Marketing Management

FedUni

#52, Nagarjuna Hills, Hyderabad – 500 082

ISBN: 81-314-0035-2

Ref. No. MM – 052K4 25

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Contents

Detailed Contents

Chapter 8: Market Segmentation and Market Targeting: Need for Segmenting Markets. Market Segmentation Levels. Segment Marketing, Individual Marketing, Niche Marketing, Local Marketing. The Selection of Segmentation Variables. Criteria for Segmenting Consumer Market. Criteria for Segmenting Organizational Markets. Effective Segmentation – Measurable, Substantial, Accessible, Differentiable, Actionable. Target Market Selection Process – Evaluating the Market Segments, Selecting the Market Segments, Other Considerations.

Part III: Developing Marketing Strategies

Chapter 9: Strategic Planning Process in Marketing: Scope and Importance of Strategic Planning. Defining Strategic Market Planning – Corporate and Divisional Strategic Planning. Corporate Mission. Establishment of SBUs – Resource Allocation to SBUs. Strategic Business Planning – Business Mission. Swot Analysis. Marketing Process - Value Delivery Sequence, Steps in The Planning Process, Analyzing The Marketing Opportunities, Developing Marketing Strategies, Planning Marketing Programs, Managing the Marketing Effort. Marketing Plan – Contents, Executive Summary, Opportunity and Issue Analysis, Marketing Strategy, Action Programs, Projected Profit and Loss Statement, Controls.

Chapter 10: Marketing and Competitive Strategies: The Concept of Competitive Advantage. Porter's Five Forces Model – Barriers to Entry/Threat of New Entrants, Intensity of Rivalry Among Firms, Threat of Substitutes, Bargaining Power of Buyers, Bargaining Power of Suppliers. Analysis of Competitors – Classes of Competitors, Identifying Competition, Analyzing Competition, Reaction Patterns. Porter's Generic Competitive Strategy – Cost Leadership Strategy, Differentiation Strategy, Focus Strategy, Generic Strategy Mix. Designing Competitive Strategies – Market Leader Strategies, Market Challenger Strategies, Market Follower Strategies, Market Nicher Strategies. Competitive Intelligence System - Setting up the System, Data Collection, Analysis and Evaluation of Data, Information Communication and Response. Total Quality Management.

Chapter 11: Product and Product Lines: Product Personality – Nature of the Product, Product Hierarchy. Product Classification - Durability and Tangibility, Usage. Product Policy. Product Mix, Product Mix Strategies, Managing Product Lines. Product Life Cycle – Introduction, Growth, Maturity, Decline.

Chapter 12: Product Differentiation and Positioning: Product Differentiation, Product Form, Design, Features, Product Quality, Durability. Service Differentiation, Personnel Differentiation, Channel Differentiation, Image Differentiation. Positioning.

Part IV: Making Marketing Decisions

Chapter 13: New Product Development: Challenges in New Product Development. Organizing the Product Development Process – Product Managers, Product Committees, Product Departments, Product Venture Teams, Stages of New Product Development – Idea Generation, Idea Screening, Concept Testing and Analysis, Product Development, Test Marketing, Commercialization.

Chapter 14: Branding and Packaging: Brand as a Concept, Value and Significance of a Brand, Types of Brands, Brand Challenges, Brand Equity, Selection of a Brand Name, Brand Strategy Decision, Line Extension, Brand Extension, Brand Rejuvenation, Brand Relaunch, Brand Proliferation, Multibrands, New Brand Name, Co Brands, New Developments in Brand Management. Packaging – Importance of Packaging in Marketing, Packaging and Marketing Strategies. Labeling. Universal Product Codes.

Chapter 15: Pricing and Marketing: Significance and Importance of Price to a Marketer. Price and Non-Price Competition – Price Competition, Non-Price Competition. The Process of Setting Prices – Setting Pricing Objectives. Factors Affecting Demand Determination. Analyzing Competitors' Pricing. The Selection of a Pricing Method. The Selection of a Pricing Policy. Approaches to Price Adjustment – Geographical Pricing, Promotional Pricing, Discriminatory Pricing, Discounts and Allowances, Experience Curve Pricing, Product Mix Pricing. Effects of Price Changes – Buyers' Perceptions on the Price Changes, Competitors' Reactions.

Chapter 16: Channels of Marketing: Nature of Marketing Channels. Role of Marketing Channels. Channel Flow, Channel Levels, Service Sector Channels. Functions of Marketing Channels – Facilitating the Exchange Process, Alleviating Discrepancies, Standardizing Transactions, Matching Buyers and Sellers, Providing Customer Service. Designing Distribution Channels – Analyzing Customer Expectations of Service Output, Formulating Objectives, Evaluation of Distribution Environment, Evaluating Channel Alternatives. Channel Management – Channel Member Selection, Channel Members' Training, Member Motivation and Evaluation, Modifying Channel Arrangement, Legal and Ethical Issues in Channel Management. Channel Dynamics –Horizontal Marketing System, Vertical Marketing System. Multichannel Marketing System, Channels and Conflicts – Types of Channel Conflicts, Causes of Channel Conflicts, Managing Channel Conflicts.

Chapter 17: Logistics and Wholesaling: Objectives of Market Logistics – Delivering Customer Service, Reducing Total Distribution Costs, Reducing Cycle Time. Market Logistic Decisions – Order Processing, Inventory Management, Transportation. Functions of Warehousing – Types of Warehousing. Strategic Issues in Managing Logistics. Growth of Wholesaling – Classification of Wholesalers. Market Decisions – Target Market, Price, Promotion, Place. Changing Patterns in Wholesaling – Wholesale Consolidation, Global Expansion.

Chapter 18: Retailing: Types of Retailers – Ownership, The Extent of Product Lines Handled, Retailing Based on the Service Vs. Goods Retail Strategy Mix, Non-Store Based Retailing. Implications of Merchandising. Franchising – Major Types of Franchising, Advantages and Disadvantages of Franchising. Strategic Issues in Retailing – Location, Store Image Decisions. Market Decisions – Product Assortment and Procurement, Service Mix and Retailing Environment. Global Trends in Retailing. Trends in Retailing in India.

Part V: Management and Delivery of Marketing Programs

Chapter 19: Communication Mix in Marketing: Communication and Promotion Process – The Communication Process. Types of Communication Channels – Personal Channels, Non-Personal Channels. Promotional Tools – Advertising, Sales Promotion, Publicity, Public Relations, Personal Selling, Direct Marketing. Developing a Communication Program – Target Audience Identification, Determination of Communication Objectives, Developing Marketing Communication Budget, Factors Influencing the Designing of Communication Message. Marketing Communication Mix – Product Market Type, Pull-Push Strategy, The Product Life Cycle, Effectiveness of Advertising. Marketing Communication Integration and Coordination. Future of Marketing Communication.

Chapter 20: Advertising, Sales Promotion and Public Relations: Benefits of Advertising. Developing an Advertising Program – Identify the Target Audience, Define the Objectives of Advertising Campaign, Set the Advertising Budget, Developing the Advertising Message, Selecting the Right Media, Evaluation of Advertising Effectiveness. Advertising Agencies – Ad Agencies in India. Sales Promotion – Purpose of Sales Promotion, Importance of Sales Promotion, Decisions in Sales Promotion, Consumer Sales Promotion Methods. Public Relations –

Marketing and PR, Major Decisions in PR, Major Tools of PR, Dealing with Unfavorable PR.

Chapter 21: Personal Selling and Sales Force Management: Nature and Importance of Personal Selling – Types of Salespersons – Order Takers, Order Getters, Support Personnel. Personal Selling Process – Prospecting and Evaluating, Pre-Approach, Approach, Presentation, Handling Objections, Closing, Follow Up. Improving Personal Selling Efforts – Professional Training, Negotiations, Relationship Marketing. Sales Force Management – Establishing Sales Objectives, Fixing the Sales Quotas, Designing the Sales Force, Determining the Sales Force Size, Recruiting and Selecting Salespeople, Routing and Scheduling, Training Sales Personnel, Compensation, Evaluating the Sales Force, Motivating the Sales Force.

Chapter 22: Developing and Managing Marketing Department and Organization: Trends in Business Environment – Reengineering, Outsourcing, Benchmarking, Collaborating with Suppliers, Customer Relationships, Mergers, Globalizing, Downsizing, Focus, Empowering. Marketing Organization – Evolution of Marketing Department, The Designing of Marketing Organizations. Linkages with other Departments – Research and Development, Engineering, Manufacturing and Operations, Purchasing, Finance. Strategies for Organization Wide Marketing Orientation – Marketing Implementation. Evaluation and Control – Annual Plan Control, Sales Analysis, Market Share Analysis, Marketing Expense to Sales Analysis, Financial Analysis, Market Based Score Card Analysis, Profitability Control, Efficiency Control, Strategy Control.

Chapter 23: Global Marketing Strategies: Significance of Global Marketing. Selecting a Potential Market – Regional Free Trade Zone, Evaluation of Potential Markets. The Impact of Environmental Forces on Global Marketing – Economic Environment, Political Environment, Social and Cultural Environment, Legal and Regulatory Environment, Technological Environment. Methods of Entering a New Market – Direct Exports, Indirect Exports, Licensing, Joint Ventures, Internationalization Process. Types of Marketing Organization – Export Division, International Division, Global Organization. Developing Global Marketing Strategies – Product Strategies, Promotion Strategies, Pricing Strategies, Place Strategies. Marketing Strategies of MNCs in India.

Chapter 24: Direct and Online Marketing: Nature and Scope of Direct Marketing. The Growth and Benefits of Direct Marketing. Database Marketing. Forms of Direct Marketing – Catalog Marketing, Telemarketing, Kiosk Marketing, Home Shopping, Other Media. Direct Marketing in India. The Growth of Online Marketing. Advantages and Disadvantages of Online Marketing. Developing Online Marketing Strategies. Online Advertising – Forums, Newsgroups, Bulletin Boards, Web Communities, E-Mails, Web Casting. Opportunities and Challenges in Online Marketing.

Chapter 25: Marketing of Services: Growing Importance of Services in Marketing. Bases for Service Classification – Classification on the Basis of the Degree of Involvement of the Customer, Classification on the Basis of the Service Tangibility, Classification on the Basis of Skills and Expertise Required, Classification on the Basis of the Business Orientation of Service Provider, Classification on the Basis of the Type of end-user. Characteristics of Services – Intangibility, Heterogeneity, Inseparability, Perishability. Developing Marketing Strategies for Services – Product, Pricing, Promotion, Distribution, People, Process, Physical Evidence. Managing Service Differentiation – Offer, Delivery, Image. Managing Service Quality – Strategic Concept, Commitment of the Top Management, High Standards, Monitoring Systems, Customer Complaints, Satisfying Employees. Managing Productivity. Product Support Service Management, After-Sales Service Strategy.

Part VI: Marketing and Beyond

Chapter 26: Marketing of Organizations, Individuals, Places and Ideas: Organization Marketing – Image Assessment, Image Planning and Control. Idea Marketing. Person Marketing. Place Marketing.

Chapter 27: Marketing Management: Ethical and Social Dimensions: Importance of Marketing Ethics. Social Impact of Marketing – Individual Customer, Society, Other Businesses. Social Regulations in Marketing – Consumerism, Customer Rights, Consumer Protection Act, Bureau of Indian Standards, Competition Policy, Environmentalism, Public Action to Regulate Marketing. Business Regulations in Marketing – Enlightened Marketing, Marketing Ethics, Corporate Code, Principles of Public Policy Towards Marketing.

Part I

Basics of Marketing Management

Chapter 1

Marketing: The Development of a Concept

In this chapter we will discuss:

- Definition of marketing
- Evolution of marketing
- Marketing myopia
- Marketing dynamics
- Significance of marketing
- Structure of the book

For today's businesses, change is the only constant. What was in vogue yesterday is out of fashion today; what is in vogue today will not be in fashion tomorrow. This applies equally well to business. Firms which do not change their marketing activities and adjust themselves to market trends will go out of business in no time.

Marketing is as old as mankind. A young child trying to persuade his mother to buy him candy, a politician trying to convince people to cast their vote in his favor, or a person trying to persuade an employer to hire him are all practicing marketing. In a more formal setup, business and non-business organizations are also involved in marketing. The products that are marketed can be goods or services. A place, an idea, an individual, or even a cause, can be marketed.

Many management thinkers consider marketing to be the most critical function of a business. In a business organization, the marketing division generates the revenues essential for the survival and growth of the firm, the finance department manages these revenues and the departments like R&D, production or manufacturing use them to create products and services. But the real challenge to marketers lies in generating those revenues profitably, by satisfying customers in a socially responsible manner.

In this period of globalization, factors like economic crises, differences in standards of living, imbalances in income distribution, environmental degradation, political unrest and a plethora of other social, economic, and technological problems tend to increase the challenges and threats faced by companies and nations. While these factors can be threats to a business, marketers try continuously to convert them into opportunities. Thus, marketing plays a significant role in successfully running a business.

