the owners in the channel to push the product rather than its competitors; or a competition is offered to the distributors' sales personnel, so that they are tempted to push the product. Dent defines this incentive as a Channel Value Proposition or business case, with which the supplier sells the channel member on the commercial merits of doing business together. He describes this as selling business models not products.

Monitoring and managing channels: In much the same way that the organization's own sales and distribution activities need to be monitored and managed, so will those of the distribution chain. In practice, many organizations use a mix of different channels; in particular, they may complement a direct sales force, calling on the larger accounts, with agents, covering the smaller customers and prospects.

8.2 MARKETING THROUGH CHANNEL PARTNERS

Firm level objectives: It is not enough to simply state a firm's goal as maximizing the present value of total profit since this does not differentiate it from other firms and says nothing about *how* this objective is to be achieved. Instead, a business and marketing plan should suggest how the firm can best put its unique resources to use to maximize stockholder value. A number of resources come into play—e.g.

- *Distinctive competencies*—knowledge of how to manufacture, design, or market certain products or services effectively;
- *Financia*l—possession of cash or the ability to raise it;
- *Ability and willingness to take risk*;
- The *image of the firm's brand*;
- *People* who can develop new products, services, or other offerings and run the needed supports;
- *Running facilities* (no amount of money is going to get a new microchip manufacturing plant started tomorrow); and
- *Contacts* with suppliers and distributors and others who influence the success of the firm.

Market balance: It is essential that different firms in the same business not attempt to compete on exactly the same variables. If they do, competition will invariably degenerate into price—there is nothing else that would differentiate the firms.

Risk: In general, firms that attempt riskier ventures—and their stockholders—expect a higher rate of return. Risks can come in many forms, including immediate loss of profit due to lower sales and long term damage to the brand because of a poor product being released or because of distribution through a channel perceived to carry low quality merchandise.

Brand level objectives: Ultimately, brand level profit centers are expected to contribute to the overall maximization of the firm's profits. However, when a firm holds several different brands, different marketing and distribution plans may be required for each. Several variables come into play in maximizing value. Profits can be maximized in the short run, or an investment can be made into future earnings. Product profit can be measured in several ways. If you sell a computer that cost $950 to make for $1,000, you are making only a 5% gross profit. However, selling a product that cost $5 to make for $10 will result in a much higher percentage profit, but a much lower absolute margin. A decision that is essential at the brand level is *positioning*. Options here may range from a high quality, premium product to a lower priced value product. Note here that the same answer will not be appropriate for all firms in the same market since this will result in market imbalance—there should be some firms perceiving each strategy, with others being intermediate.

Distribution issues come into play heavily in deciding *brand level strategy*. In order to secure a more exclusive brand label, for example, it is usually necessary to sacrifice volume—it would do no good, for Mercedes-Benz to create a large number of low priced automobiles. Some firms can be very profitable going for quantity where economies of scale come into play and smaller margins on a large number of units add up—e.g., McDonald's survives on much smaller margins than upscale restaurants, but may make larger profits because of volume. Some firms choose to engage in a *niching* strategy where they forsake most customers to focus on a small segment where less competition exists (e.g., clothing for very tall people).

In order to maintain one's brand image, it may be essential that retailers and other channel members provide certain services, such as warranty repairs, providing information to customers, and carrying a large assortment of accessories. Since not all retailers are willing to provide these services, insisting on them will likely reduce the intensity of distribution given to the product.

Product line objectives: Firms make money on the totality of products and services that they sell, and sometimes, profit can be maximized by settling for small margins on some, making up on others. For example, both manufacturers and retailers currently tend to sell inkjet printers at low prices, hoping to make up by selling high margin replacement cartridges. Here again, it may be important for the manufacturer that the retailer carry as much of the product line as possible.

Distribution Objectives: A firm's distribution objectives will ultimately be highly related—some will enhance each other while others will compete. For example, as we have discussed, more exclusive and higher service distribution will generally entail less intensity and lesser reach. Cost has to be traded off against speed of delivery and intensity (it is much more expensive to have a product available in convenience stores than in supermarkets, for example).

Narrow vs. wide reach: The extent to which a firm should seek narrow (exclusive) vs. wide (intense) distribution depends on a number of factors. One issue is the consumer's likelihood of switching and willingness to search. For example, most consumers will switch soft drink brands rather than walking from a vending machine to a convenience store several blocks away, so intensity of distribution is essential here. However, for sewing machines, consumers will expect to travel at least to a department or discount store, and premium brands may have more credibility if they are carried only in full service specialty stores. Retailers involved in a more exclusive distribution arrangement are likely to be more "loyal"—i.e., they will tend to

- Recommend the product to the customer and thus sell large quantities;
- Carry larger inventories and selections;
- Provide more services

Thus, for example, Compaq in its early history instituted a policy that all computers must be purchased through a dealer. On the surface, Compaq passed up the opportunity to sell large numbers of computers directly to large firms without sharing the profits with dealers. On the other hand, dealers were more likely to recommend Compaq since they knew that consumers would be buying these from dealers. When customers came in asking for IBMs, the dealers were more likely to indicate that if they really wanted those, they could have them—"But first, let's show you how you will get much better value with a Compaq."

Distribution opportunities Distribution provides a number of opportunities for the marketer that may normally be associated with other elements of the marketing mix. For example, for a cost, the firm can promote its objective by such activities as in-store demonstrations/samples and special placement (for which the retailer is often paid). Placement is also an opportunity for promotion—e.g., airlines know that they, as "prestige accounts," can get *very* good deals from soft drink makers who are eager to have their products offered on the airlines. Similarly, it may be useful to give away, or sell at low prices, certain premiums (e.g., T-shirts or cups with the corporate logo.) It may even be possible to have advertisements printed on the retailer's bags (e.g., "Got milk?"). Other opportunities involve "parallel" distribution (e.g., having products sold both through conventional channels and through the Internet or factory outlet stores). Partnerships and joint promotions may involve distribution.

Deciding on a strategy: In view of the need for markets to be balanced, the same distribution strategy is unlikely to be successful for each firm. The question, then, is exactly which strategy should one use? It may not be obvious whether higher margins in a selective distribution setting will compensate for smaller unit sales. Here, various research tools are useful. In focus groups, it is possible to assess what consumers are looking for and which attributes are more important. Scanner data, indicating how frequently various products are purchased and items whose sales correlate with each other may suggest the best placement strategies. It may also, to the extent ethically possible, be useful to observe consumers in the field using products and making purchase decisions. Here, one can observe factors such as (1) how much time is devoted to selecting a product in a given category, (2) how many products are compared, (3) what different kinds of products are compared or are substitutes (e.g., frozen yogurt vs. cookies in a mall), (4) what are "complementing" products that may cue the purchase of others if placed nearby. Channel members—both wholesalers and retailers—may have valuable information, but their comments should be viewed with suspicion as they have their own agendas and may distort information.

Channel Structure and Membership Issues:

- **Paths to the customer.** For most products and situations, it is generally more efficient for a manufacturer to go through a distributor rather than selling directly to the customer. This is especially the case when consumers need to have v*ariety and assortment* (e.g., consumer would like to buy not just toothpaste but also other personal hygiene products, and even other grocery products at the same place), when products are bought in *small volumes* or at low value (e.g., a candy bar sells for less than $1.00), or even intermediaries have s*kills or resources* that the manufacturer does not (a sales force, warehousing, and financing). Nevertheless, there are situations when these conditions are not met—most typically in industrial settings. As an extreme case, most airlines are perfectly happy only being able to buy aircraft and accessories from Boeing and would prefer not to go through a retailer—particularly since the planes are often highly customized. More in the "gray" area, it may or may not be appropriate to sell microcomputers directly to consumers rather than going through a distributor—the costs of providing those costs may be roughly comparable to the margin that a distributor would take.

- **Potential channel structures.** Channel structures can assume a variety of forms. In the extreme case of Boeing aircraft or commercial satellites, the product is made by the manufacturer and sent directly to the customer's preferred delivery site. The manufacturer, may, however, involve a broker or agent who handles negotiations but does not take physical possession of the property. When deals take on a smaller magnitude, however, it may be appropriate to involve retailer--but no other intermediary. For example, automobiles, small planes, and yachts are frequently sold by the manufacturer to a dealer who then sends directly to the customer. It does not make sense to deliver these bulky products to a wholesaler only to move them again. On the other hand, it would not make sense for a California customer to fly to Detroit, buy a car there, and then drive it home. As the need for variety increases, a wholesaler may then be introduced. For example, an office supply store needs to sell more merchandise than any one manufacturer can produce. Therefore, a wholesaler will buy a very large quantity of binders, file folders, staplers, and reams of paper, glue sticks, and similar products and sell this in smaller quantities—say 200 staplers at a time—to the office supply store, which, in turn, may go to another wholesaler who has acquired telephones, typewriters, and photocopiers. Note that more than one wholesaler level may be involved—a local wholesaler serving the Inland Empire may buy from each of the two wholesalers listed above and then sell all, or most, of the products needed by local office supply stores. Finally, even in longer channels, agents or brokers may be involved. This, in particular, will happen when the owner of a small, entrepreneurial company has more experience with technology than with businesses negotiations. Here, the manufacturer can be freed, in return for paying the agent, from such tasks, allowing him or her to focus on what he or she does well.
- **Criteria in selecting channel members.** Typically, the most important consideration whether to include a potential channel member is the cost at which he or she can perform the required functions at the needed level of service. For example, it will be much less expensive for a specialty foods manufacturer to have a wholesaler get its products to the retailer. On the other hand, it would not be cost effective for Procter & Gamble and Wal-Mart to involve a third party to move their merchandise—Wal-Mart has been able to develop, based on its information systems and huge demand volumes, a more efficient distribution system. Note the important caveat that cost alone is not the only consideration—premium furniture must arrive in the store on time in perfect condition, so paying more for a more dependable distributor would be indicated. Further, channels for perishable products are often inefficiently short, but the additional cost is needed in order to ensure that the merchandise moves quickly. Note also that image is important—Wal-Mart could very efficiently carry Rolex watches, but this would destroy value from the brand.

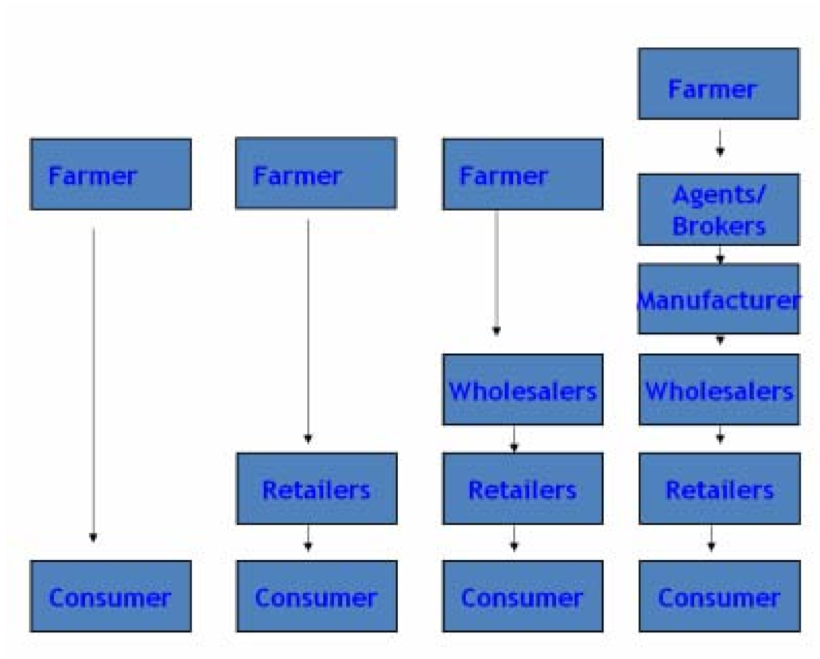

Figure 8.1: Potential channel structures

- **"Piggy-backing."** A special opportunity to gain distribution that a manufacturer would otherwise lack involves "piggy-backing." Here, a manufacturer enlists another manufacturer that already has a channel to a desired customer base, to pick up products into an existing channel. For example, a manufacturer of rhinoceros and hippopotamus shampoo might be able to reach zoos by approaching a manufacturer of crocodile teeth cleaning supplies that already reaches this target. In the case of *reciprocal* piggy-backing, the shampoo manufacturer might then, in turn, bring the teeth cleaning supplies through its existing channel to exotic animal veterinarians.
- **Parallel Distribution**. Most manufacturers find it useful to go through at least one wholesaler in order to reach the retailer, and it is simply not efficient for Colgate to sell directly to pathetic little "mom and pop" neighborhood stores. However, large retail chains such as K-Mart and Ralph's buy toothpaste and other Colgate products in such large volumes that it may be efficient to sell directly to those chains. Thus, we have a "parallel" distribution network whereby some retailers buy through a distributor and others do not. Note that we may also be tempted to add a direct channel—e.g., many clothing manufacturers have factory outlet stores. However, note that the full service retailers will likely object to being "undercut" in this manner and may decide to drop or give less emphasis to the brand. It may be possible to minimize this contract by precautions such as (1) having outlet stores located in vacation areas not within easy access of most people, (2) presenting the merchandise as being slightly irregular, and/or (3) emphasizing discontinued brands and merchandise not sold in regular stores.