DEFINITION OF MARKETING

If you ask different people what marketing is, the chances are that you would get different definitions. Marketing is, after all, such a vast field. Exhibit 1.1 gives brief overview of what it involves.

The American Marketing Association (AMA) defines marketing as "The process of planning and executing the conception, pricing, promotion and distribution of ideas, goods and services to create exchanges that satisfy individual and organizational goals."

Marketing deals with products. A product can be a good, service or an idea. Marketers must adopt different marketing approaches when selling intangible products (service and ideas) as they have no physical form. A good is a physical entity i.e. it is a tangible product, which we can touch and feel. A CD-ROM of Encyclopedia Britannica, a shirt, or a bar of chocolate, are examples of a good. A service is created when human efforts are clubbed with mechanical efforts to provide intangible benefits to the customer; it gives some value to the recipient, e.g. healthcare, laundry, transportation, banking, etc. Ideas provide intellectual or spiritual benefits to customers. They include issues, philosophies and concepts, e.g. a blueprint of a business plan, computer software. Similarly, a politician who is contesting an election tries to sell ideas ranging from the protection of human rights to political activities.

A marketing transaction is one in which the buyer and the seller, irrespective of the nature of the product, experience mutual satisfaction – the seller on selling the product and making a profit, and the buyer on purchase and subsequent consumption of the product.

Concept of Exchange

A person can satisfy his needs and wants by producing the goods himself, stealing them, coercing someone to provide them, or through exchanges with other persons who are willing to part with their goods voluntarily.

Exhibit 1.1

A Feast of Ideas

What is marketing?

Is it the bugging salesperson on the doorstep, attractiveness of the package, or is it the free gift that tempts you to make a purchase? Philip Kotler, in his book 'Marketing insights from A to Z', points out that one of the biggest problems faced by the companies today is that they produce far more goods than customers can buy. Over-production leads to hyper-competition, which ultimately leads to price wars.

According to Kotler, marketing is too often confused with selling. But marketing is not just selling, and price is not the only factor for competition. According to Peter Drucker, "The aim of marketing is to make selling superfluous." This essentially means that marketers do not have to do much of selling, if they are able to identify unfulfilled needs of customers and satisfy them.

HR, finance, administration, etc. are support functions and a company can afford to outsource them. But, it can prosper only through its marketing ideas and offerings.

Companies have realized the need to provide good customer service. However, increasing competitive pressures have forced companies to reduce their costs, which has had a negative impact on customer service levels. However, companies need to realize that customers now have many options to choose from. If a customer is not satisfied with a company's product or service, he can immediately switch to a competitor. This leads to not only the loss of sales but also the loss of customer lifetime value.

Adapted from "Kotler's Feast of Ideas," Business Standard - Strategist, 10 June 03, 3.

One of the major functions of marketing is to create an environment for exchange. An exchange arises when one person gives something of value, in return for something of value from another person.

In the olden days, people used the barter system to exchange goods and services. Today, we exchange products with money. Regardless of its nature, the conditions necessary for an exchange to take place are:

i. At least two parties must be involved.

ii. Each party must have something that interests the other.

iii. The parties must involve themselves voluntarily and each party must consider the other desirable or at least acceptable to deal with.

iv. Each party must be in a position to communicate and deliver the product.

v. Each party must be free to accept or reject any offer from the other party.

From the point of view of business, exchange takes place when the customers have needs and wants and the company has products to fulfill those needs and wants.

Needs and Wants

Needs constitute the basic requirements for the existence of life, such as food, clothing, shelter, and belongingness. A want, on the other hand, arises when the basic needs are satisfied. It is important for a marketer to understand whether his product falls in the needs category or in the wants category and devise his marketing strategies accordingly. However, it is possible that a product which is perceived by one customer as a want may be perceived as a need by another customer. Regardless of how customers choose to view the difference between needs and wants, the ultimate aim of marketers should be to motivate customers to consider their products in the first place.

Economic Utility

Marketing lays emphasis on providing the product to customers at the right place, at the right price, at the right time and in the right form. Communication of information about the product helps customers determine whether the product satisfies their needs. Marketers must focus on customer needs and wants to ensure customer satisfaction. The extent to which a product satisfies customer needs and wants is called utility. It is the amount of satisfaction a customer derives by consuming the product. Marketers can provide four types of utility to their target customers – form utility, time utility, place utility and possession utility.

Form utility is created when raw material is converted into a finished product. For example, Manish Malhotra, a dress designer, provides form utility by converting design concepts and fabric into a wide range of clothing. Similarly, Britannia Industries converts wheat, sugar and other ingredients into biscuits and cookies and provides form utility to its customers.

Marketers provide time utility to their customers by providing their products when the customers want them. For example, Automated Teller Machines (ATMs) installed by banks provide customers access to banking services around the clock. By using technology that allows people to buy products over the Internet whenever they want them, companies like Amazon.com and Dell are providing time utility to their customers.

Place utility is provided when a marketer provides the product at locations preferred by the customer. Domino’s Pizza delivered at your doorstep, is an example of place utility. Apart from providing time utility, Amazon.com and Dell also provide place utility by allowing customers to place orders from all over the world, and ensuring the delivery of the products at the place desired by them.

Possession utility allows a buyer to use the product as he wishes. It is the value that a buyer obtains from the product. For example, a customer who has purchased a car may use it for whatever purpose he desires. He may use it to commute to and from his office, or go on vacation with his family, or even rent it out as a taxi.

EVOLUTION OF MARKETING

Although the concept of marketing emerged after the industrial revolution, the change in businesses in terms of adapting to the concept came about gradually. It took many years for businesses to realize that satisfying customers is the key for making sales and profits in the long run. Businesses have gone through different phases or stages of marketing over the years. These stages can be classified as the production, product, sales and marketing eras.

Production Era

The industrial revolution of the seventeenth century brought about the production era, which continued till the late 1920’s. Say’s law – supply creates its own demand – was truly applicable in this era. The market was a sellers’ market, as the demand for the products was more than the supply. Companies focused on manufacturing processes and they looked for ways and means to produce the goods faster, more efficiently and at low prices. Product features were not given any importance because it was felt that customers were concerned only about the availability of the product, and not about its features.

Sales Era

The sales era began in the late 1920s and lasted till mid 1950s. The economic depression of the late 1920s proved that producing the goods was not everything; a company also had to sell them. By that time, most companies had made their production processes efficient, which paved the way for competition. Manufacturers believed that the success of their business depended on outselling the competition. Companies realized the need for product promotion and distribution. In this era, marketers focused their efforts only on selling their products to the customers.

Companies realized that they could use information on the likes and dislikes of customers in developing advertisements to stimulate demand. Therefore, many of them created market research departments to collect and analyze market data.

Marketing Era

During the sales era, companies ignored consumer wants and needs. They focused simply on selling their products. Critics of sales era believed that products in sales era were sold without looking at consumer needs and wants. By the early 1950s, companies began to realize that they would fail if they did not satisfy consumer needs.

The marketing era began in the mid 1950s. Companies, for the first time, identified the importance of consumer needs and wants in the exchange process between the buyer and the seller. Thus, a period of customer-orientation began. At this stage, companies focused on marketing, rather than on selling; they also embraced the concept of coordinated marketing management, which was directed toward the twin goals of customer orientation and profitability.

Companies changed from pushing products down to the customers, and began attempting to fulfill customers' needs according to their preferences. The focus of the companies was not to achieve manufacturing goals as was the case earlier, but to satisfy customer needs and wants.

Marketing Concept

Marketing starts with identifying customer needs and wants and ends with satisfying them through a coordinated set of activities that also allows a firm to achieve its own goals. Awareness of this fact gave rise to the marketing concept. The marketing concept embraces all the activities of a firm. It aims at matching the company's offering with customer needs, to achieve the desired level of customer satisfaction and generate profits for the company. The marketing concept is based on the belief that a) the company's planning and operations are customer-oriented, b) the goals of the company should be profitable sales volume and not just volume, and c) all marketing activities should be coordinated effectively.

Important features of the marketing concept

- Consumer orientation: Consumer orientation places the customer at the beginning as well as at the end of the business cycle - that is, the consumer becomes the focal point for the business. Organizations must also strive to alter, adapt and develop their products to keep pace with the ever-changing customer preferences and desires.
- Long-term profitability: Management must establish a system to learn the real needs and the perceived future needs of the company's customers, and use this information to create satisfying products to generate profits. Businesses should generate acceptable profits continuously to sustain themselves in the industry. Thus, marketers must invest in market research, product development, manufacturing, promotion, customer service and still generate revenues.

Exhibit 1.2

Kodak's Gratitude to Mother Earth

As a social corporate citizen, Kodak had always taken initiatives to protect the environment. Since the 1920s, Kodak has been implementing the practice of recovery and reuse of silver and manufacturing solvents. Kodak started the practice of recycling acetate film in its plants in 1950s and has built the first polyester plastic recycling facility as early as in 1970s.

In the early 1990s, Kodak started a worldwide recycling program for its container and disposable single-use camera and had recycled more than 250 million cameras by mid 1999.

It has always been Kodak's policy to conduct all its business in a manner that is consistent with health, safety and environmental management practices.

Source: "Eastman Kodak," Global Strategic Management Case Studies on Fortune 500 Companies, Volume IV, USA: Transworld University, January 2000.

However, marketers should lay emphasis on their long-term profitability. Sometimes, they might have to bear short-term losses to gain long-term profitability.

- Functional integration: All organizational activities should be well coordinated. Lack of coordination between different departments or function can hamper the performance of an organization. Sometimes, organizations may need to restructure their internal operations to improve coordination between departments. The marketing department must be properly coordinated with other functional groups like R&D, finance, personnel and manufacturing. The marketing concept seeks support not only from the top management but also from managers and staff at all levels.

Societal Marketing Concept (SMC)

According to the marketing concept, marketers focused on customer needs and wants in their marketing decisions, for long-term profitability. However, they realized that unless they include societal interests in their marketing decisions, they will not be able to make profits in the long run.

The customer and society are interrelated; therefore, whatever the company offers to the customer has a direct bearing on the society. According to the societal marketing concept, apart from determining needs, wants and interests of the target market and providing quality products, organizations must also help maintain and improve the society's well being. It questions the adequateness of company's marketing efforts towards addressing pressing environmental and economic problems, such as shortages of resources and increase in the global population. The pure marketing concept overlooks the conflict between short-term wants and long-term welfare. The societal marketing concept calls for striking a balance between the company's profit, the customer's wants and society's interest (Refer Exhibit 1.2).

Societal marketing managers believe that companies that act in a socially responsible manner gain goodwill, apart from reaping profits. Customers react unfavorably to companies which they do not perceive as good corporate citizens. This gives socially responsible companies a competitive edge over their competitors. Companies like HLL are successfully achieving their commercial goals and fulfilling their social responsibilities while serving the society (Refer Exhibit 1.3).

Exhibit 1.3

Repaying India – HLL Style

Companies need to act in socially responsible behavior. They might cease to make a product or product line but their relationship with the people and the natural environment will help them grow over time. Therefore, for a company to be successful in the long run, it must contribute towards the well being of society and the environment.

As a part of its corporate social responsibility, Hindustan Lever Ltd, has voluntarily taken steps to improve the condition of society. In Mumbai, it supports and contributes to the smooth functioning of ‘Asha daan’ – a home for destitute, handicapped children and people suffering from AIDS, run by the Missionaries of Charity. At the Doom Dooma plantation in Assam, it runs ‘Ankur’ – a center for special education for physically and mentally challenged children. The center provides educational, recreational and vocational activities on the basis of the aptitude of the children. In HLL plantations at Coimbatore in Tamil Nadu, it started ‘Kappagam’ (shelter), a center for special education for mentally and physically challenged children providing them physiotherapy and speech therapy.

In Bachua Taluka of Gujarat, HLL helped in the reconstruction of a village (Nani Chirai) which was destroyed in the massive earthquake that struck the area in January 2001, and renamed it as ‘Yashodadham’. HLL has provided the village with a school building, a multipurpose community center including a crèche, healthcare center, and village administration office.

In Etah district of UP, it started ‘integrated rural development’ program which catered to the needs of farmers’ training, healthcare of villagers, infrastructure development, improvement in productivity and health of cattle.

In AP, Karnataka, Gujarat and MP, HLL undertook ‘Project Shakti’ in the rural areas to create income-generating opportunities for rural women. It provides micro-enterprise opportunities and addresses the health and hygiene problems in rural areas.

Adapted from http://www.hll.com/HLL/reachingout/communitydev.html#writeup

MARKETING MYOPIA

Myopia means short-sightedness. Theodore Levitt, in his classic article “Marketing Myopia” in the Harvard Business Review, argues that industries fail not because markets are saturated but because of the failure and short-sightedness of the management. For example, the railroad industry did not flourish as it could have because the players in the industry defined their business rather narrowly – as a railroad business rather than transportation business. The railroad industry faced problems not because other players like airlines, bus operators, etc., fulfilled the need of customers better but mainly because railroads could not fulfill customer needs. They focused on products instead of customer requirements. This lack of vision and the customer dissatisfaction paved the way for the success of the auto industry on the highways. Further, the construction of super highways has created a better medium for freight and passenger traffic, posing a formidable competition for the railways.

Similarly, when small cars were introduced in the US market by the Japanese companies, they became a hit in the first year of their introduction. Though there had been major researches going on for a long time in the US, none of them were able to find out what exactly the customers wanted. They focused on what was the best alternative available for a customer of the available options. They totally ignored customer requirements. Their researches focused on the product, not on customer requirements.

Marketing myopia occurs when a marketer is excessively preoccupied with product development, manufacturing or selling and ignores customer needs, wants and interests. Marketing is a long-term function that involves anticipating a change in the future, and planning for it accordingly.

Another example that can be quoted for marketing myopia is that of the pager industry and radio broadcasting. Pager companies could not foresee technology changes and changing customer expectations and adapt themselves to fulfil customer expectations while mobile companies fulfilled the needs and succeeded in the market. Most companies that did not consider customers' needs and preferences have suffered losses.

With the changing times, a good marketer needs the vision to be on top of the changes and trends. Theodore Levitt in his book *The Marketing Imagination* has cited four conditions for business obsolescence as a result of marketing myopia. They are:

1. The belief of companies that as more and more of the population become affluent, the market expands and more and more people buy the products. In other words, if the market for a product expands automatically, companies do not think imaginatively about how to expand the market.
2. The belief that there are no substitutes for the industry's major products.
3. The belief that by producing in large quantities, per unit output cost can be significantly reduced, forgetting the market, demand and supply aspects.
4. Preoccupation with a product that lends itself to carefully controlled scientific experimentation, improvement, and manufacturing cost reduction.

Levitt has also devised ways to overcome marketing myopia. Some of the recommendations are

- Be customer led, not product oriented.
- Market orientation should permeate throughout the organization.
- Managers need to be proactive and visionary.

MARKETING DYNAMICS

Products and markets are constantly changing due to technological advancements. More and more companies are using advanced technologies to outsmart their competitors. The increasing usage of the same technology by different companies has made it difficult for them to create and maintain competitive advantage in the long run. The production cost per unit declines over time due to the learning effect, which leads to reductions in the price of the product. Demand starts falling with customers becoming more knowledgeable, and forming their own opinions about products and the attractiveness of competing brands. Due to advances in communication technology, customers have gained easy access to useful and better information about the brands via the Internet, adding to the woes of domestic brands. This, in turn, is increasing the promotion costs and shrinking profit margins of companies.

Company and Marketer Responses and Adjustments

Technological advancement is bringing about a rapid change in the market place and causing intense competition among firms. Companies are adopting new methods like reengineering, outsourcing, and benchmarking to outperform the competition. Marketers are trying to cope with the increasing competition by devising strategies like customizing their products, identifying target markets and building long-term relationships with customers.

Company responses and adjustments

- Reengineering: This is the process of redesigning the organization structure, business processes and associated systems to achieve a dramatic improvement in business performance. Companies reengineer their processes when they perform poorly in financial terms, face intense competition or erosion of market share, or discover emerging marketing opportunities.
- Outsourcing: Companies are now realizing that they need to focus on the activities in which they are strong, and outsource the remaining activities to other firms which have the required competencies. This helps organizations reduce their costs and improve organizational performance, and also leads to better utilization of organization resources.
- E-commerce: Companies are now offering services like selling and delivering products over the Internet. Customers can gather more information, critically analyze the benefits or services offered by different marketers, place orders and make payments over the Internet. The Internet is thus facilitating business to business (B2B), business to customer (B2C) and customer to customer (C2C) transactions.
- Benchmarking: Companies need to improve their performance continuously. Earlier, companies used to set their own benchmarks and measure their performances against these benchmarks. But in today's competitive world, the market leader's performance usually becomes the benchmark for the other companies in the industry; these companies then try to achieve the same level of performance as the market leader.
- Suppliers: Buying raw materials or semi-finished goods from a small number of suppliers helps the company maintain a close relationship with them. The problems of storage, lead time, economic order quantities, etc., can be eliminated to a great extent when the company and its suppliers share a cordial relationship.
- Global and local markets: Companies are no longer catering only to their domestic markets. The advent of globalization and advances in technology have opened the gateways to global markets.
- Decentralization: Earlier, most companies had vertical structures where all the power was vested in the top management. Responsibility was delegated to the employees. Nowadays, in many companies, employees are given more autonomy and encouraged to take the initiative. Multidisciplinary teams and team work are also widely encouraged.

Marketer responses and adjustments

- Customization: Marketers are providing better 'form utility' by creating customized/tailor-made products to suit individual needs. Companies are inviting inputs from customers and seeking their ideas in designing better and more suitable products.
- Building a good relationship with customers: Marketers have realized how difficult and costly it is to attract new customers in comparison to retaining existing customers. Repeat customers indirectly market the firm's products through word-of-mouth communication. Hence, it is profitable for a company to build a long-term relationship with its existing customers.
- Target marketing: Identification of target markets and promoting the products in such markets has helped marketers increase their profits. Advances in communication technology such as the Internet, the television, and radio and print media have made it possible for marketers to target different customer segments.

- Customer database: Companies now maintain data warehouses in which they store information about the preferences and buying habits of individual customers. With the help of these data warehouses, they can develop specific strategies and products to cater to customers whose tastes, needs and wants are similar.
- Integrated marketing communication: Marketers use different means of communication to reach their target customers. The availability of various means of communication described earlier, and more recently, the cell phone technologies, have made it essential for marketers to establish and maintain an effective and consistent marketing communications effort across the different media. Marketers need to ensure that there is no conflict between communication messages from different media. Therefore, marketers need to adopt an integrative approach to communicate with customers so that maximum benefits can be extracted from their communications efforts.

SIGNIFICANCE OF MARKETING

Competition has created great challenges for marketers. Functions like production, distribution and consumption are being influenced by market forces. Changes taking place in the business environment have made customer service, quality assurance and price competitiveness vital for the existence of a firm. Business firms have realized that they cannot survive without marketing. Marketing plays a significant role in the sustainability of an organization. Let us study the significance of marketing in three sectors – airlines, banking, and education.

The Airline Industry

The airline industry is regulated by the Ministry of Civil Aviation in the domestic market and by a system of bilateral service agreements in the international market. The bilateral service agreements regulate the prices offered by various airlines, capacity of the aircraft, and the routes to be served by these airlines.

The future of the airlines industry depends on the flight schedules/take off time, in-flight and airport service, safety records, fleet capacity and efficiency, route frequency, strategic alliances with other airlines and businesses like hotels, etc. Presence of an airport (domestic as well as international) gives a facelift to a geographical location. It helps promote trade and tourism in the region.

Characteristics of airline industry

- Airline industry is highly competitive. Competition is intense on the routes which are more profitable such as the Delhi-Mumbai route in India.
- The growth of the industry is closely linked to economic growth.
- An airline seat is an intangible and perishable good and hence marketers need to take special care while formulating their marketing strategies.
- Demand is price elastic i.e. as the price of service goes down the demand goes up, and income elastic i.e. when the income of the general population goes up, more people tend to travel by air.
- The profitability of an airline increases, when the flight capacity is properly utilized and the aircraft spends less time on the ground.

Marketing of Airlines

Like in any other industry, promotional activities play an important role in the airline industry as well. Airlines today offer attractive schemes to woo customers. These include frequent flyer schemes, special benefits, discounts, festive season offs, gifts like electronic equipment or kitchen appliances, access to club lounges, and special discounts with the alliance's business. Quality of service can be a useful tool for airlines to gain a competitive advantage, because passengers expect airline crew to be efficient, friendly and helpful. Thus, proactive customer orientation is the need of the hour.

To understand the strategies being adopted by some of the airline companies to gain an edge over the competition, let us consider the following examples:

- Jet Blue: Provides more amenities such as live satellite TV but with individual head phones for every flyer, comfortable leather seats and provides more leg room.
- Sahara India: It offered discounts between Rs 600 to Rs 1000 on all routes in April 1999.
- Indian Airlines: It introduced 50% off for government employees on evening flights.
- Jet Airways: It entered into an agreement with leading hotels and announced 20-50% discount on room rates for business and economy class.

Marketing strategies

- Airlines must identify and eliminate non-value adding cost and use the money saved to provide better quality service.
- Find a niche market and cater to it: Identifying and flying to secondary airports which do not handle too much air traffic can at times yield more profits to an airline. This is a strategy followed by many low-cost, no frills airlines in the US and Europe.
- Establish marketing tie-ups with travel agents and offer them incentives and commission. Or, as some airlines are doing, provide for ticketing over the Internet, and bypass travel agents altogether.
- Offer competitive frequent flyer schemes, discounted packages etc.
- Enter into trade alliances with other businesses.
- Enter into operational agreements and code sharing with other airlines.

Banking Industry

Bank marketing can be defined as "the aggregate of functions, directed at providing services to satisfy customer financial needs and wants, more effectively and efficiently than the competitors, keeping in view the organizational objectives of the bank." This definition implies that marketing helps banks achieve not only their commercial objectives, but also their social objectives. To safeguard the interests of customers, most countries have regulatory bodies that control the banking sector. In India, the RBI regulates the banking sector in terms of disbursal and mobilization of funds. A bank's customers include individual customers (known as retail customers) and corporate customers. The changes in the needs and expectations of these customers directly or indirectly influence the formulation of the marketing mix. Advances in technology have also brought about changes the marketing mix of banks (Exhibit 1.4 discusses the impact of advances in technology on banking).

Exhibit 1.4

Trends in Banking Technology

To outsmart the competition from both domestic as well as foreign players, most banks, both in the public sector as well as in the private sector, are embracing cutting-edge technologies. The State Bank of India, ICICI Bank, HDFC Bank, and UTI Bank are some of the banks which have adopted modern technologies.

In India, there are about 10,000 ATMs and the number is expected to grow to 17,000 by 2004. Technology has helped reduce the cost of transactions. For example, the cost of a manual transaction at a branch is somewhere between Rs 400 and Rs 1000, but the cost of the same transaction using an ATM is in the range of Rs 20 - 30. The latest trend in ATMs is shared payment networks, where the banks join hands to share each others' ATMs. Euronet Services India is setting up a shared payment network under the brand 'Cashnet' which is expected to have at least 2,500 ATMs by the end of March 2004, to cater to 8 to10 banks. At present, Cashnet has the four founding members - IDBI Bank, Citibank, Standard Chartered Bank and UTI Bank. Reduced cost of transactions in turn affects the pricing of banking products. Advanced technology is also helping new private sector banks in customer acquisition. For example, the retail customer base of HDFC Bank stands at 3.5 million today; for ICICI Bank, the figure is 6 million.

Internet banking is one of the most cost effective channels of delivery with a transaction cost of around eight rupees. According to Romesh Sobti, EVP and Country Representative (India), ABN Amro, "The Internet gives you the ability to conduct most complex banking transactions from anywhere. Value added features like bill payments (and the like) are also being bundled with other banking products to create value proposition for the customer." Telebanking and mobile banking services are other avenues for gaining competitive advantage. Some banks like ABN Amro use mobile devices to transmit alerts when customers use their credit cards.

Banks are also using newer technologies like Global Positioning System (GPS) and Multimedia Messaging Services (MMS) to help customers locate the nearest ATMs and provide other services.

Adapted from Alok Majumdar, "The Banking Tech Check," Business India, July 21-August 3, 2003.

Marketing and Banks

Price is fast becoming a strategic tool for bankers, even though complete deregulation of the price regime is still to materialize. For example, pricing term loans for corporate customers is a complex process, with the banks having to take into consideration various risks. They usually charge different interest rates for different corporate customers. But retail customers are usually offered a uniform rate, though nowadays, they may be given a choice between fixed rate and floating rates, for some categories of loans such as housing loans.

Channels used by banks for distributing banking products are extension counters, home banking, ATMs and Internet banking, which enhance customer satisfaction. Place plays an important role in providing effective customer service. Banks opening specialized branches for specific customer segments is a logical extension of this concept.

Marketing is the whole gamut of activities that a bank undertakes to inform its customers about its products. Promotion includes the formal means of communication through advertisements, mailers and brochures.

Education

Educational services can be regarded as a type of consumer service, even though it includes, in some cases, training programs for industrial and corporate clients.

Marketing was given little importance in the education sector, because education was mainly provided by the government. However, with the entry of more and more private players/institutions, marketing is gaining its rightful place. The educational journey of an individual begins with the basic elementary school education and often continues even after graduation. Based on his economic status and interests, a person may either opt for higher studies or go in for vocational training. With advances in technology, the modes of education delivery have increased. Education services can be provided through

a. Contact programs: where the degree of contact between the trainer and the trainee (learner) is high.

b. Distance mode: where the degree of contact is relatively less.