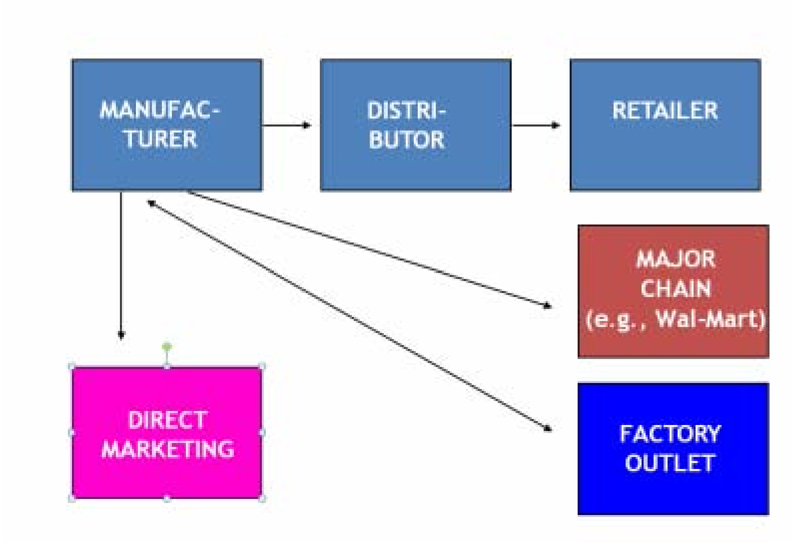

Figure 8.2: Parallel Distribution

- **Evaluating Channel Performance**. The performance of channel members should be periodically monitored—a channel member may have looked attractive earlier but may not, in practice be able to live up to promises. (This can be either because of complacency or because the channel member simply did not realize the skills and resources needed to perform to standards). Thus, performance level (service outputs) and costs should be evaluated. Further, changes in technology or in the market place may make it worthwhile to shift certain functions to another channel member (e.g., a distributor has expanded its coverage into another region or may have gained or lost access to certain retail chains). Finally, the extent to which compensation is awarded in proportion to performance should be reassessed—e.g., a distributor that ends up holding inventory longer or taking on more returns may need additional compensation.

8.3 WHOLESALERS AND RETAILERS- CURRENT TREND

Retailing: It consists of the sale of goods or merchandise from a fixed location, such as a department store, boutique or kiosk, or by mail, in small or individual lots for direct consumption by the purchaser. Retailing may include subordinated services, such as delivery. Purchasers may be individuals or businesses. In commerce, a "retailer" buys goods or products in large quantities from manufacturers or importers, either directly or through a wholesaler, and then sells smaller quantities to the end-user. Retail establishments are often called shops or stores. Retailers are at the end of the supply chain. Manufacturing marketers see the process of retailing as a necessary part of their overall distribution strategy. The term "retailer" is also applied where a service provider services the needs of a large number of individuals, such as a public utility, like electric power.

Shops may be on residential streets, shopping streets with few or no houses or in a shopping mall. Shopping streets may be for pedestrians only. Sometimes a shopping street has a partial or full roof to protect customers from precipitation. Online retailing, a type of electronic commerce used for business-to-consumer (B2C) transactions and mail order, are forms of non-shop retailing. Shopping generally refers to the act of buying products. Sometimes this is done to obtain necessities such as food and clothing; sometimes it is done as a recreational activity. Recreational shopping often involves window shopping (just looking, not buying) and browsing and does not always result in a purchase.

There are several ways in which consumers can receive goods from a retailer:

- Counter service, where goods are out of reach of buyers and must be obtained from the seller. This type of retail is common for small expensive items (e.g. jewelry) and controlled items like medicine and liquor. It was common before the 1900s in the United States and is more common in certain countries.
- Delivery (commerce), where goods are shipped directly to consumer's homes or workplaces. Mail order from a printed catalog was invented in 1744 and was common in the late 1800s and early 1900s. Ordering by telephone is now common, either from a catalog, newspaper, television advertisement or a local restaurant menu, for immediate service (especially for pizza delivery). Direct marketing, including telemarketing and television shopping channels, are also used to generate telephone orders. Online shopping started gaining significant market share in developed countries in the 2000s.
- Door-to-door sales, where the salesperson sometimes travels with the goods for sale.
- Self-service, where goods may be handled and examined prior to purchase, has become more common since the 1920s.

Wholesaling: It is otherwise known as **jobbing**, or **distributing** the sale of goods or merchandise to retailers, to industrial, commercial, institutional, or other professional business users, or to other wholesalers and related subordinated services. According to the United Nations Statistics Division, "wholesale" is the resale (sale without transformation) of new and used goods to retailers, to industrial, commercial, institutional or professional users, or to other wholesalers, or involves acting as an agent or broker in buying merchandise for, or selling merchandise to, such persons or companies. Wholesalers frequently physically assemble sort and grade goods in large lots, break bulk, repack and redistribute in smaller lots. While wholesalers of most products usually operate from independent premises, wholesale marketing for foodstuffs can take place at specific wholesale markets where all traders are congregated. Traditionally wholesalers were closer to the markets they supplied than the source they got the products from. However, with the advent of the internet and E-procurement there are an increasing number of wholesalers, many of which offer drop shipping services to companies and individuals.

Transaction methods: Wholesaling facilitates the economic function of buying and selling (usually termed as "price formation") by allowing the forces of supply and demand to converge to establish a single price for a commodity. The wholesaler may also perform storage and warehousing functions, as well as allowing economies of scale to be obtained in the transportation of produce from farm to market. The people involved in wholesaling can act simply as merchants, buying and selling produce, can be brokers dealing in orders rather than goods, or can be commission agents. Prices are normally established by negotiation but some wholesale markets use the auction system. The auction is compulsory in all wholesale markets in big cities in Japan.

Wholesaling trends: Wholesale markets develop in a number of stages. They start as general markets, and then become more specialized by trading in specific types of produce. A later stage is to transact only graded and well packaged produce. Direct links are created between producers and supermarket chains, often by means of contract farming arrangements or through the use of preferred suppliers. In developing countries, changes in work patterns, particularly the employment of women, and the impact of technological innovations in post-harvest handling, food processing and storage, including the use of domestic refrigerators, tends to encourage the development of one-stop shopping at supermarkets, often on a once-a-week basis. The challenge for wholesale markets in such a trading environment is to retain turnover, both by providing new services to supermarkets and by developing services to the non-supermarket trade and the growing hotel and catering sectors.

Types of wholesale market: Secondary wholesale markets are generally found only in developing countries these days. They are located in district or regional cities and take the bulk of their produce from rural assembly markets located in production areas, where the transactions are small scale and usually take place between farmers and traders. The distinction between rural assembly markets and secondary wholesale markets is that secondary wholesale markets are in permanent operation (rather than being seasonal in nature or dealing in specialized produce); larger volumes of produce are traded than at the rural assembly markets and specialized functions may be present, such as commission agents and brokers.

Terminal wholesale markets are located in major metropolitan areas, where produce is finally channeled to consumers through trade between wholesalers and retailers, caterers, etc. Produce may also be assembled for export. In some countries, such as India and China, terminal markets also supply other parts of the country. For example, New Delhi serves as a distribution centre to the south of India for apples grown in the Himalayan foothills. The problems of terminal wholesale markets are usually ones of congestion caused by an unsuitable location or by an inappropriate mixture of wholesale and retail functions. Traditionally, wholesale markets were built adjacent to city centres, located at a focal point of the inter-city transport facilities and close to the main retailing areas. Population growth, changes in urban land-use patterns and the development of modern transport systems have all influenced the suitability and functionality of existing sites.

8.4 CHANNEL MANAGEMENT

Just as no single distribution plan can remain static in the midst of market changes, channel members' expectations also change. At one stage, channel members used to take pride in mentioning their relationship with well- known national and multinational firms like Godrej, Hindustan lever, TOMCO, and so on. In fact, a firm like Godrej and Boyce required its dealer to be respected and important citizens of his town. Individuals who were members of the Lions club or rotary club were preferred. Petroleum and gas agencies were given to ex- serviceman and widows of armed forces men by oil companies because these individuals were respected in their neighborhood. With the manufacturing base in all products having expanded significantly by

1990 (in practically all consumer goods, barring, petroleum based items, supply exceeds demand), channel members now had a larger choice. A Hindustan lever stockist no longer depended only on lever for vegetable oil; today he is a stocklist for ITC, WIPRO, Godrej, Ahmad Oomerbhoy (Postman), Marico, and many other regional firms. Hence, Lever's control over its stockist weakened. Further, Lever's own product portfolio has expanded considerably. In each product group, the company has introduced multiple brands at different prices to serve different market segments. Moreover, the company has introduced several new products, like liquid soap, to take advantage of the growth in the consumer market. All this puts a heavy demand on the stockist finances, for his investment in Lever's products has gone up by more than 200 percent over the last one decade.

The above scenario is not just restricted to Hindustan lever and its associate companies. The same holds good for other consumer product firms like Procter and Gamble, Godrej Soaps, ITC, Nirma Chemicals, Videocon, Onida, BPL Sanyo, and even cigarette and liquor companies. Manufacturing companies today demand much greater selling efforts from their middle men. The former also want to be provided timely market information, more warehouse space, and competitive advantage. Faced with these demands from manufacturers and the fact that they do not perceive returns on their investment to be adequately commensurate, many stockists of well known firms are up in arms. Many of the stockists are resigning out of their contracts. This problem of an uprising is also fuelled by the new firms entering the market who are giving more lucrative incentives to the middle men to stock and distribute their products in order to get a foothold in the market place. Higher discounts, higher margins, extended credit period, reimbursements for sales promotion, advertising, marketing research, and even salesman's wages are just some of the terms offered by these new entrants in the industry. Trips to holiday resort and exotic places within the country and outside for high performers are some carrots that these new entrants dangle before the middlemen.

It is not that the competition has intensified only at the manufacturers end. It has even intensified at the distribution level. The number of wholesalers, stockist, and retailers has increased substantially all over the country. This implies that in order to distribute products in his territory, the wholesaler has to give more incentives to the retailer, who in turn has to keep his prices competitive if he wants his goods to be sold faster than others. Pressure on margins is thus inevitable in an interchannel competition. All these issues make the task of channel management a demanding one. To effectively manage channel members, the marketer has to a) manage channel conflict b) motivate channel members.

Channel Conflict: To manage channel conflict the marketer must understand

- The type
- The nature or cause
- Magnitude of the conflict

He should also appreciate that conflict cannot be totally eliminated. It can only be minimized.

Type of Conflict: In any channel arrangement there can be three types of conflict

- Vertical-level conflict
- Horizontal-level conflict
- Multichannel-level conflict.

The Vertical-level Conflict: Vertical level conflict occurs when the channel member at one level is in conflict with another member at the next higher or lower level. For example, a conflict between the wholesaler and the manufacturer is a vertical level conflict. Or the major retailers in the town conflicting with the distributor over entitlements is another example of vertical level conflict. Another example of vertical conflict is the non-cooperation and boycott of pharmaceutical companies by their wholesalers and chemists during 1989-90.

Horizontal-level Conflict: Conflict at the same level between channel members is called horizontal-level conflict. Hence, inter stockist conflict or conflict at the retail level among retailers on issues like pricing and territory jumping are examples of horizontal-level conflict.