Marketing of education

The formulation of the educational product is the first step in the marketing of education. The key concepts for designing service products are: *the consumer benefit concept, the service concept and the service delivery system*. The consumer benefit concept requires the marketer to define benefits the consumers can derive from an educational package (course) offered by an institute. In other words, the marketers should design a product that best caters to the learning needs of the target market.

The location of the educational institute also plays a vital role in attracting students. Students nowadays prefer campuses with access to all infrastructure facilities.

Educational institutions can demand higher prices (tuition fees), depending on the demand for their services. Competition on the basis of price increases when the educational package is homogeneous (for example, most graduate courses). Usually, the pricing of educational services offered by public institutions is regulated by public policy.

Educational services must be promoted to build awareness about the courses offered by an institute. Promotion is also necessary to inform customers about an institute's reputation. Through promotion, customers can be encouraged to pursue certain courses. Promotion of educational products has become common in the recent past, because the competition has increased. Educational institutions try to gain market share by providing better facilities, subsidiary products like study material, library and laboratory facilities, quality food, hostel accommodation, etc. They try to hire well trained and highly qualified staff, and constantly update their knowledge and skills through regular training and faculty development programs. Expert faculty provides an educational institution with a competitive edge over its competitors. Exhibit 1.5 describes some of the measures taken to provide quality education and other services to the students of ICFAI University's distance learning programs.

Physical infrastructure like campus, buildings, laboratories and hostel facilities give an element of tangibility to the service offered by educational institutions.

Marketing strategy

Designing a marketing strategy for educational services is challenging because the product is intangible and perishable. Organizations providing educational services should develop marketing strategies that takes into consideration the intangible and perishable nature of the service. To design an effective marketing strategy, educational planners should first be clear about their objectives of the service, for example, imparting knowledge, or training professionals. Then they should identify the consumers and their preferences so as to position the course in a way that will attract the customers.

Exhibit 1.5

Service through Education – ICFAI

The ICFAI University offers several programs in the distance learning mode. Some of the important features of these programs that make them different from programs offered by other similar institutions in India are listed below:

- The programs are advertised in all the leading newspapers, and on the Internet, and are also promoted directly to potential students through events such as counseling meets and seminars at schools, colleges and other institutions.
- For most of the distance learning programs, contact classes are conducted at the different centers.
- Comprehensive courseware is provided to the students. The courseware includes textbooks, workbooks, book of readings and case studies. Relevant magazines and journals are also provided to the students. For example, the students who enroll for MBA program are given the Effective Executive magazine, to update their knowledge on the recent developments in the field of management.
- Student queries are promptly answered both online as well as by the instructors available at each center. All academic queries are usually answered on the same working day.
- Stocks of courseware are maintained at all ICFAI centers across the country, so that the student receives it immediately after registration, without any delays.
- Unlike other institutions where examinations are only conducted annually or every six months, ICFAI conducts examinations every three months. The correct answers to the questions are also posted on the Internet, immediately after the examinations are conducted. The results are usually declared within a month, depending on the nature of examination.
- For the convenience of students, fees can be paid through installments. Also, the institute plans to enter into tie-ups with banks, to provide co-branded credit cards to the students, so that all students can pay their fees online, using the cards.
- Results of exams are communicated to the students on their mobiles as soon as they are declared.
- Students are provided career guidance and counseling.

STRUCTURE OF THE BOOK

The book is divided in six parts and contains 27 chapters.

Part I, Basics of Marketing Management, provides the background and framework within which we can develop a marketing program. While Chapter 1 deals with the nature, scope, significance and evolution of marketing, Chapter 2 discusses the ways in which companies can create value for customers and attract and retain them. Chapter 3 discusses external environmental forces that affect the marketing program of a company. Chapter 4 deals with determination of marketing costs and customer profitability and budgeting for new product development and communication programs.

Part II, Analyzing Marketing Opportunities, deals with the identification and analysis of a company's target markets. Chapter 5 discusses the buying behavior of individual customers, while chapter 6 describes the factors that influence the buying behavior of organizational buyers. Chapter 7 looks at marketing information systems and marketing research methods. Chapter 8 describes various segmentation methods.

Part III, Development of Marketing Strategies, looks at the different ways in which marketing strategies can be developed. Chapter 9 examines the strategic planning process in a marketing organization. Chapter 10 discusses competitor analysis and competitive strategies. Chapter 11 discusses how marketers can manage their product portfolio and the various stages of the product life cycle. Chapter 12 deals with how marketers can differentiate and position their products.

Part IV, Making Marketing Decisions, explains the ways in which marketing strategies can be put into action. Chapter 13 describes the product development processes. Chapter 14 discusses the ways to manage brands. Chapter 15 discusses the various pricing strategies that an organization can adopt. Chapter 16 discusses different channels of marketing, while Chapter 17 deals with logistics and wholesaling.

Part V, Management and Delivery of Marketing Programs, discusses certain issues that companies face in implementing marketing programs. Chapter 18 describes the importance of retailing to marketers. Chapter 19 deals with the development of a communication strategy. Chapter 20 focuses on advertising, sales promotion and public relations, while Chapter 21 looks at the various issues in the designing and the management of sales force and relationship marketing. Chapter 22 discusses marketing organizations and the interdependence of marketing and other departments. Chapter 23 discusses strategies that help marketers going global. Chapter 24 is devoted to direct and online marketing. Chapter 25 explains the marketing of services.

Part VI, Marketing and Beyond, deals with some emerging issues in marketing. Chapter 26 deals with ethics and social responsibility in marketing. Chapter 27 explains the marketing of organizations, individuals, places and ideas.

SUMMARY

Marketing is the process of creating, pricing, distributing and promoting goods, services, individuals, places or ideas. It facilitates exchange, that is, exchanging a product in return for something of value. Marketing creates utilities like form utility, place utility, time utility and possession utility.

Marketing has developed through four stages, namely, the production era, the sales era, the marketing era and the societal marketing era.

Delivering products, which give value and satisfaction to the customer, is the main goal of marketers. But over concentration on any one feature(s) like production, distribution etc., leads to marketing myopia. A business firm markets its products to satisfy customer needs and wants, and in turn, achieve its own goals. The important features of marketing are customer orientation, long-term profitability and functional integration.

Technological changes have brought about a rapid change in the marketplace. As a result, there is intense competition among firms. Companies are adopting new methods like reengineering, outsourcing, benchmarking, e-commerce, etc., to outsmart competitors. Marketers are trying to adjust to this change by customizing their products, identifying target markets, managing customer databases, developing integrated marketing communication and building long term relationships with their customers.

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Chapter 2

Delivering Customer Values and Satisfaction

In this chapter we will discuss:

- Business components
- Customer satisfaction
- Concept of value
- Attracting and retaining customers
- Customer profitability
- Relationship marketing

A firm is said to practise marketing when it is concerned more about customer needs and makes genuine efforts to satisfy those needs and wants. According to Peter F Drucker, “Marketing means such a perfect understanding of the customer that the product or service fits him totally and sells itself. Marketing would result in a customer who is ready to buy. All that, what should be needed then is to make the product available.”

With business environments becoming dynamic and turbulent, organizations are facing the Herculean task of attracting and retaining their customers. The use of advanced processes and technology has helped organizations change from being productcentric to being customercentric. Organizations need to understand customer behavior and leverage customer information to manage customers profitably. Those who are not able to recognize the changes in the environment will lose revenue opportunities and their costs will increase. This could lead to customer dissatisfaction and competitors could take advantage of such a situation. Surviving in the market will then become difficult.

Marketers need to deliver value to their customers. Sometimes, they also need to inform them about the value they are delivering. If marketers do not define the value that their products and services deliver, they will not be able to satisfy their customers and ultimately, they will lose these customers. Certain functions in an organization such as human resources, information technology, operations, etc., may not directly interact with the customer. However, the processes in these functions need to help employees deliver the maximum value to the customers. It is necessary for companies to deliver value to their customers that they satisfy not only their articulated needs but also their unarticulated needs. In this chapter, we discuss the concept of value, various components of an organization and how they can contribute to maximizing the value to a customer. We also throw light on how marketers can attract and retain their customers and how they can develop a long-term relationship with their customers.

BUSINESS COMPONENTS

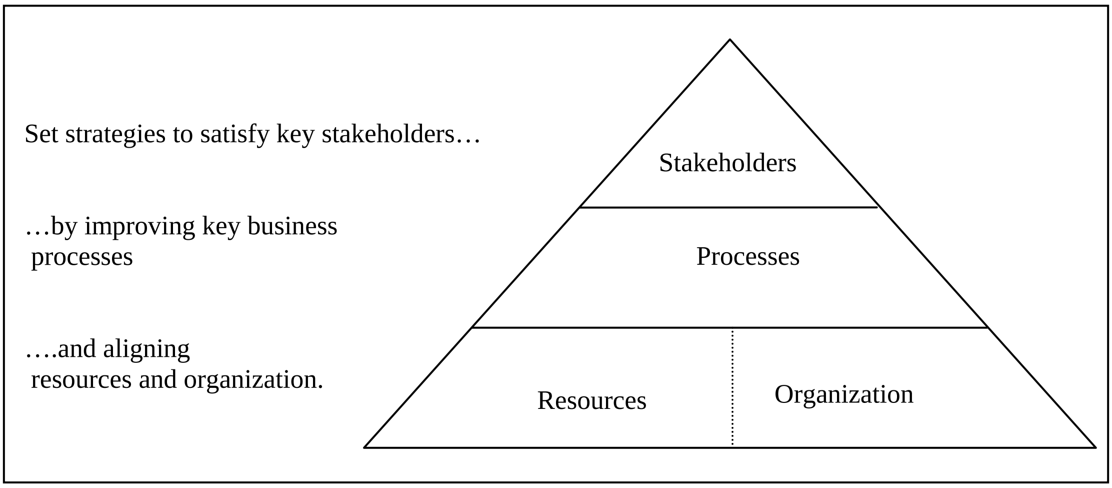
A company which aims at achieving its objectives, making profits and outperforming its competitors in the long run must satisfy a few of its components first. Unless there is a balance/equilibrium in the internal environment which coordinates perfectly with the external factors, the firm cannot exist for long. According to Arthur D Little (one of the oldest business consultancies), the factors that influence the performance of business are stakeholders, processes, resources and organization as seen in Figure 2.1.

Stakeholders

The stakeholders of a business firm consist of its shareholders, employees, suppliers, distributors and customers. A company must identify the needs of its stakeholders and then develop strategies to satisfy their needs and wants. It cannot survive in the long run, if it aims at satisfying only one group of stakeholders. If a company tries to satisfy only one group of stakeholders, conflicts may arise with the interest of other stakeholders. It can hamper the performance of the company. Therefore, the company must make efforts to satisfy the minimum requirements of each group, taking care not to violate the other group’s trust and sense of belonging.

The stakeholders act like the spokes of a wheel of an organization. So, its prosperity depends on their collective efforts. For example, when a company satisfies its employees, their performance and productivity levels increase, and thus helps the firm deliver quality products and services to its customers. Customer satisfaction brings repeat business and increases the profit volume. The higher the profit, the happier the shareholders, and they in turn invest more. And this is what leads to the prosperity of the firm.

Figure 2.1: Business Components



Source: Kotler, Philip, "Marketing Management," The Millennium Edition, Prentice-Hall of India Private Limited, New Delhi, 2000.

Processes

A process is the way in which workflow takes place. Typically, the work is distributed to various departments on the basis of their functionality. However, coordination between various departments of an organization is essential if its objectives are to be achieved. When there is conflict between the objectives of different functions of an organization, it becomes difficult for it to achieve its goals. Each department or function will try to achieve its objectives at the cost of others. As a result, organizational objectives will become secondary and the overall performance of the organization will severely suffer. The environment in the organization also becomes political and non-conducive to performance. Therefore, organizations should design their work processes in such a way that these conflicts are minimized. They need to make an effort to see that interactions between various functions increase and they work together towards achieving organizational objectives.

Companies are investing heavily on streamlining their workflows and creating cross-functional teams for bringing about a desired change in processes, like new product development, customer attraction, retention and order fulfillment. With these efforts, the interaction and coordination between different departments also increases, and this helps the organization achieve its goals.

Resources

A business firm needs resources like electric power, human resource, buildings, equipment, material, vehicles, water, etc., to carry out its day-to-day activities. These resources can be owned, leased or rented. Traditionally, it was believed that organizations should own the resources to have maximum control over them. However, the mindset of managers is changing fast due to the changing business environment and fast changing technology. Now, organizations believe that they should own only the resources that help them carry out their critical functions or utilize their expertise. All other functions or activities should be outsourced to organizations that have the competencies to carry them out. This will also help them optimize their cost structure and eliminate unnecessary flab from the organizations. For example, many companies are outsourcing their payroll and accounting functions to organizations that have expertise in managing them.

Outsourcing offers cost saving, lower expenses and specialization of products and services and help the company become more competitive. Reduction in expenditure allows the firm to reduce the price of products/services and compete in larger markets or enter new markets. For example, Nike nurtures its core competencies in shoe design, marketing and shoe merchandising, while outsourcing the manufacturing process to Asian manufacturers, like China, Indonesia, Vietnam etc., who do a better job in a cost-effective manner.

Organization

Companies have their unique set of structures, policies and culture. While the organizational structure and policies can be specified easily, it is difficult to define the culture of an organization. People can sense it only if they are part of the organization. Organization culture refers to the value, norms, artifacts, assumption, etc., of an organization, its employees and their behavior. The culture of an organization is reflected in its interiors, the way people greet each other, the way people work, etc. Organizational culture is influenced by the geographical location of an organization. For example, the work culture of an organization located in Japan would be very different from that of one located in Germany or the US.

Organizational culture is sometimes influenced by the personality of its leader/CEO. The style and persona of the leader influences the working habits of the employees. However, it is difficult to change the culture of an organization. But when a change is brought or a new organizational strategy is implemented in an organization, it is essential to bring in cultural changes for its successful implementation.

A firm needs to adapt to the changes in business environment. The geographical barriers between countries have now blurred. Therefore, companies are operating in a global market. When companies operate in different countries, understanding culture becomes more important for their success. For example, shaking the head from side to side, means ‘yes’, in Bulgaria and Sri Lanka, whereas it is a sign of ‘negation’ in most parts of the world. Sometimes, when organizations are not able to understand cross-cultural changes, they fail miserably. For example, Ford Motor Company developed a low-cost truck for developing countries and named it “Fiera”. The name caused a problem in Spain because Fiera means “terrible, cruel or ugly” in Spanish.

The top management of a company needs to foster such a culture so that every employee becomes an integral part of the organizational activities right from idea generation to the strategy formulation and implementation. If they are part of the strategic process, they ensure that the strategy becomes successful. According to Prof. Gary Hamel, creative ideas about strategies exist within the company. He emphasized that the senior management needs to identify and encourage idea generation. Ideas can be generated by employees who have a youthful perspective, new entrants in the industry and employees who are far away from the headquarters.

CUSTOMER SATISFACTION

In a world of cut-throat competition, companies can survive only when they outsmart competition; adapt themselves to the changing marketing environment rather than just pushing the sales. But how do marketers do this? The answer is simple, yet very complex – customer satisfaction.

Satisfaction – fulfillment or gratification of need, desire or appetite.

Customer satisfaction or dissatisfaction is the feeling derived by the consumer when he compares the product’s actual performance with the performance that he expects of it. Customers form their expectations on the basis of past buying experiences, advice of their reference group and the promises of the marketers and their competitors. When the product performance matches the expected performance, the customer experiences satisfaction; when it falls short of the expectation, he experiences dissatisfaction. And when the performance exceeds expectations, the customer is highly satisfied or delighted. It becomes much easier for a company to serve a delighted customer. As delighted customer may become loyal, bringing more business to the firm, he will be less likely to switch to a competitor's product; and so, he becomes brand loyal. Xerox Corporation, for instance, believes that a very satisfied customer is worth 10 times as much as a satisfied customer. It believes that a very satisfied customer will stay with the company for more years and will bring more business to the firm.

Complete customer satisfaction is achieved by understanding customer requirements and delivering superior quality goods and services. Companies must provide the customers with a continuous flow of new ideas/offers and constantly enhance their service levels to build up satisfaction among customers. Understanding the customer and providing satisfaction is not the prerogative of the marketing department alone. Every function/employee needs to contribute to understanding the consumer needs and then fulfilling them. Exhibit 2.1 discusses the HPCL efforts to enhance customer satisfaction by actively involving its dealers.

Exhibit 2.1

Customer Satisfaction – The HPCL Way

In a bid to take on Reliance and Essar, Hindustan Petroleum Corporation Ltd., (HPCL) has introduced a new way of reaching out to its customers and enhancing their experiences – through Club HP petrol pump outlets. HPCL has reworked its retail strategy focusing on its dealers. It is holding detailed discussions with individual dealers, setting higher targets and identifying a complete action plan to realize the potential/target and launch a system of measuring the customer satisfaction index (CSI).

HPCL has launched a nationwide training program for its dealers and their employees who interact constantly with the customers. The training is based on the research done by HPCL which concluded that more sensitivity is required on the part of workers, i.e., better communication, eye contact and personalized service. It identified eight centers for training dealers and over 20 to train their staff.

HPCL provides the dispensing units, good fuel, driveway, yard lighting, dealer staff uniform and backup for standardization of services at the retail outlet. The dealer advisory group was allowed to enter the supply locations of the corporation at any point of time and check the quality control procedures for themselves. HPCL offers a list of incentives to its dealers like sales competitions, accident insurance, assistance for their children's education, etc. It tied up with Hughes Escort to organize day-long teleconferences connecting all the centers, at which dealers exchange experiences.

Adapted from Sekhar Seshank, "Reinventing services," Business India, November 11-24, 2002, Sanjay Jog, "HPCL Pens Dealer Centric Retail Plan," Financial Express, August 18, 2003 and <http://www.agencyfaqs.com/www1/news/stories/2003/08/19/6876.html>

Organizations need to map customer needs and wants with their products. If the products do not fulfill customer needs and wants, organizations need to take the initiative to improve their products. Customers should be an integral part of the product development and improvement process. As customer needs and wants do not remain constant, organizations also need to monitor the trends in the changes in customer needs and wants continuously so that they can modify their products and services continuously to satisfy their customers in the long run.

To know whether customers are satisfied with his products and services, a marketer needs to measure the customer satisfaction level. Customer satisfaction can be measured using different techniques like questionnaires and direct interviews. A customer feedback program should be viewed as an operating tool rather than as market research. Marketers should understand that no two customers share the same opinion when they use words like satisfaction – i.e. the intensity of satisfaction. They should try to keep the survey simple, and employ the right questions that can give timely data that is easy to act upon. Most customer satisfaction surveys aren't very useful, as they tend to be long and complicated. They yield low response rates and ambiguous information for the operating manager to act upon. It should also be noted that managers and salespersons may manipulate the information about customer satisfaction. Some salespersons may try to be customer friendly just before the survey, while others indulge in post-sale pleading with customers to provide top ratings, with the promise of offering something in return, for example, bargaining and negotiating a low price, with the consent of dealers. And the salespersons and managers may include only satisfied or most satisfied customers in the survey. Sometimes the customers might rate the company's performance as not so satisfactory to get more mileage in terms of service. As the top management of most organizations does not take an active interest in measuring the customer satisfaction level, others in the organizations also do not take it seriously. These circumstances further raise suspicion regarding the integrity of the surveys.

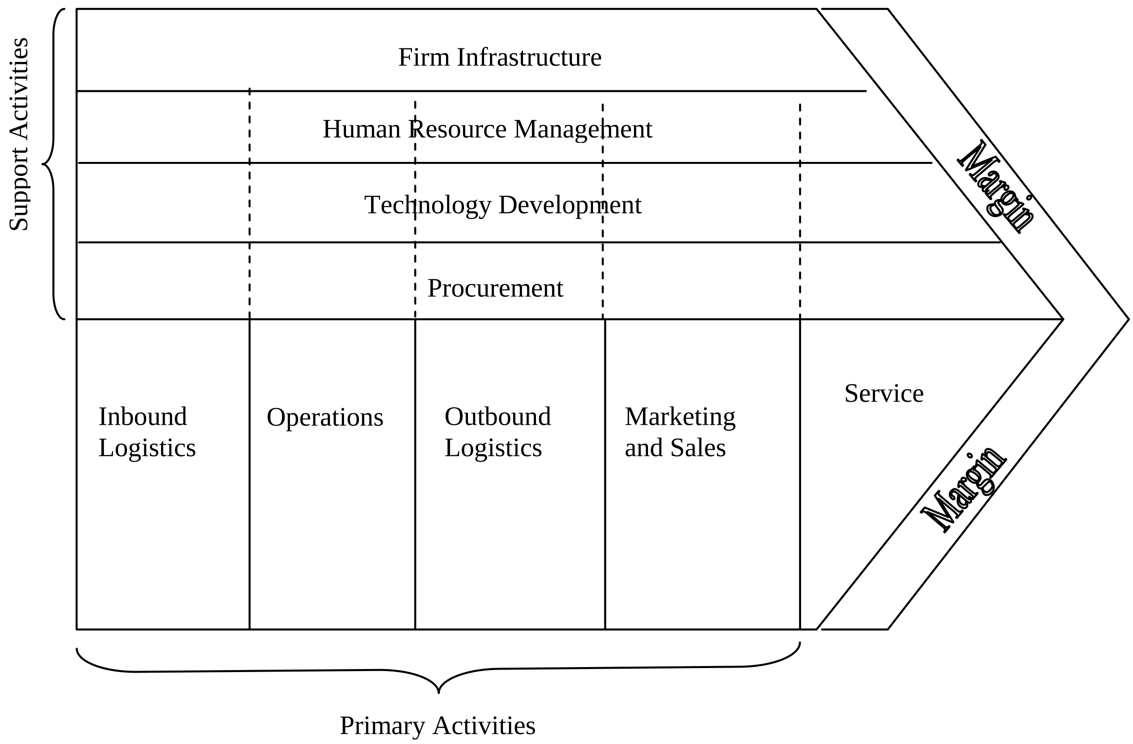
CONCEPT OF VALUE

Different customers look for different benefits from the same product. Therefore, the value of a product differs from one customer to other. Value to a customer refers to the difference between the benefits he derives from the product or service and the cost of acquiring the product. The cost of acquiring the product involves not only the cost of the product but also other economic and non-economic costs. The customer is happy when the benefits and the cost match. The wider the gap between the derived benefits and the cost of acquisition, the happier the customer is. Firms identify and build as many benefits as possible into their offer and ensure that the customer's expectations are met at the end of the buying process. For example, Godrej GE encouraged its existing customers to give a feedback on adding value to its products and the result was a 400 liter fridge, manufactured by the company, with an inbuilt curd maker. Tools like buyer analysis, market research and marketing planning are helpful in identifying and measuring the value customers expect. Marketers need to communicate the value their products deliver to the customers through their communication programs. If customers are convinced about the value that a product can deliver, the chances that they will be attracted to buy the products are high. Federal Express allows its customers to track their packages through its website, and customers can even check the name of the person who actually took delivery of the product. There is no additional cost involved in getting these additional services. These additional features increase the value of the services and therefore, customer loyalty. A high customer value plays a vital role in generating customer loyalty, because customers compare the value-cost gaps of the competing offers and select the products that delivers the maximum value to them.

Value Chain

Every firm performs a set of activities that helps in designing, producing, marketing, delivering and supporting its products. These activities form a process. At every stage of the process, the firm adds value. The chain of activities from raw material procurement to the after-sales service is called the value chain. It identifies nine strategic activities, i.e. five primary and four support activities, to create value, as shown in Figure 2.2. Primary activities are the activities that are involved in creating, distributing, selling and providing after sales assistance for a product. Primary activities are those activities that are involved in the physical creation of the product,

Figure 2.2: The Generic Value Chain



Source: Michael E Porter, "Competitive Advantage – Creating and Sustaining Superior Performance," The Free Press – New York, 1985, 37.

marketing and after-sales support. The primary activities involve buying and bringing the materials into the firm (inbound logistics), manufacturing the product (operations), shipping the goods which includes warehousing, order processing, scheduling, distribution etc., (outbound logistics), advertising, promotion, sales force management and pricing (marketing and sales), and providing services like installation, training, repair, etc., (service).

Support activities assist primary activities by providing infrastructure that allows them to take place on an ongoing basis. Support activities such as procurement, hiring the personnel, R&D, infrastructure (i.e. general management, planning, government activities and quality management), accounting, and legal activities, etc., are handled by various departments. The value chain includes a profit margin, creating value that exceeds cost so as to generate a return for the effort. A proper coordination of all activities between the various departments enhances the performance of various activities in the value chain, leading to the enhanced overall performance of the firm.

A company's operations should be divided into specific activities or business processes to conduct value chain analysis. Then the cost incurred on carrying out each activity is calculated to measure the performance. The value chain of an organization differs from that of other organizations. The way in which activities are performed in the value chain provides a competitive advantage for a company. However, the organization should measure the performance of every activity in the value chain with that of the competitors. If the performance of activity of a competitor is better, the organization should benchmark it and try to improve its performance continuously.

Taking care of a value chain is not an end in itself; the firm must try and improve its delivery network with external parties like the suppliers, distributors and customers. Many companies are partnering with specific suppliers and distributors to create superior networks and gain a competitive edge over their competitors.

Providing Value-Cost Balance

Customers expect certain benefits from a product. Marketers need to add as many benefits to their products as possible. The more the features, the more the customer attraction. When the number of features in a marketing offer is more, the customer feels that the marketer has offered him more value. He also feels that his value expectations are met by buying the product. Standard Chartered Bank offers a global credit card to all its customers, while most of its competitors offer country specific cards. However, providing these benefits comes at a cost.