Multichannel-level Conflict: Sometimes the middlemen come in conflict with the manufacturer, using both direct and indirect means of distribution. Such a conflict is called multichannel-level conflict. For example, a firm may have its own franchise outlet or its own shop in an area where it may also be distributing the product through established middlemen. The, former is direct distribution while the latter is indirect distribution. The conflict may occur when the franchise prices its products lower than the middlemen, wholesaler, or dealer, or when the firm retails a larger range of products through its own outlet than through the wholesaler or stockists. Likewise conflict occurs when an order has been obtained with the joint efforts of the company's sales force and dealer.

Nature and Causes of Conflict: Channel conflict occurs largely due to financial and non-financial reasons. These in turn may be traced to the following causes:

- **Goal Incompatibility:** A major factor causing conflict between manufacturers and wholesalers is the perceived goal incompatibility between them. For example, while the manufacturer perceives his goals to be market share and profit maximization in the long run, wholesalers perceive their goal to be sales maximization and thereby profit maximization. The latter even prefer to work at higher margins and on short term profitability. This makes the manufacturer accuse the wholesaler of being "fair weather partners" and the wholesaler accuses the manufacturer of squeezing his margins. This is typically what happens with all large manufacturers and their channel members today.

- **Role Ambiguity:** Many a time conflicts occur because of role ambiguity. This is a common conflict in multichannel conflict. Foe example, the role of the manufacturer's sales force and dealer in selling products in major accounts or institutional customers in the territory is often unclear in some companies. This often creates conflict in these companies' relationship with the channel. A well known automobiles component manufacturer has such a conflict when one of its distributors started selling directly to retailers by passing large wholesalers in the territory. The wholesalers revolted and started pushing the competitors' products. Lack of role clarity of any of the channel members can be source of potential conflict.

- **Difference in Perception of the Market:** Different perceptions of the market and economy may also create a conflict between the manufacturer and the middlemen. For example, a manufacturer may perceive an opportunity in the booming Indian middle class market and introduce new products, multiple brands, and even appoint wholesalers in distant areas. The existing dealers of this firm may not see the picture this way and may perceive the appointment of multiple dealers and downsizing their territory as dilution of their control over the market.

- **Magnitude of the Conflict:** This refers to the seriousness of conflicts. At times the conflict not be of a magnitude demanding the manufacturer's attention, for example, inter-dealer conflict in the territory over prices or territory jumping. But when the conflict assumes significant magnitude (this is often reflected by the impact the conflict has on the manufacturer's sales and market share in the territory), the manufacturer must take the initiative to resolve it, for ultimately it is the manufacturer who is the leader of the channel. Moreover, a serious conflict will affect his market share in the territory.

Managing the Conflict To minimize the conflict, the manufacturer may take the following steps:

- **Communication** An-effective way to minimize channel conflict is to have regular communication between the manufacturers and the channel members. Most Chief Executives today spend time with their channel members to understand market dynamics and communicate the brand's positioning strategies. These meetings are also used to resolve channel members' problems. While these are many a time informal meetings, some companies have an in-house newsletter which they send to all their major dealers. This newsletter informs channel members of happenings in the market-place and also the company's perspective of the products and markets.
- **Dealer Councils:** Another way to resolve conflict is through formation of dealer councils. Such councils can resolve issues in horizontal-level conflicts and even vertical conflicts. The manufacturer continues to play the key role in these councils. Often the criticism or fear voiced in this regard is that such councils can provide a platform for dealers to jointly voice their grievance against the manufacturer. These councils unite dealers. But, if the manufacturer can keep the councils focused on market leadership and maximization of returns on investment, and is also willing to accept constructive suggestion, the dealer council can become an effective tool for intervening in the market-place.
- **Superordinate Goals:** Another way to resolve channel conflict is to evolve super ordinate goal of maximizing customer satisfaction. If the channel members can be motivated to perceive Customer satisfaction as the ultimate goal of all members in the channel and this in turn leading to profit maximization for all concerned, then much of the conflict can be resolved. Often super ordinate goals development is easier only when the threat from the other firms is high.

- **Arbitration and Mediation:** Often, the conflict among channel members may be resolved through arbitration and mediation. Generally in intramiddlemen conflict-horizontal or vertical, wholesaler vs. retailers)-the manufacturer may arbitrate or mediate. But, when it is between the manufacturer and dealers, arbitration or mediation may be done by independent individuals or institutions like a court or government agency like the drug controller mediating between pharmaceutical companies and their stockist.

Motivating Channel Members: Another major challenge to a marketer today is to keep channel members motivated so that they give best performance. Motivation of channel members is often achieved through financial and non financial rewards. Financial rewards include higher margins, extended credit time, bonuses and reimbursement of expenses. The problem with most financial rewards, particularly higher margins and bonus, is that the wholesalers use them to reduce prices for their customers. The net effect is that effectively their profits never go up. So any increase in margins is hardly retained by dealers. The manufacturers will always be under the pressure to further enhance margins. Hence, when the financial rewards are not going to be retained by dealers, non financial rewards assume importance

The non-financial rewards are contests, public recognition for higher performance through momentos, paid holidays at company expense at holiday resorts in India and abroad, and training. Bajaj Electricals, Parle (Exports), Philips, and several others are known to publicly acknowledge their high-performing dealers or franchises at their annual get tog ethers.

Companies like Reliance, Videocon, and others are known to sponsor holidays for their high performance dealers at foreign destinations like Bangkok, Pattaya, Singapore, Hong Kong, and so on. Larsen and Toubro's standard switchgear product division brings its high performing dealers to a training programme at company expense. The programme focuses on issues that are perceived to be highly important to these dealers. Typically, this programme has inputs in finance, human resource management, and sales and territory management. The company also uses this training programme as opportunity to brief stockists or dealers on its plans and policies. Some other non-financial motivation schemes, aimed at making channel members partners, are regular and multilevel sales calls by manufacturer’s representatives, and the manufacturer’s salesperson sometimes spending a day with dealer’s representatives in the market and jointly “breaking- in” major or tough customers. Increasingly, today, the task of motivating channel members is becoming complex and demands an innovative approach to making channel members partners in corporate growth.

8.5 REVIEW QUESTIONS

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1. How does the Indian distribution system differ from that of the North American one?
2. As marketing director of Kellogg’s, evolve a market-driven distribution system for the Indian market.
3. Discuss the future of vertical and horizontal marketing systems in India.
4. Discuss the distribution alternatives available to a firm. Where and how will you use each of these alternatives?

DELIVERING MARKETING PROGRAMS – PART II

Structure

9.1 MARKET COMMUNICATION

Marketing Communications (or MarCom or Integrated Marketing Communications) are messages and related media used to communicate with a market. Those who practice advertising, branding, direct marketing, graphic design, marketing, packaging, promotion, publicity, sponsorship, public relations, sales, sales promotion and online marketing are termed *marketing communicators*, *marketing communication managers*, or more briefly as *marcom managers*.

Traditionally, marketing communication practitioner's focus on the creation and execution of printed marketing collateral; however, academic and professional research developed the practice to use strategic elements of branding and marketing in order to ensure consistency of message delivery throughout an organization - the same "look & feel". Many trends in business can be attributed to marketing communication; for example: the transition from customer service to customer relations, and the transition from human resources to human solutions. In branding, opportunities to contact stakeholders are called *brand touchpoints* (or *points of contact*.) Marketing communication is concerned with the general behavior of an organization and the perceptions of the organization that are promoted to stakeholders and prospect clients through these touch points.

Marketing communications is focused on product/produce/service as opposed to corporate communications where the focus of communications work is the company/enterprise itself. Marketing communications is primarily concerned with demand generation, product/produce/service positioning while corporate communications deal with issue management, mergers and acquisitions, litigation etc.

Marketing communications is a subset of the overall subject area known as marketing. Marketing has a marketing mix that is made of price, place, promotion, product (know as the four P's), that includes people, processes and physical evidence, when marketing services (known as the seven P's). How does marketing communications fit in? Marketing communications is 'promotion' from the marketing mix. Why are marketing communications 'integrated?' Integrated means combine or amalgamate, or put simply the jigsaw pieces that together make a complete picture. This is so that a single message is conveyed by all marketing communications. Different messages confuse your customers and damage brands. So if a TV advert carries a particular logo, images and message, then all newspaper adverts and point-of-sale materials should carry the same logo, images or message, or one that fits the same theme. Coca-Cola uses its familiar red and white logos and retains themes of togetherness and enjoyment throughout its marketing communications.

Marketing communications has a mix. Elements of the mix are blended in different quantities in a campaign. The marketing communications mix includes many different elements, and the following list is by no means conclusive. It is recognized that there is some cross over between individual elements (e.g. is donating computers to schools, by asking shoppers to collect vouchers, public relations or sales promotion?) Here are the key of the marketing communications mix.

The Marketing Communications Mix.

- Personal Selling.
- Sales Promotion.
- Public Relations (and publicity).
- Direct Marketing.
- Trade Fairs and Exhibitions.
- Advertising (above and below the line).
- Sponsorship.
- Packaging.
- Merchandising (and point-of-sale).
- EMarketing (and Internet promotions).

Integrated marketing communications see the elements of the communications mix 'integrated' into a coherent whole. This is known as the *marketing communications mix*, and forms the basis of a marketing communications campaign.

Integrated Marketing Communications is a term used to describe a holistic approach to marketing communication. It aims to ensure consistency of message and the complementary use of media. The concept includes online and offline marketing channels. Online marketing channels include any e-marketing campaigns or programs, from search engine optimization (SEO), pay-per-click, affiliate, email, banner to latest web related channels for webinar, blog, micro-blogging, RSS, podcast, and Internet TV. Offline marketing channels are traditional print (newspaper, magazine), mail order, public relations, industry relations, billboard, radio, and television. A company develops its integrated marketing communication programme using all the elements of the marketing mix (product, price, place, and promotion).

Integrated marketing communication is integration of all marketing tools, approaches, and resources within a company which maximizes impact on consumer mind and which results into maximum profit at minimum cost. Generally marketing starts from "Marketing Mix". Promotion is one element of Marketing Mix. Promotional activities include Advertising (by using different medium), sales promotion (sales and trades promotion), and personal selling activities. It also includes internet marketing, sponsorship marketing, direct marketing, database marketing and public relations. And integration of all these promotional tools along with other components of marketing mix to gain edge over competitor is called Integrated Marketing Communication.

Several shifts in the advertising and media industry have caused IMC to develop into a primary strategy for marketers:

1. From media advertising to multiple forms of communication.
2. From mass media to more specialized (niche) media, which are centered on specific target audiences.
3. From a manufacturer-dominated market to a retailer-dominated, consumer-controlled market.
4. From general-focus advertising and marketing to data-based marketing.
5. From low agency accountability to greater agency accountability, particularly in advertising.
6. From traditional compensation to performance-based compensation (increased sales or benefits to the company).
7. From limited Internet access to 24/7 Internet availability and access to goods and services.

Selecting the Most Effective Communications Elements: The goal of selecting the elements of proposed integrated marketing communications is to create a campaign that is effective and consistent across media platforms. Some marketers may want only ads with the greatest breadth of appeal: the executions that, when combined, provide the greatest number of attention-getting, branded, and motivational moments. Others may only want ads with the greatest depth of appeal: the ads with the greatest number of attention-getting, branded, and motivational points within each.

Although integrated marketing communications is more than just an advertising campaign, the bulk of marketing dollars is spent on the creation and distribution of advertisements. Hence, the bulk of the research budget is also spent on these elements of the campaign. Once the key marketing pieces have been tested, the researched elements can then be applied to other contact points: letterhead, packaging, logistics, customer service training, and more, to complete the IMC cycle.

The Marketing Communication Process: This process has five major components as illustrated in the figure below. To understand this model, we have to take planning view rather than the flow perspective. Here we have to start with the receiver or target audience.