However, marketers need to ensure that when adding benefits to a product, the cost of the product does not increase exorbitantly. If the price of the product is in the vicinity of that of the competitors, customers will be able to appreciate the value attached to the product. If there is a significant difference in the price, customers will think that the value has not increased. So, marketers need to strike a balance between the value and the cost. If their costs are high, marketers need to look into their cost structure and ensure that it is optimized. Firms know that the customers compare the price/value offered by competing firms and select the product which gives them maximum satisfaction. The firm tries to reduce the total delivery cost, while meeting the customer’s expectations.

Value - Delivery System

Every firm has its unique value creating and value delivering network. Apart from its value chain, a firm tries to influence the value chain of its suppliers, distributors, etc., because if the value chain of suppliers and distributors is optimized, its own cost structure will also become optimized. It tries to select the members of its delivery network carefully and work out mutually beneficial strategies. It establishes a partnership with the other members of its delivery network in order to improve the performance of the value-delivery system and create a competitive advantage over its rival firms. So, with the help of its value chain and value delivery networks, the firm offers the best possible assemblage of benefits to meet customer expectations.

ATTRACTING AND RETAINING CUSTOMERS

Apart from managing its value chain and maintaining its delivery network, firms need to develop strong bonds with their customers. In a fiercely competitive environment, it is hard to please the customers as they are smarter, more choosy, more price conscious, have better alternatives (goods and suppliers), and are attracted equally by many competitors.

Attracting Customers

Companies continually search for new customers in order to make profits and increase their sales volume. This process consumes time and scarce resources. Skills in lead generation, lead qualification and account conversion are the tools in acquiring customers. Generating a lead requires a company to indulge in

- Developing advertisements either in-house or through ad-agencies and releasing them in the appropriate media.
- Mailing or making a personal phone call to prospective customers
- Participating in trade shows, fairs and organizing events

In the next step, the company contacts its prospective customers through personal interaction, checks out their financial condition, etc., and identifies the customers as either hot, warm or cold prospects. The sales personnel contact the hot and warm prospects (usually) and try to convert them into accounts by making presentations to them, answering queries and negotiating the deal.

Cost of Losing a Customer

Attracting customers is of no use unless you know the art of keeping them. Customers can be retained only if the products meet their expectations. If they are satisfied with the performance of the products, they may talk about them to others. On the other hand, if they are dissatisfied, they may stop using the products and talk negatively to others about them. As word-of-mouth is the strongest medium for communicating with potential customers, it might cost a company heavily if there is negative talk about the company or its products. As a result, the company can suffer from customer attrition. Therefore, it must pay close attention to the defection rate i.e. the rate at which they lose customers.

To reduce the customer defection rate, a company must

a. Define and measure the retention rate.

b. Identify the causes for attrition.

c. Estimate the amount of profit lost by losing the customer. In case of an individual customer, it is the life time value of the customer, i.e. the present value of the profit stream the customer would have generated had he not defected prematurely.

d. Figure out the cost of retaining a customer. If the future profit is more than the cost of retention, the company should make efforts to retain the customer.

e. Listen to the customer as it helps in retaining and overcoming attrition problems.

Need for Retention

There are some interesting facts on the basis of past researches about acquiring a customer and retaining him.

i. Acquiring a new customer costs five times more than satisfying an existing customer.

ii. On an average, companies lose, 10% of customers every year.

iii. The customer profit rate increases over the lifetime of retained customers.

iv. A 5% reduction in customer attrition may increase the profit rate by 25-85%

Exhibit 2.2 talks about the measures ICICI Bank has taken to attract new customers and retain its old customers.

A firm accrues several benefits by retaining its customers like

- Increased revenue: If a customer stays with a company for longer time, the chances of his spending more significantly increase because his income might also increase in the period. This will result in an increase in revenue and is particularly true in cases where the customer’s family size increases, leading to an automatic increase in the demand for various products.
- Decrease in cost of selling: As mentioned earlier, it costs five times more to get a new customer than to retain an existing one. A loyal set of customers keeps the selling cost down and is likely to be more profitable in the future. A retained customer is also less sensitive to price changes and is not easily driven away by ads or competitors’ products.

Exhibit 2.2

Good Old Style

Private sector banks brought with them the advantage of Internet banking, phone banking, ATM services, etc. At the same time, they realized the need to embrace the good old banking practice of building a lasting relationship with their customers. ICICI Bank took the initiative of providing 12-hour banking services i.e. 8-to-8 banking to provide more personal attention to customers. The reason behind this initiative was to manage the pace of growth of the bank, cater to customer convenience and utilize the infrastructure in an optimal manner. The bank had to employ 1500 additional staff to work on a two shifts basis, even though its costs went up by 25 percent.

Technologies like phone banking, Internet banking and ATM services above could not handle the operations for a reserve of 70 lakh customers plus the addition of 2.5 to 3 lakh customers every month, so the bank had to use a mix of technology and traditional branch banking, which led to the idea of extending branch hours.

According to Amitabh Chaturvedi, head, retail banking, ICICI, "100 branches are covered under the 8-to-8 concept and the bank is planning to cover all its 430 branches across the nation."

Citibank is one of the banks that seem to have taken note of this move. It has extended its branch timings by a couple of hours in Mumbai and other major metros.

Adapted from Abhishek Parekh, "Back to Basics," Business India, March 31-April 13, 2003, 78.

- Advertising: Customers usually influence other members of their reference group who rely on them for references and opinions. Old customers talk favorably about the company and its products. So, a retained customer acts as a billboard for the firm by virtue of word-of-mouth advertising for the firm.
- Cross selling possibilities: A regular customer can be a potential customer for the firm's other products in the near future. For example, a customer with a savings account with ICICI Bank at the beginning of his career can be a potential customer for loan products, credit cards, mutual funds, etc.

Therefore, companies must develop the habit of understanding their customer needs and wants and measure their satisfaction levels regularly through various means such as calling up the recent buyers and inquiring about the product's performance. They should not ignore customer grievances because loyal customers account for a substantial share of a company's profit. Similarly, customer suggestions should not be ignored because they use the product and are in a better position to comment on the performance of the product. 3M is one company which keeps its ears open to all suggestions made by customers. Customer satisfaction also helps the company overcome the switching attitude of customers and makes it harder for the competitors to wean away customers.

Structural Ties

In order to attract new customers and retain old ones, companies indulge in supplying special equipment or computer linkages that helps the customers manage their tasks such as inventory, payroll, order entry process, etc., better. Companies like Milliken & Company go to the extent of providing sales training, marketing research and sales leads to their customers.

CUSTOMER PROFITABILITY

According to Philip Kotler, "a profitable customer is a person, household, or company that over time, yields a revenue stream that exceeds by an acceptable amount the company's cost stream of attracting, selling and servicing the customer."

It is a well-known fact that a small fraction of customers contribute to a large share of the revenue and in turn, a large share of profits as well. This can also be expressed with the help of Pareto's 80/20 principle. However, William A Sherden, author of *Market Ownership: The Art and Science of Becoming # 1* and *Fortune Sellers*, modified the rule to 20/80/30. According to him, 80% of the profits are generated by 20% of the customers and half of the profit is lost in serving the 30% of unprofitable customers. However, organizations should not accept the situation of 80/20 and should identify subsidized customers and work with them and change their offers to such customers either by changing the pricing or the level of service so that they also become profitable.

A study conducted by Unity Solutions[1] revealed that

a. 5-15% of customers generate 80% of net profit in most businesses.

b. 25-45% of customers account for 1-5% of sales but consume 10-25% of resources and costs.

c. Unprofitable customers account for 35-45% of activity cost.

d. More resources are consumed by very small unprofitable customers than profitable customers combined.

Although companies measure customer satisfaction, they fail to measure individual customer profitability because of their failure to have a centralized database to record the various types of customer transactions.

Companies need to understand that the largest customer is not necessarily the most profitable one. If the level of customer service is divided into three categories – low, medium, and high – it can be directly correlated to the small, medium and large customers. Large customers demand the highest level of service and usually ask for a discount. Mid-size customers pay almost the full price but receive reasonable service and are usually the most profitable customers. Small customers pay the full price and receive minimal services. However, these customers do not add significantly to a company's profit because of the high cost of transactions.

To know which of the customers are profitable to a company, they need to measure the profitability of individual customers. The answers to the following questions will help organizations measure the customer profitability:

i. How many of the customers are profitable?

ii. How dependent is the company on the most profitable customer?

iii. Which customers are unprofitable and why?

iv. What portion of the company's resources do the unprofitable customers consume?

Activity based costing (ABC) helps organizations assess which customers are profitable and which ones are subsidized. Kaplan and Cooper[2] developed a system for activity based costing, which can be used to measure customer profitability. It consists of four steps. They are

1. Develop the activity dictionary
2. Determine how much the organization is spending on each activity
3. Identify the organization's products, services and customers
4. Select activity cost drivers that link activity costs to the organization's products, services and customers.

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[1] A UK-based consultancy firm that provides services on Customer Value Management to its clients.

[2] R. S. Kaplan and R. Cooper, *Cost & Effect: Using Integrated Cost Systems to Drive Profitability and Performance*, Harvard Business School Press, Boston, Mass., 1998.

Customer profitability analysis helps the organization in taking decisions like what to do, and with whom and how to do business. This is essential for building customer relationship. Without customer profitability analysis, interpretations of CRM failures or successes would be mere speculation.

RELATIONSIP MARKETING

As marketing has seen different eras of development, the outlook of companies toward customers has also totally changed in these eras. In the sales era, companies concentrated only on pushing products to customers and services were virtually nonexistent. Then the marketing era began. Companies started focusing on customer needs and wants. But every player started focusing on them as well. Therefore, companies started wondering "what next?" They realized that they needed to focus on the long-term profitability of customers. This is possible only when marketers develop a long-term relationship with the customers. Relationship marketing refers to understanding and responding to customer needs and preferences to build more meaningful and long-term connections with customers.

Marketers need to work continuously to find ways and means to build good relations with their customers. It requires integration of all the areas of business that touches the customers like marketing, sales, customer service etc. through integration of people, process and technology. There are five different levels of investment to build a long-term relationship with customers.

- Basic marketing: A salesperson sells the product but does not contact the customer again.
- Reactive marketing: A salesperson sells the product and encourages the customer to call if the customer has any complaints or queries regarding the product.
- Accountable marketing: A salesperson calls (or phones) the customer after a small period of time of the actual sale to check whether the product is meeting the customer's expectations. The salesperson also solicits information like suggestions with regard to product improvement and enquires if the customer is disappointed with the product in any way. This information helps the company continuously improve its offerings.
- Proactive marketing: The salesperson contacts the customer from time to time with suggestions about product usage for improving the product.
- Partnership marketing: Companies need to work in tandem with their customers to provide better services to them and improve their (companies') performance.

Relationship marketing has become crucial for the existence of firms because of the heightened attention to cost cutting, revenue generation and customer retention. The goal of relationship marketing is to satisfy the customer in such a manner that he becomes loyal to the company and is unlikely to switch to the competitors. Companies try to convert the customers into clients by giving them special treatment and then try to convert these clients into members who join the company's club to avail of the special benefits. The members turn into advocates who recommend the company's products to other potential customers and ultimately, the company aims at converting the advocates into partners who work actively with the company in producing quality products. It creates a mutually beneficial relationship between the company and the customers. Exhibit 2.3 talks about how Mahindra & Mahindra is trying to build strong relations with its customers.

Exhibit 2.3

Create Feelings

Relationship marketing involves maximizing long term values from a customer by enhancing the experience of the customer with the product and converting them into brand advocates. When a customer stays with the company, the profit earned through him increases steadily over the time. For example, a 5% increase in retention may lead to a 40% increase in profits. However, companies should realize that 68% of the customers who leave the brand feel that the company's attitude towards them is either indifferent or careless. Therefore, the company needs to be responsive and make the customer feel wanted.

In an effort to strengthen its ties with the customers, Mahindra & Mahindra invited the proud owners of Scorpio (its new SUV) to visit its plant at Nasik in Maharashtra. The company witnessed a huge crowd of people who drove all the way from Punjab, Hyderabad and Chennai. The marketing department felt that the customers were ready for more interaction with companies but the companies needed to take the initiative. This kind of interaction with the customers helped Mahindra and Mahindra understand customer preferences better. The company also launched a 'top gear club' for Scorpio with a dedicated website, direct access to the Director, and a toll free number.

Adapted from "Customer Must be Made to Feel Wanted," The Hindu Business Line, 22 September 2003.

Leonard L. Berry and A. Parasuraman, in their book *Marketing Services: Competing through Quality*, have suggested three customer value building approaches. The first approach lays emphasis on adding financial benefits to the customer relationships. But these programs can be easily imitated by competitors and often fail to differentiate the company's offer in the long run. The second approach is to add social as well as financial benefits. In this approach, the company personnel try to increase personal bonds by learning about the individual customer needs and wants and offering individualized and personalized service. The company's representative aims at turning the customers into clients. The third approach is to add structured ties to their relation apart from financial and social benefits. For example, a company may provide its customers with special equipment and computers to help them manage their orders, inventory, etc.

It is equally important to identify and reactivate the customers (accounts) who have dropped off due to various reasons like moving to other locations, dissatisfaction, etc. In a fiercely competitive market, the ability to compete on the basis of customer relationships has gained significance. For example, the success of service providers (like the doctors, financial advisors and advocates) depends on maintaining a customer group which utilizes their services on a regular and ongoing basis.

SUMMARY

To outsmart competition, a company must manage its components like stakeholders, processes, resources and organization, in an effective and efficient manner.

A company must understand customer requirements and provide goods, which impart higher value for their money. This can be achieved with the help of a value chain and value delivery networks. A value chain consists of primary and secondary activities. Primary activities include inbound logistics, operations, outbound logistics, marketing and sales, and services. Secondary activities include procurement, technology development, human resource management, and firm infrastructure. Organizations need to ensure that support activities help in enhancing the performance of primary activities and both types of activities are well coordinated. Organizations can improve their performance only if they optimize the performance of individual primary activities.

As the marketplace becomes more and more competitive and the environment more and more volatile, organizations are fighting hard to attract and retain customers. Organizations need to retain their existing customers because the cost of retaining a customer is much lower than the cost of acquiring a new customer. The cost of losing a customer is not just the loss of a one time sale but the lifetime value of that particular customer. So, marketers are engaging themselves in building lasting relationships with customers to achieve profitability. To retain customers, it is essential that organizations focus on customer needs and wants and increase their service standard levels continuously.

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Chapter 3

Marketing Environment

In the chapter we will discuss:

- Competitive forces
- Macro environmental factors
- Indian business environment and MNCs in India

The performance of a company depends on its sales and its sales depend upon the marketing environment that influences its marketing activities. The marketing activities of an organization focus on satisfying customer needs. Customer needs and wants are again the function of the environment. Therefore, the demand of a product is also affected by the environment, in which the organization functions. With the marketing environment becoming increasingly dynamic, it is necessary for firms to keep pace with the changing environment.

The marketing environment consists of the forces that are external to the marketing function of an organization but influence its marketing abilities, in dealing with customers. A variety of internal and external forces impinge on an organization and its marketing system. Internal forces are inherent to the firm and can be controlled by the management. External factors cannot be controlled and usually affect the industry as a whole, rather than individual players. Figure 3.1 illustrates the micro and macro environments of a firm. The external forces are divided into microenvironment and macro-environment. The microenvironment consists of the suppliers, marketing intermediaries, and customers while the macro-environment consists of the demography, socio-cultural, political, technological, and legal environments. In the chapter we discuss the macro environmental forces in detail.

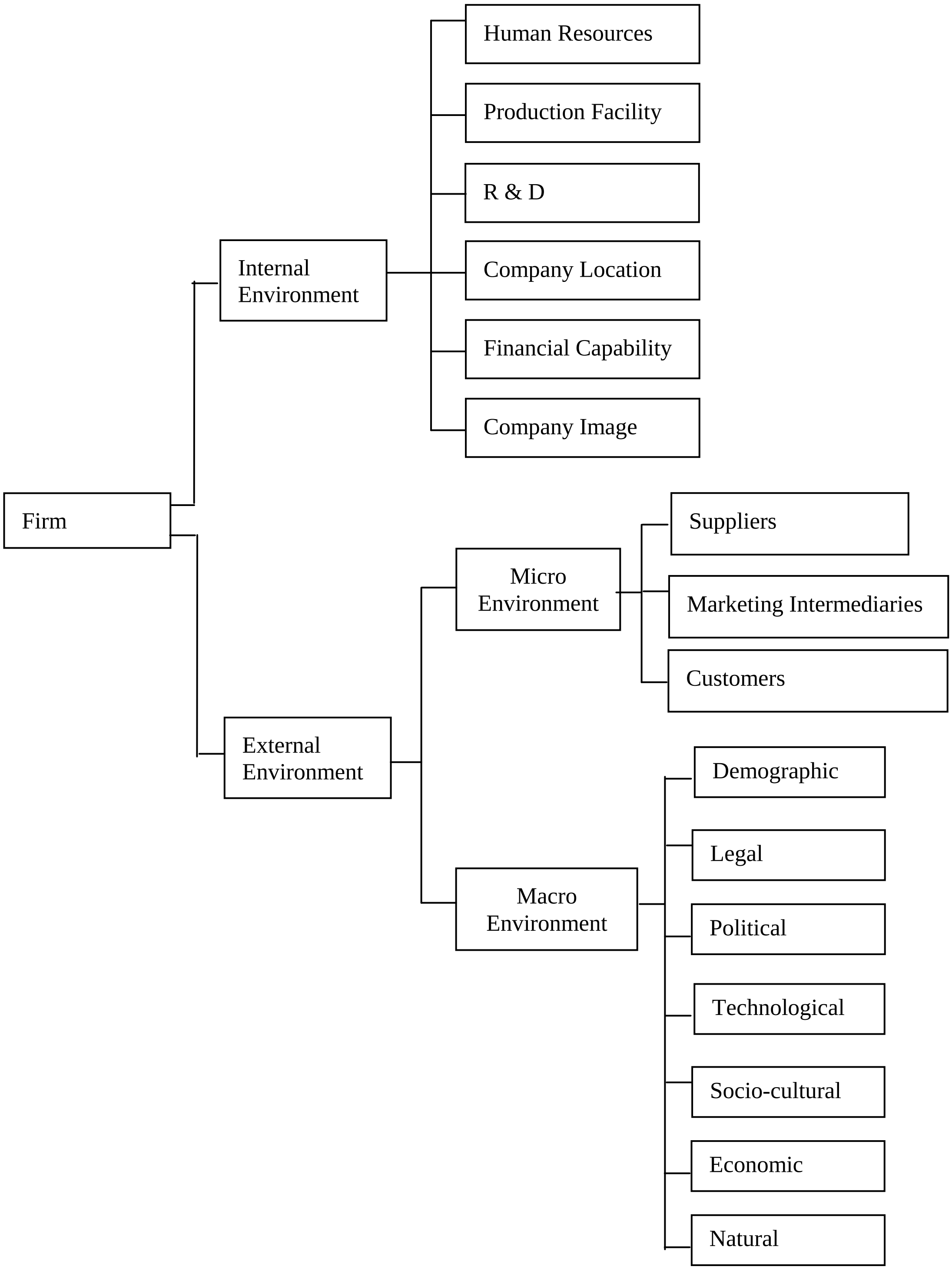
Environmental forces are dynamic and any change in them brings uncertainties, threats and opportunities for the marketers. Changes in the environmental forces can be monitored through environmental scanning, that is, observation of secondary sources such as business, trade, and government, and environmental analysis, that is, interpretation of the information gathered through environmental scanning. Marketers try to predict what may happen in the future with the help of tools like marketing research and marketing information/intelligence system, and continue to modify their marketing efforts and build future marketing strategies.

An analysis of the external environment and identification of opportunities and threats is extremely important for the survival of a firm in the long run. Managers, who fail to recognize the changes, leave their companies vulnerable. These companies fail to capitalize on the opportunities provided by or cope with the threats posed by the environmental changes. In the 1980s, industry leaders lost their competitive advantage to relatively new entrants due to the lack of proper analysis of the external environment. In the automobile industry, Hindustan Motors, and Premier Automobiles lost out to Maruti Udyog Ltd, which was successful in understanding the environment and assessing the needs of customers. In the watch segment, Titan with its vast range of products and marketing strategies took away HMT’s market share. Similarly, in the detergent industry, a local brand Nirma, managed to shake up the giant HLL (Surf). The big players lost out to other players primarily because they were not able to anticipate the changes, scan, and analyze the environment. Therefore, it is very important for organizations to understand the environment, and the forces that may affect them and change the competitive scenario.

COMPETITIVE FORCES

Competition has a significant impact on the marketing environment. The level of competition depends upon the structure of an industry. The level of competition in an industry decides the marketing dynamics. For example, the government had total control over the telecom sector, with BSNL and MTNL being the only players, before this sector was opened to private parties. Today, there are a number of players in the market and the market dynamics has totally changed due to the competition. A large number of innovations have taken place in this sector in the last few years.

Figure 3.1: Business Environment of a Firm



Types of Competitive Structures

The number of firms in an industry or those supplying substitute products affects the strength of competition. Common competitive structures are: monopoly, oligopoly, monopolistic competition, and pure competition.

Monopoly

It is a structure where one firm completely controls the supply of a product, which has no close substitute. Due to the absence of competition, the firm controls the supply and price of the product, and can erect barriers for potential competitors. Typically, it is impossible to enter into a monopoly market, as the cost of entry may be quite high. For example, railroad business has been monopoly businesses. Before the telecom sector was opened to private players, the government enjoyed monopoly in this segment just as it did in the television channel industry.

Oligopoly

It is a structure in which a few sellers control the major supply of the product. Entry barriers in such industry structures are high and the actions of one player affect other players significantly. Companies operating in an oligopoly structure usually sell branded products. Marketing and advertising are the key features of such markets. The airline industry is an example of such a structure. Entry barriers are high because the costs of aircraft and terminal facilities are high. All airlines build their own brands and depend heavily on advertising and other marketing activities to grow and increase their market share.

Monopolistic competition

In this structure, many firms compete with one another. Each firm has a relatively small market share. Marketers try to differentiate their offer from that of the competitors by varying their marketing mix to capture the market. They strive to make their products and services appear unique to the customer. Examples of such structures are the textile industry and publishing industry. Companies use different strategies to push their products like offering a discount and catering to the needs of a particular category of consumers, for example, children's books, footwear, or clothing. A majority of industries across the world compete in a monopolistic competition.

Pure competition

It is an ideal structure in which a large number of sellers compete to offer homogenous/relatively similar products. No single player can influence the supply or price of a product. Entry barriers in such an industry structure are negligible. Anybody can enter into such markets. Although there is no example of pure competition, the closest example is the unregulated agriculture market. In this market, products are almost homogeneous and anybody can enter into this business because entry barriers are negligible.

Monitoring Competition

A firm must develop a system to gather information about the competitors, understand market trends and what customers want. Marketers must study the actions of major competitors, as this will help them assess the performance of their marketing strategies vis-à-vis the competitors and recognize the strengths and weaknesses of their strategies. Monitoring also aids in adjusting the current marketing strategies, planning new ones and developing a competitive advantage. It has been discussed in detail in Chapter 10.

MACRO ENVIRONMENTAL FACTORS

Macro environmental forces do not affect the operations of a company and its relationship with its customers and suppliers, directly and immediately. However, they affect the company in the long run. They also affect all the players in the industry. The player who is able to anticipate the changes or adapt to changes quickly will be the winner. For example, the changes in demographics may not affect a manufacturer immediately. However, it will definitely have an impact on target customers because the number of target audience may change over a period of time. The macro environmental forces are complex in nature and interdependent.

Demographic Environment

Demographics is a branch of sociology that deals with the study of the characteristics of human population such as size, growth, density, distribution, gender, and marital status. Marketers are keenly interested in studying the demography, ethnic mix, educational levels, and standard of living of different cities, regions and nations because changes in demographic characteristics have a bearing on the way people live, spend their money and consume. For example, one of the demographic characteristics is the size of the family. With the number of small families increasing in India, the demand for smaller houses and household items has increased significantly. Similarly, the number of children in a family has reduced significantly over the years. Therefore, per child spending in a family has increased significantly. There is a great demand for designer clothes for children, which was almost negligible a decade back. As cities have become crowded and there is no space left for expansion, suburban areas are developing. This has led to an increase in the demand for automobiles to commute and the demand for stores in suburban areas.

As more and more women are taking up professions, the average income of the family is on the rise. As the size of the family has also decreased, the amount that can be spent on each person in a family has increased significantly. With the increase in their spending capacity, people are looking for more lifestyle products.

Consumer groups

Demographic variables help in distinguishing consumer groups, that is, people having homogenous needs according to their specific wants, preferences and usage rates. For example, teenagers usually have similar needs. Therefore, marketers develop products to target specific consumer groups. The youth are being targeted through advertisements and promotional campaigns, stores are being designed with 'youthful' features, youth events are being sponsored, and even new technology/design is developed with their tastes in mind. Consumer groups that attract the attention of marketers can be classified as:

Infants: The population of India is growing at an alarming rate. The rate of infant deaths has declined considerably due to the advancement in medicine and technology. Therefore, infants form a considerable part of the population. Although infants are consumers of products, their parents are the decision makers. As mentioned earlier, the size of a family is decreasing and the average income of a family is increasing. Therefore, the demand for toys, baby care products, clothes, and diapers is increasing. Consequently, many companies have entered into this lucrative market.

Children (School going – teens): In this segment, there is a great demand for school uniforms, bags, shoes, books, stationary, entertainment, confectionaries, food, record albums, bicycles and other teen-oriented products.