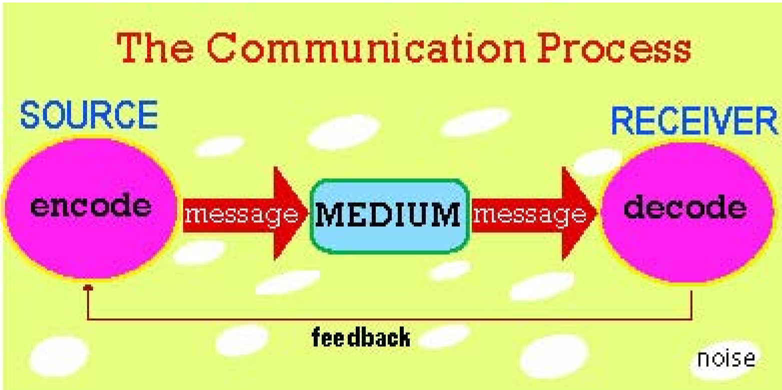

Figure 9.1: The Marketing Communication Process

Modern marketing calls for more than developing a good product, pricing it attractively and making it accessible to target customers. Companies must also communicate with their present and potential customers. Every company is inevitably cast into the role of communicator and promoter. What is communicated, however, should not be left to change. To communicate effectively, companies hire advertising agencies to develop effective ads; sales promotion specialists to design sales incentive programs and public relations firms to develop the corporate image. They train their sales people to be friendly and knowledgeable. For most companies, the questions are not whether to communicate but rather what to say, to whom, and how often.

A modern company manages a complex marketing communications system. The company communicates with its middlemen, consumers and various publics. Its middlemen communicate with their consumers and various publics. Consumers engage in word-of-mouth communication with other consumers and publics. Meanwhile each group provides communication feedback to every other group. The marketing communication mix (also called the promotion mix) consists of four major tools:

- **Advertising.** Any paid form of nonpersonal presentation and promotion of ideals, goods or services by an identified sponsor.
- **Sales Promotion.** Short-term incentives to encourage purchase or sale of a product or service.
- **Publicity.** Nonpersonal stimulation of demand for a product, service or business unit by planting commercially significant news about it in a published medium or obtaining favorable presentation of it upon radio, television or stage that is not paid for by the sponsor.
- **Personal Selling.** Oral presentation in a conversation with one or more prospective purchasers or the purpose of making sales.

Marketers need to understand how communication works. Some years ago a communication model will answer:

- Who,
- Says what,
- In what channel,
- To whom,
- With what effect.

Over the years, a communication model with nine elements has evolved, that shown in figure 9.1. Two elements represent the major parties in a communication *sender* and *receiver.* Another two represent the major communication tools *message* and *media.* Four represent major communication functions *encoding, decoding, response* and *feedback.* The last element represents *noise* in the system. These elements are defined as follows:

- **Sender.** The party sending the message to another party (also called the source of communicator).
- **Encoding.** The process of putting thought into symbolic form.
- **Message.** The set of symbols that the sender transmits.
- **Media.** The communication channels thought which the Message moves from sender to receiver.
- **Receiver.** The party receiving the message sent by another party (also called the audience or destination).
- **Response.** The set of reactions that the receiver has after being exposed to the message.
- **Feedback.** The part of the receiver's response that the receiver communicates back to the sender.
- **Noise.** Unplanned static or distortion during the communication process, resulting in the receiver's receiving a different message than the sender sent.

The model underscores the key factors in effective communication. Senders must know what audiences they want to reach and what responses they want. They must be skillful in encoding messages that take into account how the target audience usually decodes messages. The source must transmit the message thought efficient media that reach the target audience. Senders must develop feedback channels so that they can know the receiver's response to the message.

For a message to be effective, the sender's encoding process must mesh with the receiver's decoding process. Schramm sees messages as essentially signs that must be familiar to the receiver. The more the sender's field of experience overlaps with that of the receiver, the more effective the message is likely to be. (See Figure 9.2). "The source can encode and the destination can decode, only in terms of the experience each has had" This puts a burden a communicators from one social stratum (such as advertising people) who want to communicate effectively with another stratum (such as factory workers).

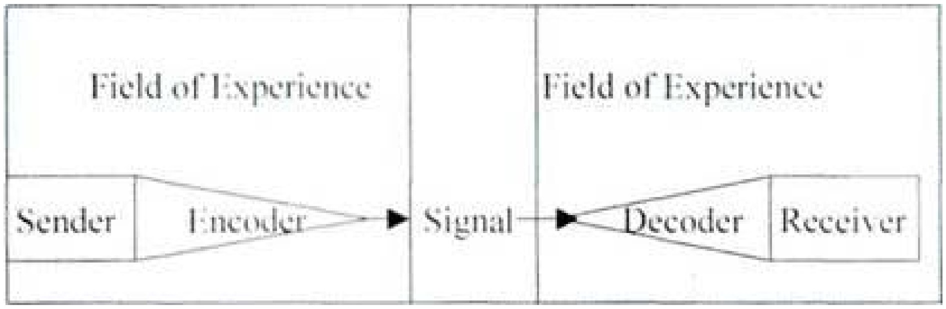

Figure 9.2: Elements Affecting Shared Meaning

The sender's task is to get his or her message thought to the receiver. There is considerable noise in the environment people are exposed to several hundred commercial messages a day, aside from the other messages they attend to in their environment. Members of the audience may not receive the intended message for any of three reasons. The first is *selective attention* in that they will not notice all the stimuli. The second is *selective distribution* in that they will twist the message to hear what they want to hear. The third is *selective recall* in that they will retain in permanent memory only a small fraction of the messages that reach them.

The challenge to the communicator is to design a message that wins attention in sprite of the surrounding distractions. Schramm suggested that the likelihood that a potential receiver will attend to a message is given by.

$$\text{I livelihood of attention} = \frac{\text{Perceived reward strength - Perceived punishment strength}}{\text{Perceived expenditure of effort}}$$

Selective attention explains why ads with bold headlines promising something, such as "How to Make a Million;' along with an arresting illustration and little copy, have a high likelihood of grabbing attention. For very little effort, the receiver has an opportunity to gain a great reward. As for selective distortion, receivers have set attitudes, which lead to expectations about what they will hear or see. They will hear what fits into their belief system. As a result, receivers often add things to the message that are not there *(amplification)* and do not notice other things that are there *(leveling).* The communicator's task is to strive for message simplicity, clarity, interest and repetition, to get the main points across to the audience.

As for selective recall, the communicator aims to get the message into the receiver's long-term memory. Long-term memory is the repository for all the information one has ever proceed. In entering the receiver's long-term memory, the message has a change of modifying the receiver's beliefs and attitudes. Bui first the message has to enter the receiver's short-term memory, which is a limited-capacity store that processes incoming information. Whether the message passes from the receiver's short-term memory to his or her long-term memory depends on the amount and type of *message rehearsal* by the receiver. Rehearsal does not mean simple message repetition but rather the receiver's elaborating on the meaning of the information in a way that brings into short-term memory related thoughts previously stored in the receiver's long-term memory. If the receiver's initial attitude toward the object is positive and he or she rehearses support arguments, the message is likely to be accepted and have high recall. If the receiver's initial attitude is negative and the person rehearses counterarguments. The message is likely to be rejected but to stay in long-term memory. Counter arguing inhibits persuasion by making an opposing message available. Much of persuasion requires the receiver's rehearsal of his or her own thoughts. Much of what is called persuasion is self-persuasion. [M] if there is no rehearsal of arguments but simply discounting of the message, "I don't believe it, "the receiver is still more susceptible to subsequent influence than the receiver who counter argues.

Communicators have been looking for audience traits that correlate whit their degree of persuasibility. People of high education and/or intelligence are thought to be less persuasible but the evidence is inconclusive. Women have been found to be more persuasible than men, although this is mediated by a women's acceptance of the prescribed female role. Women who value traditional sex roles are influence able than women who are less accepting of the traditional roles. Persons who accept external standards to guide their behavior and who have a weak self-concept appear to be more persuasible. Persons who are low in self-confidence are also thought to be more persuasible. However, research by Cox and Bauer showed a curvilinear relation between self-confidence and persuasibility, with those moderate in self-confidence being the most persuasible. 'The communicator should look for audience traits that correlate with persuasibility and use them to guide message and media development.

9.2 ADVERTISING

Advertising is the means of informing as well as influencing the general public to buy products or services through visual or oral messages. A product or service is advertised to create awareness in the minds of potential buyers. Some of the commonly used media for advertising are T.V., radio, websites, newspapers, magazines, bill-boards, hoardings etc. As a result of economic liberalization and the changing social trends advertising industry has shown rapid growth in the last decade.

Advertising is one of the aspects of mass communication. Advertising is actually brand-building through effective communication and is essentially a service industry. It helps to create demand, promote marketing system and boost economic growth. Thus advertising forms the basis of marketing. Advertising plays a significant role in today's highly competitive world. A career in advertisement is quite glamorous and at the same time challenging with more and more agencies opening up every day. Whether its brands, companies, personalities or even voluntary or religious organizations, all of them use some form of advertising in order to be able to communicate with the target audience. The salary structure in advertising is quite high and if you have the knack for it one can reach the top. It is an ideal profession for a creative individual who can handle work-pressure.

Today, new areas are emerging within advertising like event management, image management, internet marketing etc. Event management wherein events are marketed, Image management wherein a particular profile of an individual or an organization is projected. Internet marketing has also brought about a lot of changes in advertising as Internet means that one is catering to a select group of audience rather than a mass audience.

Advertising is a form of communication used to influence individuals to purchase products or services or support political candidates or ideas. Frequently it communicates a message that includes the name of the product or service and how that product or service could potentially benefit the consumer. Advertising often attempts to persuade potential customers to purchase or to consume a particular brand of product or service. Modern advertising developed with the rise of mass production in the late 19th and early 20th centuries.

Commercial advertisers often seek to generate increased consumption of their products or services through branding, which involves the repetition of an image or product name in an effort to associate related qualities with the brand in the minds of consumers. Different types of media can be used to deliver these messages, including traditional media such as newspapers, magazines, television, radio, billboards or direct mail. Advertising may be placed by an advertising agency on behalf of a company or other organization. Organizations that spend money on advertising promoting items other than a consumer product or service include political parties, interest groups, religious organizations and governmental agencies. Non-profit organizations may rely on free modes of persuasion, such as a public service announcement.

Figure 9.3: A Coca-Cola ad from the 1890s

Public service advertising: The same advertising techniques used to promote commercial goods and services can be used to inform, educate and motivate the public about non-commercial issues, such as HIV/AIDS, political ideology, energy conservation, religious recruitment, and deforestation. Advertising, in its non-commercial guise, is a powerful educational tool capable of reaching and motivating large audiences. Public service advertising, non-commercial advertising, public interest advertising, cause marketing, and social marketing are different terms for (or aspects of) the use of sophisticated advertising and marketing communications techniques (generally associated with commercial enterprise) on behalf of non-commercial, public interest issues and initiatives. Public service advertising reached its height during World Wars I and II under the direction of several governments.

Advertising Management: It incorporates various specialized sub-functions like media strategy, message strategy, media planning, media buying etc. While advertising management is an inseparable part of the marketing department, usually, the marketing department of an organization is concerned more with market research and evaluation of results. All the critical processes of advertising management are generally outsourced to specialized advertising agencies. For example the media buying is done in bulk by these ad agencies on which they receive discount / commission, which goes into their earning. It involves designing the strategies to be adopted for influencing the public i.e. media selection and deciding on the aspect to be advertised based on the image of the company and the present marketing objective.

Future

Global advertising: Advertising has gone through five major stages of development: domestic, export, international, multi-national, and global. For global advertisers, there are four, potentially competing, business objectives that must be balanced when developing worldwide advertising: building a brand while speaking with one voice, developing economies of scale in the creative process, maximizing local effectiveness of ads, and increasing the company's speed of implementation. Born from the evolutionary stages of global marketing are the three primary and fundamentally different approaches to the development of global advertising executions: exporting executions, producing local executions, and importing ideas that travel.

Advertising research is key to determining the success of an ad in any country or region. The ability to identify which elements and/or moments of an ad that contributes to its success is how economies of scale are maximized. Once one knows what works in an ad, that idea or ideas can be imported by any other market. Market research measures, such as Flow of Attention, Flow of Emotion and branding moments provide insight into what is working in an ad in any country or region because the measures are based on the visual, not verbal, elements of the ad.

Trends: With the dawn of the Internet came many new advertising opportunities. Popup, Flash, banner, Popunder, advergaming, and email advertisements (the last often being a form of spam) are now commonplace. The ability to record shows on digital video recorders (such as TiVo) allow users to record the programs for later viewing, enabling them to fast forward through commercials. Additionally, as more seasons of pre-recorded box sets are offered for sale of television programs; fewer people watch the shows on TV. However, the fact that these sets are sold, means the company will receive additional profits from the sales of these sets. To counter this effect, many advertisers have opted for product placement on TV shows like Survivor.

Particularly since the rise of "entertaining" advertising, some people may like an advertisement enough to wish to watch it later or show a friend. In general, the advertising community has not yet made this easy, although some have used the Internet to widely distribute their ads to anyone willing to see or hear them. Another significant trend regarding future of advertising is the growing importance of the niche market using niche or targeted ads. Also brought about by the Internet and the theory of The Long Tail, advertisers will have an increasing ability to reach specific audiences. In the past, the most efficient way to deliver a message was to blanket the largest mass market audience possible. However, usage tracking, customer profiles and the growing popularity of niche content brought about by everything from blogs to social networking sites, provide advertisers with audiences that are smaller but much better defined, leading to ads that are more relevant to viewers and more effective for companies' marketing products. Among others, Comcast Spotlight is one such advertiser employing this method in their video on demand menus. These advertisements are targeted to a specific group and can be viewed by anyone wishing to find out more about a particular business or practice at any time, right from their home. This causes the viewer to become proactive and actually choose what advertisements they want to view.

Advertising education has become widely popular with bachelor, master and doctorate degrees becoming available in the emphasis. A surge in advertising interest is typically attributed to the strong relationship advertising plays in cultural and technological changes, such as the advance of online social networking. A unique model for teaching advertising is the student-run advertising agency, where advertising students create campaigns for real companies.

9.3 DIFFERENT ADVERTISING MEDIA

Virtually any medium can used for advertising. Commercial advertising media can include wall paintings, billboards, street furniture components, printed flyers and rack cards, radio, cinema and television adverts, web banners, mobile telephone screens, shopping carts, web popups, skywriting, bus stop benches, human billboards, magazines, newspapers, town criers, sides of buses, banners attached to or sides of airplanes ("logojets"), in-flight advertisements on seatback tray tables or overhead storage bins, taxicab doors, roof mounts and passenger screens, musical stage shows, subway platforms and trains, elastic bands on disposable diapers, stickers on apples in supermarkets, shopping cart handles (grabertising), the opening section of streaming audio and video, posters, and the backs of event tickets and supermarket receipts. Any place an "identified" sponsor pays to deliver their message through a medium is advertising.

- **Television:** The TV commercial is generally considered the most effective mass-market advertising format, as is reflected by the high prices TV networks charge for commercial airtime during popular TV events. The annual Super Bowl football game in the United States is known as the most prominent advertising event on television. The majority of television commercials feature a song or jingle that listeners soon relate to the product. Virtual advertisements may be inserted into regular television programming through computer graphics. It is typically inserted into otherwise blank backdrops or used to replace local billboards that are not relevant to the remote broadcast audience. More controversially, virtual billboards may be inserted into the background where none exist in real-life. Virtual product placement is also possible.

- **Infomericals**: An infomercial is a long-format television commercial, typically five minutes or longer. The word "infomercial" is a portmanteau of the words "information" and "commercial". The main objective in an infomercial is to create an impulse purchase, so that the consumer sees the presentation and then immediately buys the product through the advertised toll-free telephone number or website. Infomercials describe, display, and often demonstrate products and their features, and commonly have testimonials from consumers and industry professionals.

- **Radio advertising:** Radio advertising is a form of advertising via the medium of radio. Airtime is purchased from a station or network in exchange for airing the commercials. While radio has the obvious limitation of being restricted to sound, proponents of radio advertising often cite this as an advantage.

- **Print advertising:** Print advertising describes advertising in a printed medium such as a newspaper, magazine, or trade journal. This encompasses everything from media with a very broad readership base, such as a major national newspaper or magazine, to more narrowly targeted media such as local newspapers and trade journals on very specialized topics. A form of print advertising is classified advertising, which allows private individuals or companies to purchase a small, narrowly targeted ad for a low fee advertising a product or service.

- **Online advertising:** Online advertising is a form of promotion that uses the Internet and World Wide Web for the expressed purpose of delivering marketing messages to attract customers. Examples of online advertising include contextual ads on search engine results pages, banner ads, Rich Media Ads, Social network advertising, online classified advertising, advertising networks and e-mail marketing, including e-mail spam.

- **Billboard advertising:** Billboards are large structures located in public places which display advertisements to passing pedestrians and motorists. Most often, they are located on main roads with a large amount of passing motor and pedestrian traffic; however, they can be placed in any location with large amounts of viewers, such as on mass transit vehicles and in stations, in shopping malls or office buildings, and in stadiums.

- **Mobile billboard advertising:** Mobile billboards are truck- or blimp-mounted billboards or digital screens. These can be dedicated vehicles built solely for carrying advertisements along routes preselected by clients, or they can be specially-equipped cargo trucks. The billboards are often lighted; some being backlit, and others employing spotlights. Some billboard displays are static, while others change; for example, continuously or periodically rotating among a set of advertisements. Mobile displays are used for various situations in metropolitan areas throughout the world, including: Target advertising; One-day, and long-term campaigns; Conventions; Sporting events; Store openings and similar promotional events; Big advertisements from smaller companies; Others

- **In-store advertising:** In-store advertising is any advertisement placed in a retail store. It includes placement of a product in visible locations in a store, such as at eye level, at the ends of aisles and near checkout counters, eye-catching displays promoting a specific product, and advertisements in such places as shopping carts and in-store video displays.

- **Covert advertising:** Covert advertising, also known as guerrilla advertising, is when a product or brand is embedded in entertainment and media. For example, in a film, the main character can use an item or other of a definite brand, as in the movie *Minority Report*, where Tom Cruise's character John Anderton owns a phone with the *Nokia* logo clearly written in the top corner, or his watch engraved with the *Bulgari* logo. Another example of advertising in film is in *I, Robot*, where main character played by Will Smith mentions his *Converse* shoes several times, calling them "classics," because the film is set far in the future. *I, Robot* and *Spaceballs* also showcase futuristic cars with the *Audi* and *Mercedes-Benz* logos clearly displayed on the front of the vehicles. Cadillac chose to advertise in the movie *The Matrix Reloaded*, which as a result contained many scenes in which Cadillac cars were used. Similarly, product placement for Omega Watches, Ford, VAIO, BMW and Aston Martin cars are featured in recent James Bond films, most notably *Casino Royale*. *Blade Runner* includes some of the most obvious product placement; the whole film stops to show a Coca-Cola billboard.

- **Celebrities:** This type of advertising focuses upon using celebrity power, fame, money, popularity to gain recognition for their products and promote specific stores or products. Advertisers often advertise their products, for example, when celebrities share their favorite products or wear clothes by specific brands or designers. Celebrities are often involved in advertising campaigns such as television or print adverts to advertise specific or general products.

9.4 SALES PROMOTION

Sales promotion is one of the four aspects of promotional mix. (The other three parts of the promotional mix are advertising, personal selling, and publicity/public relations.) Media and non-media marketing communication are employed for a pre-determined, limited time to increase consumer demand, stimulate market demand or improve product availability. Examples include:

- contests
- point of purchase displays
- rebates
- free travel, such as free flights

Sales promotions can be directed at either the customer, sales staff, or distribution channel members (such as retailers). Sales promotions targeted at the consumer are called consumer sales promotions. Sales promotions targeted at retailers and wholesale are called trade sales promotions. Some sale promotions, particularly ones with unusual methods, are considered gimmick by many. Sales promotion is any initiative undertaken by an organization to promote an increase in sales, usage or trial of a product or service (i.e. initiatives that are not covered by the other elements of the marketing communications or promotions mix). Sales promotions are varied. Often they are original and creative, and hence a comprehensive list of all available techniques is virtually impossible (since original sales promotions are launched daily!). Here are some examples of popular sales promotions activities:

- **Buy-One-Get-One-Free (BOGOF)** - which is an example of a self-liquidating promotion. For example if a loaf of bread is priced at Rs 10, and cost is few paisa to manufacture, if you sell two for Rs 10, you are still in profit - especially if there is a corresponding increase in sales. This is known as a PREMIUM sales promotion tactic.
- **Customer Relationship Management (CRM)** incentives such as bonus points or money off coupons. There are many examples of CRM, from banks to supermarkets.
- **New media** - Websites and mobile phones that support a sales promotion. For example, in the United Kingdom, Nestle printed individual codes on KIT-KAT packaging, whereby a consumer would enter the code into a dynamic website to see if they had won a prize. Consumers could also text codes via their mobile phones to the same effect.
- **Merchandising** additions such as dump bins, point-of-sale materials and product demonstrations.
- **Free gifts** e.g. Subway gave away a card with six spaces for stickers with each sandwich purchase. Once the card was full the consumer was given a free sandwich.
- **Discounted prices** e.g. Budget airline such as EasyJet and Ryanair, e-mail their customers with the latest low-price deals once new flights are released, or additional destinations are announced.
- **Joint promotions** between brands owned by a company, or with another company's brands. For example fast food restaurants often run sales promotions where toys, relating to a specific movie release, are given away with promoted meals.
- **Free samples** (aka sampling) e.g. tasting of food and drink at sampling points in supermarkets. For example Red Bull (a caffeinated fizzy drink) was given away to potential consumers at supermarkets, in high streets and at petrol stations (by a promotions team).
- **Vouchers and coupons**, often seen in newspapers and magazines, on packs.
- **Competitions and prize draws**, in newspapers, magazines, on the TV and radio, on The Internet, and on packs.
- **Cause-related and fair-trade** products that raise money for charities, and the less well off farmers and producers, are becoming more popular.
- **Finance deals** - for example, 0% finance over 3 years on selected vehicles.

Many of the examples above are focused upon consumers. Don't forget that promotions can be aimed at wholesales and distributors as well. These are known as **Trade Sales Promotions**. Examples here might include joint promotions between a manufacturer and a distributor, sales promotion leaflets and other materials (such as T-shirts), and incentives for distributor sales people and their retail clients.

Sales promotion - Sales promotions are short-term incentives to encourage the purchase or sale of a product or service. Sales promotion includes several communications activities that attempt to provide added value or incentives to consumers, wholesalers, retailers, or other organizational customers to stimulate immediate sales. These efforts can attempt to stimulate product interest, trial, or purchase. Examples of devices used in sales promotion include coupons, samples, premiums, point-of-purchase (POP) displays, contests, rebates, and sweepstakes.

Sales Promotion Strategies: There are three types of sales promotion strategies: *Push*, *Pull*, or a *combination* of the two. A **push** strategy involves convincing trade intermediary channel members to "push" the product through the distribution channels to the ultimate consumer via promotions and personal selling efforts. The company promotes the product through a reseller who in turn promotes it to yet another reseller or the final consumer. Trade-promotion objectives are to persuade retailers or wholesalers to carry a brand, give a brand shelf space, promote a brand in advertising, and/or push a brand to final consumers. Typical tactics employed in push strategy are: allowances, buy-back guarantees, free trials, contests, specialty advertising items, discounts, displays, and premiums.

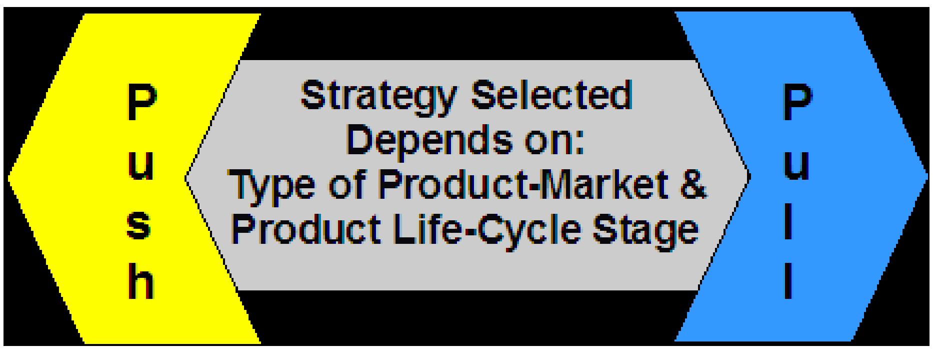

Figure 9.4: Push and Pull Strategy

A **pull** strategy attempts to get consumers to "pull" the product from the manufacturer through the marketing channel. The company focuses its marketing communications efforts on consumers in the hope that it stimulates interest and demand for the product at the end-user level. This strategy is often employed if distributors are reluctant to carry a product because it gets as many consumers as possible to go to retail outlets and request the product, thus pulling it through the channel. Consumer-promotion objectives are to entice consumers to try a new product, lure customers away from competitor's products, get consumers to "load up" on a mature product, hold & reward loyal customers, and build consumer relationships. Typical tactics employed in pull strategy are: samples, coupons, cash refunds and rebates, premiums, advertising specialties, loyalty programs/patronage rewards, contests, sweepstakes, games, and point-of-purchase (POP) displays. Car dealers often provide a good example of a **combination** strategy. If you pay attention to car dealers' advertising, you will often hear them speak of cash-back offers and dealer incentives.

Consumer sales promotion techniques:

- Price deal: A temporary reduction in the price, such as happy hour
- Loyal Reward Program: Consumers collect points, miles, or credits for purchases and redeem them for rewards. Two famous examples are Pepsi Stuff and AAdvantage.
- Cents-off deal: Offers a brand at a lower price. Price reduction may be a percentage marked on the package.

- Price-pack deal: The packaging offers a consumer a certain percentage more of the product for the same price (for example, 25 percent extra).
- Coupons: coupons have become a standard mechanism for sales promotions.
- Loss leader: the price of a popular product is temporarily reduced in order to stimulate other profitable sales
- Free-standing insert (FSI): A coupon booklet is inserted into the local newspaper for delivery.
- On-shelf couponing: Coupons are present at the shelf where the product is available.
- Checkout dispensers: On checkout the customer is given a coupon based on products purchased.
- On-line couponing: Coupons are available on line. Consumers print them out and take them to the store.
- Mobile couponing: Coupons are available on a mobile phone. Consumers show the offer on a mobile phone to a salesperson for redemption.
- Online interactive promotion game: Consumers play an interactive game associated with the promoted product. See an example of the Interactive Internet Ad for tomato ketchup.
- Rebates: Consumers are offered money back if the receipt and barcode are mailed to the producer.
- Contests/sweepstakes/games: The consumer is automatically entered into the event by purchasing the product.
- Point-of-sale displays:-
  - Aisle interrupter: A sign that juts into the aisle from the shelf.
  - Dangler: A sign that sways when a consumer walks by it.
  - Dump bin: A bin full of products dumped inside.
  - Glorifier: A small stage that elevates a product above other products.
  - Wobbler: A sign that jiggles.
  - Lipstick Board: A board on which messages are written in crayon.
  - Necker: A coupon placed on the 'neck' of a bottle.
  - YES unit: "your extra salesperson" is a pull-out fact sheet

Trade sales promotion techniques:

- Trade allowances: short term incentive offered to induce a retailer to stock up on a product.
- Dealer loader: An incentive given to induce a retailer to purchase and display a product.
- Trade contest: A contest to reward retailers that sell the most product.
- Point-of-purchase displays: Extra sales tools given to retailers to boost sales.
- Training programs: dealer employees are trained in selling the product.
- Push money: also known as "spiffs". An extra commission paid to retail employees to push products.

Trade discounts (also called functional discounts): These are payments to distribution channel members for performing some function.

Political issues: Sales promotions have traditionally been heavily regulated in many advanced industrial nations, with the notable exception of the United States. For example, the United

Kingdom formerly operated under a resale price maintenance regime in which manufacturers could legally dictate the minimum resale price for virtually all goods; this practice was abolished in 1964.Most European countries also have controls on the scheduling and permissible types of sales promotions, as they are regarded in those countries as bordering upon unfair business practices. Germany is notorious for having the most strict regulations. Famous examples include the car wash that was barred from giving free car washes to regular customers and a baker who could not give a free cloth bag to customers who bought more than 10 rolls

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9.5 PUBLIC RELATIONS

The business world of today is extremely competitive. Companies need to have an edge that makes them stand out from the crowd, something that makes them more appealing and interesting to both the public and the media. The public are the buyers of the product and the media are responsible for selling it. Public relations provide a service for the company by helping to give the public and the media a better understanding of how the company works. Within a company, public relations can also come under the title of *public information* or *customer relations*. These departments assist customers if they have any problems with the company. They are usually the most helpful departments, as they exist to show the company at their best.

PR also helps the company to achieve its full potential. They provide feedback to the company from the public. This usually takes the form of research regarding what areas the public is most happy and unhappy with. People often have the perception of public relations as a group of people who spin everything. *Spin* can mean to turn around a bad situation to the company's advantage. It is true that part of the purpose of public relations is to show the company in a positive light no matter what. There are certain PR experts that a company can turn to for this particular skill. The public often think of PR as a glamorous job. Public relations people seem to have been tarred with the image of constant partying and networking to find new contacts. The reality is usually long hours and hard work for anyone involved in public relations.

There are certain skills necessary to work in the world of PR. These include a very high level of communication skills, written and verbal. The PR person must also be very adept at multitasking and time management. He or she may also have some form of media background or training in order to understand how the media and advertising work. Organizational and planning skills are also important in public relations. The PR worker must also be able to cope very well under pressure. He or she must have the ability to cope with a barrage of questions from the media and the public. If a company comes under critical attack, it is the PR department who must take control of the situation. They must effectively answer the criticism and turn it around in order to protect the company's reputation.

Public relations involve the cultivation of favorable relations for organizations and products with its key publics through the use of a variety of communications channels and tools. Traditionally, this meant public relations professionals would work with members of the news media to build a favorable image by publicizing the organization or product through stories in print and broadcast media. But today the role of public relations is much broader and includes:

- building awareness and a favorable image for a company or client within stories and articles found in relevant media outlets
- closely monitoring numerous media channels for public comment about a company and its products
- managing crises that threaten company or product image
- building goodwill among an organization's target market through community, philanthropic and special programs and events

Although we have focused on how public relations supports marketing by building product and company image (sometimes referred to as publicity) yet, it should be noted that there are other stakeholders companies reached via the public relations function, such as employees and non-target market groups. Favorable media coverage about a company or product often reaches these audiences as well and may offer potential benefit to the marketer. Finally, in most large companies, investor relations (IR) or financial public relations is a specialty in itself guided by specific disclosure regulations.

Public relations (**PR**) is the practice of managing the communication between an organization and its publics. Public relations gain an organization or individual exposure to their audiences using topics of public interest and news items that do not require direct payment. Because public relations place exposure in credible third-party outlets, it offers a third-party legitimacy that advertising does not have. Common activities include speaking at conferences, working with the press, and employee communication. PR can be used to build rapport with employees, customers, investors, voters, or the general public. Almost any organization that has a stake in how it is portrayed in the public arena employs some level of public relations. There are number of related sister disciplines all falling under the banner of Corporate Communications, such as Analyst relations, Media Relations, Investor Relations, Internal Communications or Labor Relations.

Public relations and publicity are not synonymous but many PR campaigns include provisions for publicity. Publicity is the spreading of information to gain public awareness for a product, person, service, cause or organization, and can be seen as a result of effective PR planning.

Publics targeting: A fundamental technique used in public relations is to identify the target audience, and to tailor every message to appeal to that audience. It can be a general, nationwide or worldwide audience, but it is more often a segment of a population. Marketers often refer to economy-driven "demographics," such as "black males 18-49," but in public relations an audience is more fluid, being whoever someone wants to reach. For example, recent political audiences include "soccer moms" and "NASCAR dads." There is also a psychographic grouping based on fitness level, eating preferences, "adrenaline junkies, etc.

In addition to audiences, there are usually stakeholders, literally people who have a "stake" in a given issue. All audiences are stakeholders (or presumptive stakeholders), but not all stakeholders are audiences. For example, a charity commissions a PR agency to create an advertising campaign to raise money to find a cure for a disease. The charity and the people with the disease are stakeholders, but the audience is anyone who is likely to donate money. Sometimes the interests of differing audiences and stakeholders common to a PR effort necessitate the creation of several distinct but still complementary messages. This is not always easy to do, and sometimes – especially in politics – a spokesperson or client says something to one audience that angers another audience or group of stakeholders.

Lobby groups: Lobby groups are established to influence government policy, corporate policy, or public opinion. An example of this is the American Israel Public Affairs Committee, AIPAC, which influences American foreign policy. Such groups claim to represent a particular interest and in fact are dedicated to doing so. When a lobby group hides its true purpose and support base it is known as a front group. Moreover, governments may also lobby public relations firms in order to sway public opinion. A well illustrated example of this is the way civil war in Yugoslavia was portrayed. Governments of newly succeeded republics of Croatia and Bosnia invested heavily with American PR firms, so that the PR firms would give them a positive war image in the US.

Spin: In public relations, "spin" is sometimes a pejorative term signifying a heavily biased portrayal in one's own favor of an event or situation. While traditional public relations may also rely on creative presentation of the facts, "spin" often, though not always, implies disingenuous, deceptive and/or highly manipulative tactics. Politicians are often accused of spin by commentators and political opponents, when they produce a counter argument or position.

Spin doctor: Skilled practitioners of spin are sometimes called "spin doctors," though probably not to their faces unless it is said facetiously. It is the PR equivalent of calling a writer a "hack." Perhaps the most well-known person in the UK often described as a "spin doctor" is Alastair Campbell, who was involved with Tony Blair's public relations between 1994 and 2003. They may also use propaganda to indoctrinate or actively influence citizens' opinions. Privately run media also uses the same techniques of 'issue' versus 'non-issue' to spin its particular political viewpoints.

Meet and Greet: Many businesses and organizations will use a Meet and Greet as a method of introducing two or more parties to each other in a comfortable setting. These will generally involve some sort of incentive, usually food catered from restaurants, to encourage employees or members to participate. There are opposing schools of thought as to how the specific mechanics of a Meet and Greet operate.

9.6 DIRECT MARKETING

Direct marketing is sometimes controversial sales method by which advertisers approach potential customers directly with products or services. The most common forms of direct marketing are telephone sales, solicited or unsolicited emails, catalogs, leaflets, brochures and coupons. Successful direct marketing also involves compiling and maintaining a large database of personal information about potential customers and clients. These databases are often sold or shared with other direct marketing companies.

For many companies or service providers with a specific market, the traditional forms of advertising (radio, newspapers, television, etc.) may not be the best use of their promotional budgets. For example, a company which sells a hair loss prevention product would have to find a radio station whose format appealed to older male listeners who might be experiencing this problem. There would be no guarantee that this group would be listening to that particular station at the exact time the company's ads were broadcast. Money spent on a radio spot (or television commercial or newspaper ad) may or may not reach the type of consumer who would be interested in a hair restoring product.

This is where direct marketing becomes very appealing. Instead of investing in a scattershot means of advertising, companies with a specific type of potential customer can send out literature directly to a list of pre-screened individuals. Direct marketing firms may also keep email addresses of those who match a certain age group or income level or special interest. Manufacturers of a new dog shampoo might benefit from having the phone numbers and mailing addresses of pet store owners or dog show participants. Direct marketing works best when the recipients accept the fact that their personal information might be used for this purpose. Some customers prefer to receive targeted catalogs which offer more variety than a general mailing.

Direct marketing does have some negative aspects, however. Many people are unaware of how the personal information they include on an order form or survey may be used for targeted advertising later. One prevailing philosophy in direct mailing circles is the idea that if a customer orders a swimsuit from a clothing catalog, he or she might naturally be interested in swimming pool supplies or exercise equipment as well. This could lead to direct marketing overload, as potential customers and clients become overwhelmed with catalogs, unsolicited emails and unwanted phone calls. There is also the concern that personal information collected by legitimate direct marketing agencies could be purchased by unscrupulous or shady companies for the express purpose of fraud.

Many direct marketing companies belong to self-policing associations which actively discourage fraudulent or invasive use of their databases. Legitimate direct marketing firms should also offer methods by which individuals can 'opt out' of these lists by request. Direct marketing agencies must respect the do-not-call list maintained by government agencies such as the Federal Trade Commission (FTC). Customers also have the right to unsubscribe to unsolicited catalogs and to block bulk emails from their in-boxes. Direct marketing can be a very cost-effective sales tool for specialized companies, as long as it is used properly and sparingly.

Benefits and drawbacks: Direct marketing is attractive to many marketers, because in many cases its positive effect (but not negative results) can be measured directly. For example, if a marketer sends out one million solicitations by mail, and ten thousand customers can be tracked as having responded to the promotion, the marketer can say with some confidence that the campaign led directly to the responses. The number of recipients who are offended by the junk mail/spam, however, is not easily measured. By contrast, measurement of other media must often be indirect, since there is no direct response from a consumer. Measurement of results, a fundamental element in successful direct marketing, is explored in greater detail elsewhere in this article. Yet since the start of the Internet-age the challenges of Chief Marketing Officers (CMOs) are tracking direct marketing responses and measuring results. While many marketers like this form of marketing, some direct marketing efforts using particular media have been criticized for generating unwanted solicitations. For example, direct mail that is irrelevant to the recipient is considered *junk mail*, and unwanted email messages are considered *spam*. Some consumers are demanding an end to direct marketing for privacy and environmental reasons, which direct marketers, are able to provide by using "opt out" lists, variable printing and more targeted mailing lists.

Many of the world's largest marketing and advertising agencies started off as direct marketing specialist agencies, namely Carlson Marketing, GyroHSR, Proximity and Iris Nation. Due to declining client budgets and the proliferation of audiences, many of these agencies have diversified and expanded to offer "integrated marketing" rather than simply selling DM services. The term “Integrated Marketing” is used by agencies to describe how they sell the complete marketing communications package, covering DM, digital, SP, PR, events and advertising.

Channels: Some direct marketers also use media such as door hangers, package inserts, magazines, newspapers, radio, television, email, internet banner ads, digital campaigns, pay-per-click ads, billboards, transit ads.

- **Direct mail:** The most common form of direct marketing is direct mail, sometimes called **junk mail**, used by advertisers who send paper mail to all postal customers in an area or to all customers on a list. Any low-budget medium that can be used to deliver a communication to a customer can be employed in direct marketing. Probably the most commonly used medium for direct marketing is mail, in which marketing communications are sent to customers using the postal service. The term **direct mail** is used in the direct marketing industry to refer to communication deliveries by the Post Office, which may also be referred to as "junk mail" or "admail" or "crap mail" and may involve bulk mail. Junk mail includes advertising circulars, catalogs, free trial CDs, pre-approved credit card applications, and other unsolicited merchandising invitations delivered by mail or to homes and businesses, or delivered to consumers' mailboxes by delivery services other than the Post Office. Bulk mailings are a particularly popular method of promotion for businesses operating in the financial services, home computer, and travel and tourism industries. Advertisers often refine direct mail practices into *targeted mailing*, in which mail is sent out following database analysis to select recipients considered most likely to respond positively. For example a person who has demonstrated an interest in golf may receive direct mail for golf related products or perhaps for goods and services that are appropriate for golfers.
- **Telemarketing:** The second most common form of direct marketing is telemarketing, in which marketers contact consumers by phone. The unpopularity of cold call telemarketing (in which the consumer does not expect or invite the sales call) has led some US states and the US federal government to create "no-call lists" and legislation including heavy fines. This process may be outsourced to specialist call centers.
- **Email Marketing:** Email Marketing may have passed telemarketing in frequency at this point, and is a third type of direct marketing. A major concern is spam, which actually predates legitimate email marketing. As a result of the proliferation of mass spamming, ISPs and email service providers have developed increasingly effective E-Mail Filtering programs. These filters can interfere with the delivery of email marketing campaigns, even if the person has subscribed to receive them, as legitimate email marketing can possess the same hallmarks as spam.

- **Door to Door Leaflet Marketing:** Leaflet Distribution services are used extensively by the fast food industries, and many other business focusing on a local catchment, Business to consumer business model, similar to direct mail marketing, this method is targeted purely by area, and costs a fraction of the amount of a mailshot due to not having to purchase stamps, envelopes or having to buy address lists and the names of home occupants.
- **Broadcast faxing:** A fourth type of direct marketing, broadcast faxing, is now less common than the other forms.
- **Voicemail Marketing:** A fifth type of direct marketing has emerged out of the market prevalence of personal voice mailboxes, and business voicemail systems. Due to the ubiquity of email marketing, and the expense of direct mail and telemarketing, voicemail marketing presented a cost effective means by which to reach people with the warmth of a human voice. Abuse of consumer marketing applications of voicemail marketing resulted in an abundance of "voice-spam", and prompted many jurisdictions to pass laws regulating consumer voicemail marketing. More recently, businesses have utilized guided voicemail (an application where pre-recorded voicemails are guided by live callers) to accomplish personalized business-to-business marketing formerly reserved for telemarketing. Because guided voicemail is used to contact only businesses, it is exempt from Do Not Call regulations in place for other forms of voicemail marketing.
- **Couponing:** Couponing is used in print media to elicit a response from the reader. An example is a coupon which the reader cuts out and presents to a super-store check-out counter to avail of a discount. Coupons in newspapers and magazines cannot be considered direct marketing, since the marketer incurs the cost of supporting a third-party medium (the newspaper or magazine); direct marketing aims to circumvent that balance, paring the costs down to solely delivering their unsolicited sales message to the consumer, without supporting the newspaper that the consumer seeks and welcomes.
- **Direct response television marketing:** Direct marketing on TV (commonly referred to as DRTV) has two basic forms: long form (usually half-hour or hour-long segments that explain a product in detail and are commonly referred to as infomercials) and short form which refers to typical 0:30 second or 0:60 second commercials that ask viewers for an immediate response (typically to call a phone number on screen or go to a website). TV-response marketing—i.e. infomercials—can be considered a form of direct marketing, since responses are in the form of calls to telephone numbers given on-air. These both allows marketers to reasonably conclude that the calls are due to a particular campaign, and allows the marketers to obtain customers' phone numbers as targets for telemarketing. Under the Federal Do-Not-Call List rules in the US, if the caller buys anything, the marketer would be exempt from Do-Not-Call List restrictions for a period of time due to having a prior business relationship with the caller.
- **Direct selling:** Direct selling is the sale of products by face-to-face contact with the customer, either by having salespeople approach potential customers in person, or through indirect means such as Tupperware parties.
- **Integrated Campaigns:** For many marketers, a comprehensive direct marketing campaign employs a mix of channels. It is not unusual for a large campaign to combine direct mail, telemarketing, radio and broadcast TV, as well as online channels such as email, search marketing, social networking and video. In a report conducted by the Direct Marketing Association, it was found that 57% of the campaigns studied were employing

integrated strategies. Of those, almost half (47%) launched with a direct mail campaign, typically followed by e-mail and then telemarketing.

9.7 PERSONAL SELLING- CONCEPTS AND PROCESS

Personal selling is oral communication with potential buyers of a product with the intention of making a sale. The personal selling may focus initially on developing a relationship with the potential buyer, but will always ultimately end with an attempt to "close the sale". Personal selling is one of the oldest forms of promotion. It involves the use of a **sales force** to support a **push strategy** (encouraging intermediaries to buy the product) or a **pull strategy** (where the role of the sales force may be limited to supporting retailers and providing after-sales service).

Personal selling is a promotional method in which one party (e.g., salesperson) uses skills and techniques for building personal relationships with another party (e.g., those involved in a purchase decision) that results in both parties obtaining value. In most cases the "value" for the salesperson is realized through the financial rewards of the sale while the customer's "value" is realized from the benefits obtained by consuming the product. However, getting a customer to purchase a product is not always the objective of personal selling. For instance, selling may be used for the purpose of simply delivering information.

Because selling involves personal contact, this promotional method often occurs through face-to-face meetings or via a telephone conversation, though newer technologies allow contact to take place over the Internet including using video conferencing or text messaging (e.g., online chat).

What are the main roles of the sales force? Kotler describes six main activities of a sales force:

- **Prospecting** - trying to find new customers
- **Communicating** - with existing and potential customers about the product range
- **Selling** - contact with the customer, answering questions and trying to close the sale
- **Servicing** - providing support and service to the customer in the period up to delivery and also post-sale
- **Information gathering** - obtaining information about the market to feedback into the marketing planning process
- **Allocating** - in times of product shortage, the sales force may have the power to decide how available stocks are allocated

What are the advantages of using personal selling as a means of promotion?

- Personal selling is a face-to-face activity; customers therefore obtain a relatively high degree of personal attention
- The sales message can be customized to meet the needs of the customer
- The two-way nature of the sales process allows the sales team to respond directly and promptly to customer questions and concerns
- Personal selling is a good way of getting across large amounts of technical or other complex product information
- The face-to-face sales meeting gives the sales force chance to demonstrate the product

- Frequent meetings between sales force and customer provide an opportunity to build good long-term relationships

The personal selling process consists of the following steps:

- **Prospecting:** Prospecting refers to identifying and developing a list of potential clients. Sales people can seek the names of prospects from a variety of sources including trade shows, commercially-available databases or mail lists, company sales records and in-house databases, website registrations, public records, referrals, directories and a wide variety of other sources. Prospecting activities should be structured so that they identify only potential clients who fit the profile and are able, willing and authorized to buy the product or service.

  This activity is greatly enhanced today using websites with specially-coded pages optimized with key words so that prospects may easily find you when they search the web for certain key words related to your offering. Once prospecting is underway, it then is up to the sales professional to *qualify* those prospects to further identify likely customers and screen out poor leads. Modern websites can go along way in not only identifying potential prospects but also starting this qualification process.'

- **Pre-approach:** Before engaging in the actual personal selling process, sales professionals first analyze all the information they have available to them about a prospect to understand as much about the prospect as possible. During the Pre-approach phase of the personal selling process, sales professionals try to understand the prospect's current needs, current use of brands and feelings about all available brands, as well as identify key decision makers, review account histories (if any), assess product needs, plan/create a sales presentation to address the identified and likely concerns of the prospect, and set call objectives. The sales professional also develops a preliminary overall strategy for the sales process during this phase, keeping in mind that the strategy may have to be refined as he or she learns more about the prospect.

- **Approach:** The approach is the actual contact the sales professional has with the prospect. This is the point of the selling process where the sales professional meets and greets the prospect, provides an introduction, establishes rapport that sets the foundation of the relationship, and asks open-ended questions to learn more about the prospect and his or her needs.

- **Making the Presentation:** During the presentation portion of the selling process, the sales professional tells that product "story" in a way that speaks directly to the identified needs and wants of the prospect. A highly customized presentation is the key component of this step. At this point in the process, prospects are often allowed to hold and/or inspect the product and the sales professional may also actually demonstrate the product. Audio visual presentations and/or slide presentations may be incorporated at this stage and this is usually when sales brochures or booklets are presented to the prospect. Sales professionals should strive to let the prospect do most of the talking during the presentation and address the needs of the prospect as fully as possible by showing that he or she *truly understands and cares about the needs* of the prospect.

- **Overcoming Objections:** Professional sales people seek out prospects' objections in order to try to address and overcome them. When prospects offer objections, it often signals that they need and want to hear more in order to make a fully-informed decision. If objections are not uncovered and identified, then sales professionals cannot effectively manage them. Uncovering objections, asking clarifying questions, and overcoming objections is a critical part of training for professional sellers and is a skill area that must be continually developed because there will always be objections. Trust me when I tell you that as soon as a sales professional finds a way to successfully handle "all" his or her prospects' objections, some prospect will find a new, unanticipated objection-- if for no other reason than to test the mettle of the sales person.

- **Closing the Sale:** Although technically "closing" a sale happens when products or services are delivered to the customer's satisfaction and payment is received, for the purposes of our discussion I will define closing as asking for the order and adequately addressing any final objections or obstacles. There are many closing techniques as well as many ways to ask trial closing questions. A trail question might take the form of, "Now that I've addressed your concerns, what other questions do you have that might impact your decision to purchase?" Closing does not always mean that the sales professional literally asks for the order, it could be asking the prospect how many they would like, what color they would prefer, when they would like to take delivery, etc. Too many sales professions are either weak or too aggressive when it comes to closing. If you are closing a sale, be sure to ask for the order. If the prospect gives an answer other than "yes", it may be a good opportunity to identify new objections and continue selling.

- **Follow-up:** Follow-up is an often overlooked but important part of the selling process. After an order is received, it is in the best interest of everyone involved for the sales person to follow-up with the prospect to make sure the product was received in the proper condition, at the right time, installed properly, proper training delivered, and that the entire process was acceptable to the customer. This is a critical step in creating customer satisfaction and building long-term relationships with customers. If the customer experienced any problems whatsoever, the sales professional can intervene and become a customer advocate to ensure 100% satisfaction. Diligent follow-up can also lead to uncovering new needs, additional purchases, and also referrals and testimonials which can be used as sales tools.

Main disadvantages of using personal selling: The main disadvantage of personal selling is the cost of employing a sales force. Sales people are expensive. In addition to the basic pay package, a business needs to provide incentives to achieve sales (typically this is based on commission and/or bonus arrangements) and the equipment to make sales calls (car, travel and subsistence costs, mobile phone etc). In addition, a sales person can only call on one customer at a time. This is not a cost-effective way of reaching a large audience.

9.8 MANAGEMENT OF SALES FORCE

Managing the sales process is typically the job of the Sales Manager. Good sales managers usually exhibit the characteristics of: organization, a good personal sales record, enthusiasm, ambition, product knowledge, trustworthiness, mentoring skills, and somebody who is respected by others. While an in-depth discussion of sales management is beyond the scope of this crash-course, I'll mention one tool often used by sales managers to manage the sales process. This is called the *Sales Funnel* or *Sales Pipeline Report*.

The Sales Funnel (or Sales Pipeline): A sales funnel report presents a "snapshot" of your sales function at any given point in time. For conceptual purposes, the sales process is often compared to a funnel where new leads coming into the system (i.e. prospects) are initially placed into the top of the funnel (the widest part) and then worked through the system by informing, persuading, overcoming objections, providing information, demonstrating, providing free samples, etc., etc. until at the narrow part of the funnel, an order is placed and a sales is closed when payment from the customer is received.

The funnel framework works fairly well because for all new leads that are generated by marketing, there is a closing rate that represents the sales that ultimately result. The number of resulting sales is usually significantly less than the number of total leads generated hence it is useful to think that as leads work their way further down the funnel there will be less and less of them until they come out the narrow end of the funnel as sales.

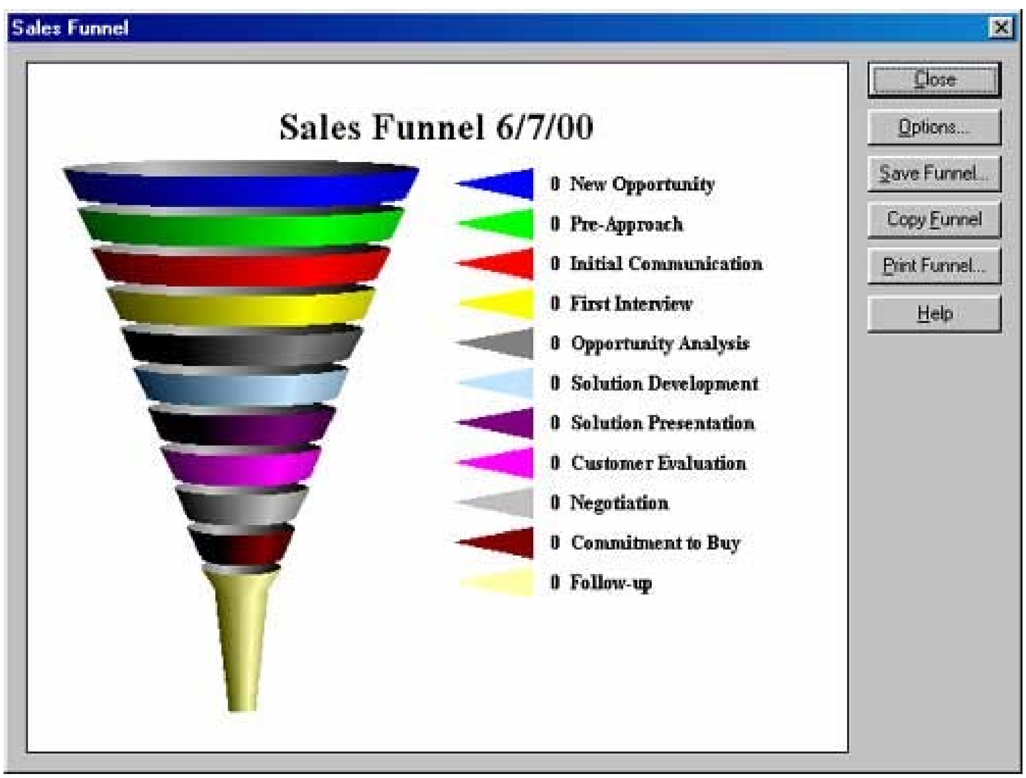

Figure 9.5: The Sales Funnel (or Sales Pipeline):

One important thing to note is that organizations define each phase in the sales process (or, part of the funnel) differently. Each step working through the funnel should have clearly defined criteria that go along with it so at each part of the funnel, there is specific knowledge about all the leads at that stage. In other words, leads become more and more qualified as they work their way through the funnel and at each step, you will know exactly what that specific level of qualification is. Another important thing to keep in mind is that the funnel is a great way to track and forecast sales, as well as, gauge marketing activities.

By running a Sales Funnel Report, the sales manager can visually see how many leads are at each step, if there are any "bottlenecks", or if there are an insufficient number of leads at any stage. Armed with that knowledge, then the sales manager may instruct his or her sales force where they should focus more attention to keep sales at the desired level. He or she can then also work closely with the marketing manager to ensure they are generating enough leads to hit sales goals, whether the leads are of high enough quality, or what further needs to be done to hit sales goals.

In short, the funnel can clearly point out what adjustments need to be made within the sales function to hit sales goals. That might mean that marketing activities need to be adjusted, that addition sales training is needed, or that sales personnel need to focus their efforts and activities on certain parts of the sales pipeline to keep the entire process on balance and running smoothly. The sales funnel also helps sales and marketing work closely together to meet organizational sales objectives. It is a wonderful management tool.

Sales tips: Success in sales depends upon some basics. A few pointers that allows you to enjoy success in sales:

- Be sincere with people. Too many sales people act in a manner that seems artificial or they only feign interest in their prospects' problems and concerns. People are smart and see right through such insincerity. If you are not sincere and honest with everyone you meet then you should not be in sales.
- It is vitally important to constantly hone your sales and communications skills. Continuous growth and training in formal professional selling techniques is also very important. Take training classes, listen to audio cassette professional development tapes, read all the professional development material you can get your hands on, and start a program of self-study and development in sales *today* if you haven't already.
- First listen to your customer, understand his or her wants and needs, and only then try to determine whether or not you can deliver the product or services to meet those wants and needs. If you approach a prospect with a solution before understanding the problem you are likely to be wrong about the solution.
- The best sales people ask a lot of questions and genuinely listen to the answers before speaking again.
- Your prospects and customers are all different so you should treat them differently.
- The best sales people listen much more than they talk.
- Find out what your prospects want and then give it to them.
- If you cannot give your prospects what they want, tell them so and help them find what they are looking for elsewhere.

- If you think that you cannot make it in sales as a profession, then you probably should not even try.

Sales force management systems are information systems used in marketing and management that help automate some sales and sales force management functions. They are frequently combined with a Marketing Information System, in which case they are often called Customer Relationship Management (CRM) systems.

Sales Force Automation Systems (SFA), typically a part of a company's customer relationship management system, is a system that automatically records all the stages in a sales process. SFA includes a contact management system which tracks all contact that has been made with a given customer, the purpose of the contact, and any follow up that might be required. This ensures that sales efforts are not duplicated, reducing the risk of irritating customers. SFA also includes a sales lead tracking system, which lists potential customers through paid phone lists, or customers of related products. Other elements of an SFA system can include sales forecasting, order management and product knowledge. More developed SFA systems have features where customers can actually model the product to meet their required needs through online product building systems. This is becoming more and more popular in the automobile industry, where patrons can customize various features such as color and interior features such as leather vs. upholstered seats.

An integral part of any SFA system is company wide integration among different departments. If SFA systems aren't adopted and properly integrated to all departments, there might be a lack of communication which could result in different departments contacting the same customer for the same purpose. In order to mitigate this risk, SFA must be fully integrated in all departments that deal with customer service management.

Advantages to the sales manager: *Sales force* automation systems can also affect sales management. Here are some examples:

- The sales manager, rather than gathering all the call sheets from various sales people and tabulating the results, will have the results automatically presented in easy to understand tables, charts, or graphs. This saves time for the manager.
- Activity reports, information requests, orders booked, and other sales information will be sent to the sales manager more frequently, allowing him/her to respond more directly with advice, product in-stock verifications, and price discount authorizations. This gives management more hands-on control of the sales process if they wish to use it.
- The sales manager can configure the system so as to automatically analyze the information using sophisticated statistical techniques, and present the results in a user-friendly way. This gives the sales manager information that is more useful in:
    - Providing current and useful sales support materials to their sales staff
    - Providing marketing research data: demographic, psychographic, behavioral, product acceptance, product problems, detecting trends
    - Providing market research data: industry dynamics, new competitors, new products from competitors, new promotional campaigns from competitors, macro-environmental scanning, detecting trends

- Co-ordinate with other parts of the firm, particularly marketing, production, and finance
- Identifying your most profitable customers, and your problem customers
- Tracking the productivity of their sales force by combining a number of performance measures such as: revenue per sales person, revenue per territory, margin by customer segment, margin by customer, number of calls per day, time spent per contact, revenue per call, cost per call, entertainment cost per call, ratio of orders to calls, revenue as a percentage of sales quota, number of new customers per period, number of lost customers per period, cost of customer acquisition as a percentage of expected lifetime value of customer, percentage of goods returned, number of customer complaints, and number of overdue accounts.

Advantages to the marketing manager: It is also claimed to be useful for the marketing manager. It gives the marketing manager information that is useful in:

- Understanding the economic structure of your industry
- Identifying segments within your market
- Identifying your target market
- Identifying your best customers in place
- Doing marketing research to develop profiles (demographic, psychographic, and behavioral) of your core customers
- Understanding your competitors and their products
- Developing new products
- Establishing environmental scanning mechanisms to detect opportunities and threats
- Understanding your company's strengths and weaknesses
- Auditing your customers' experience of your brand in full
- Developing marketing strategies for each of your products using the marketing mix variables of price, product, distribution, and promotion
- Coordinating the sales function with other parts of the promotional mix (such as advertising, sales promotion, public relations, and publicity)
- Creating a sustainable competitive advantage
- Understanding where you want your brands to be in the future, and providing an empirical basis for writing marketing plans on a regular basis to help you get there
- Providing input into feedback systems to help you monitor and adjust the process

Strategic advantages: Sales force automation systems can also create competitive advantage. Here are some examples:

- As mentioned above, productivity will increase. Sales staff will use their time more efficiently and more effectively. The sales manager will also become more efficient and more effective. (see above) This increased productivity can create a competitive advantage in three ways: it can reduce costs, it can increase sales revenue, and it can increase market share.
- Field sales staff will send their information more frequently. Typically information will be sent to management after every sales call (rather than once a week). This provides management with current information, information that they will be able to use while it is

still valuable. Management response time will be greatly reduced. The company will become more alert and more agile.

- These systems could increase customer satisfaction if they are used with wisdom. If the information obtained and analyzed with the system is used to create a product that matches or exceeds customer expectations, and the sales staff use the system to service customers more expertly and diligently, then customers should be satisfied with the company. This will provide a competitive advantage because customer satisfaction leads to increased customer loyalty, reduced customer acquisition costs, reduced price elasticity of demand, and increased profit margins.

Disadvantages: Detractors claim that sales force management systems are:

- difficult to work with
- require additional work inputting data
- dehumanize a process that should be personal
- require continuous maintenance, information updating, and system upgrading
- costly
- difficult to integrate with other management information systems

Encouraging use: For all the reasons stated above many organizations have found it difficult to persuade sales people to enter data into the system. For this reason many have questioned the value of the investment. Recent developments have embedded sales process systems that give something back to the seller within the CRM screens. Because these systems help the sales person plan and structure their selling in the most effective way they give a reason to use the CRM.

9.9 REVIEW QUESTIONS

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1. What factors have led to a boom in the advertising industry in India?
2. What are the goals advertising? In which situation can sales and behavioral change in the target audience can be considered an advertising goal?
3. What could be the sales promotion plan for a web based news magazine?
4. What are the major factors that have contributed to growth in direct marketing?
5. A company decides to improve its relationships with its customers. What steps should it take to build this relationship?

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