Young Adults: Marketers target the young adults in the age group of 19-30 years with products like motorbikes, music systems, clothes, fast food joints, and sports cars. Two-wheeler manufacturers in India target this segment of consumers. In the last two years, various players like Bajaj, Hero Honda, Kinetic, and TVS have introduced a large number of models to attract young adults. Table 3.1 provides a list of some of the models of bikes that exist in the Indian market.

Table 3.1: List of the various models of bikes in India

Bajaj Kawasaki Caliber	Yamaha RX 135
Bajaj Kawasaki Boxer	Yamaha YBX125
Bajaj 4S Champion	Yamaha RXZ
Bajaj KB 125	Rajdoot Excel-T
Hero Honda CD 100	Rajdoot Deluxe
Hero Honda Street 100	Rajdoot Standard
Hero Honda Splendor	Bullet STD 12V
Hero Honda CD 100 SS	Bullet 500
Hero Honda Sleek	Bullet Deluxe
Hero Honda CBZ	Enfield Diesel
Suzuki Max 100	Lightning 500
Suzuki Samurai	Machismo
Suzuki Shaolin	Machismo A350
Suzuki Max 100R	Taurus
Suzuki Shogun	

Source: http://auto.indiamart.com/motorcycles/index.html

Adults (35-50): Consumers, in this age group, are more health conscious, and look out for stability and financial independence. The industries that are benefited by them are, pharmaceuticals, personal products, fitness products, gym equipment, real estate, insurance sector, cars, home appliances, consumer durables, and banks. Marketers push products specifically designed for this age group. For example, Johnson & Johnson's Affinity shampoo is targeted for people over 40, and Revona, a face cream claims to help check fine lines or wrinkles, reduce hyper pigmentation and tactile roughness caused due to prolonged exposure to the sun.

Senior citizens: This consumer group boosts the demand for tourism, healthcare services, retirement housing, select skin care products, and financial planning. Companies like Tranquility and Pull-ups have come up with innovative products like adult diapers and plastic pants, wipes and mattress protectors for senior citizens with bladder and bowel problems.

Apart from age, other demographic factors that influence a marketer's decisions are:

Women: Women constitute nearly 50% of India's population. They are actively taking up professions. This shift in their role has generated a greater demand for childcare and convenience products that save time in cooking, cleaning, and shopping.

Companies like ITC, MTR, HLL, Tasty Bite, and others have come up with ready-to-eat food, such as precooked vegetables, chapatis, pickle, and rice, for the convenience of this group. Working women also influence organizational buying. Therefore, marketers are trying to come up with products that are easier to handle, less heavy and convenient to use.

The change in the role of women is paving the way for a change in the role of men. Advertisements portray men cleaning, cooking, and caring for their children, which was unthinkable in the past.

Singles: Nearly 305 out of every 1000 adults in India are singles and many plan to remain that way. This group includes single men and women, and divorcees. Spending habits of singles are quite different from that of couples and families with children. They prefer small apartments, less furniture, fewer and smaller appliances, and smaller packages of products, and tend to spend heavily on convenience food, restaurants, travel, and entertainment.

Occupation and Literacy: A literate customer is more demanding and conscious to advertising. The awareness level of both literate and occupational customers is relatively high. They gather information before making purchase decisions. For example, advertisements in magazines and newspapers create more demand for personal care products, clothing, and shoes. The growth of credit cards and ATM services are also examples of the impact of occupational customers.

Location: Geographical location is another vital element, which determines the demand for products. Brands, which are well accepted in one region, may fail at other places.

Exhibit 3.1

The American NRI

American NRIs, approximately 1.7 million, account for over a third of global NRIs. Merrill Lynch estimated that NRI's in the US made up 10% of the wealth market and 2,00,000 of them were millionaires with estimated assets of US $78 billion. The community is prosperous with an average household income of $67,000 annually and education rate of 57% which is well above the US average.

Marketers who could hardly distinguish an Indian from any other Asian have realized the buying power of Indians and are targeting this group. Companies like Merrill Lynch have a mandate from the senior management to build relationships with and secure Indian clients, specially, those with assets in the range of $2,50,000 to $5,00,000. Telecom companies like AT&T and Sprint are targeting Indians in a big way. Johnson & Johnson has launched its cholesterol reducing butter - Benacol - for the Indian consumers. Western Union is tapping the NRI remittance market by reducing its charges. It has expanded its network to 11,000 locations across the country through tie-ups with the Indian Postal service, Wall Street Finance, Karnataka Bank and Kuoni.

Metlife, an insurance company, has a sales force of 400 South Asians to cater to the needs of Asians. The company feels that customers tend to be more comfortable dealing with a familiar looking person. It makes a heavy use of Hinglish or Hindi in its print ad campaigns in publications like India Abroad, News India Times and Silicon India apart from regular newspapers. Advertising agencies like 1947 Kang & Lee advertising and ASB communications are focusing on the South Asian markets. Publications like the New York Times are also targeting Asian Indians as readers.

India related events are catching up in various metropolitan cities across the world and big companies are readily sponsoring such events.

Adapted from Nazneen Kamrali, "Doing the Desi Thing", Business India, 12-15 May 2003.

Cultural diversity: As a result of liberalization of economies and globalization, people from various parts of the world work in an organization. Hispanics, Asians, Latino, and American Africans constitute a significant part of the US population. People with different cultural backgrounds have different needs, wants, tastes, and preferences. The consumption habits of people, to a large extent, depend on their cultural backgrounds. Millions of Indians living in Singapore, Mauritius, Middle East, Australia and other parts of the globe have attracted the attention of marketers. Exhibit 3.1 shows how a vast minority, the Indians, have caught the attention of marketers in America.

Political Environment

Government policies shape the economic conditions and trade relationships and are influenced by the political environment. Government policies influence the marketing decisions and strategies of a firm. Many marketers view the political environment as uncontrollable and try to adjust their strategies accordingly, while others seek to influence the political forces. Organizations should closely monitor the political environment of the countries in which they operate or are planning to operate. The political stability of a country affects the level of investment in it. Foreign investment is lower in less stable countries. Recently, bills have been passed in many US states to curb or ban outsourcing of jobs to the Third World countries. This step has adversely affected the companies operating in countries like India. Similarly, Coke was moved out of India in 1977 due to political pressure on it.

Organizations try to maintain good relations with elected political officials because of the following factors: (a) politicians are less likely to vote for laws that negatively affect the firms that support them, (b) politicians exercise power over trade relations and they can create a favorable environment for international trade, and (c) they influence government spending and can help in acquiring trade contracts.

Domestic politics

Organizations help in electing politicians to power by endorsing candidates who support their industry, funding election campaigns and sometimes run political ads for them. A company may contribute to more than one party at a time.

Marketers try to influence domestic politics and lobby against proposed laws that can harm their business or lobby in favor of revising the existing laws that can create opportunities for the business. Businesses try to safeguard their interests by applying economic pressure. For example, all GSM mobile service providers lobbied in 2003, to influence the decision of the Ministry of Communication to provide a level playing field. In their opinion, Reliance was providing roaming facilities with CDMA technology although it did not pay a licensing fee for different circles while all GSM mobile payers paid a separate fee to operate in different circles.

International politics

International politics plays a vital role for multinational corporations (MNCs) and exporters. MNCs try to influence foreign politicians and governments through their domestic governments. For example, AT&T and IBM employed full-time lobbyists to gain Japanese government contracts.

Trade alliances between countries create ample opportunities for marketers to venture into new regions. For example, Russia, Ukraine, Kazakhstan and Belarus signed an agreement, on September 19, 2003, to form a Single Economic Zone that removed the barriers for customs union, encouraged free movement of goods, capital, and labor, and helped in developing a common tax, monetary and foreign trade policy. In India, the Union cabinet approved a framework for trade agreement with Mercosur – alliance of Argentina, Brazil, Uruguay and Paraguay on June 5, 2003, in a move

Exhibit 3.2

Impact of War on Indian Tea

India has been one of the largest growers and exporters of tea in the world market. As India exports approximately 23% of its total tea exports to Iraq, it is one of the key markets for exports. During Jan-Nov 2002, CIS, Russia and Iraq purchased 52 million kgs, 40.22 million kgs and 40.25 million kgs respectively. According to NK Das, Chairman Tea Board of India, Iraq has been one of the important tea markets for India, with exports increasing substantially.

The outbreak of war in Iraq created an uncertainty in the Indian tea industry. The consignment shipped in March 2003 consisted of only 19.5 million kgs. The decline in tea exports is a major concern for tea exporters and experts believe that the post war scenario will determine the fate of Indian tea in Iraq.

Adapted from Ishita Ayan Dutt, "Iraq War Kills Key Market for Tea Exporters", Business Standard, 1 April 2003.

towards preferential trade agreement now and free trade agreement in the future. The cabinet also cleared a memorandum of understanding with Sri Lanka to start a ferry service between Tuticorin and Colombo.

Political unrest in a country is a major concern and business is adversely affected by an outbreak of war. Companies are forced to postpone or drop major decisions due to such events. The recent war in Iraq affected the post war planning of many companies in the US, with senior managers fearing that political anti-Americanism abroad may turn into commercial anti-Americanism. The Indian tea business has been severely affected by the Iraq War (see Exhibit 3.2 for details).

Economic Environment

The economic performance of a country is measured by its Gross Domestic Product (GDP). The gap in GDP between rich and poor countries has increased primarily due to higher population growth in poor countries. Purchasing power parity (PPP) is used to compare incomes across nations. The PPP takes into account the cost of standard basket of products (in US dollars) for each country but does not consider the subsidies provided by a government for essential goods like food, agriculture, utilities, and medical care. The PPP analysis helps in determining the relative purchasing power of two countries. The higher the PPP of a country, the more buying power it enjoys.

General economy

Economic forces have an impact on both the marketers and customers alike. Customer buying trends reflect the general economic condition. Companies that seem to be doing well can suddenly vanish overnight due to economic recession, especially, those companies which produce non-essential goods and services. Sales are likely to shoot up during economic growth. Fluctuations in an economy generally follow a pattern of growth, recession, depression and recovery. This pattern is known as a business cycle.

Business cycle

A business cycle consists of fours stages depending upon the economic activities in a country. They are:

Growth/Prosperity: In this stage of the business cycle, the employment rate is high, interest rates are low, inflation is low, and income is high. Consequently, customers spend more to fulfill their needs and wants. The perception of customers that the economy is growing gives them the confidence to spend more because they do not foresee any economic problem in the near future. Marketers try to cash in during this stage by expanding the product offering and increasing their distribution, promotional budget, and setting a higher price to the product.

Recession: In this stage of the business cycle, jobs are slashed and consequently the willingness of people to spend money decreases considerably. Customers' buying decisions depend more on price because they are apprehensive about the future economic conditions. Some companies reduce the prices of their products significantly. To reduce the prices, they need to reduce their costs. Therefore, they reduce the number of employees and their marketing efforts, which can be suicidal at this stage. Instead, they need to increase their marketing efforts by developing innovative promotional strategies. They need to conduct marketing research to identify the functions/value the customers are looking for in the product and product design, which is likely to increase the interest of the customers.

Depression: A state of intense recession is known as depression, where the rate of unemployment is very high, wages are very low, Gross National Product (GNP) drops and customers lack confidence in the economy. The government uses various measures like the monetary policy (controlling the money supply) and fiscal policy (controlling savings and expenditure through tax structure and government spending) to eliminate the effects of recession and depression. The US economy, for example, faced a state of depression from 1927 to 1933. During this period, the GNP dropped to $56 billion and unemployment soared to 25%.

Recovery: The stage where the economy moves from recession or depression to growth. The high unemployment rate begins to decline, purchasing power increases and the unwillingness to buy reduces slowly. Businesses and customers begin to gain their lost confidence in the economy. However, business firms remain apprehensive at this stage about how fast the economy will recover. Marketers need to take extra care in devising their strategies during this stage.

Buying power

The buying power of a person depends upon the availability of financial resources and the state of the economy. Fluctuations in the business cycle affect price level and interest rates. For example, when inflation rises, the prices of goods and services, in general, also increase. Therefore, a person is able to buy fewer goods and services if his income is constant. In other words, his purchasing power decreases. Marketers need to study the fluctuations in the economy to understand the fluctuations in the demand for their products, and develop appropriate strategies.

Financial sources

The major financial sources of buying power can be classified as:

- Income: The income of an individual refers to the total amount of money earned by him over a fixed period of time. Various sources of incomes are wages, rent, investment, dividends, and salary. Income is subdivided into (a) Disposable income: The income left to consumers after tax is called disposable income. It decides the buying power of consumers. (b) Discretionary income: The income left after purchasing the basic needs is known as the discretionary income. Customers use this for savings or purchasing non-essentials like consumer durables. Change in the discretionary income will affect the sales of durables like appliances, furniture and automobiles. Therefore, marketers need to pay a closer attention to the changes in the income levels of potential customers.
- Credit: Credit is obtained from financial institutions, banks, credit card providers and stores. Customers' inclination to use credit depends on their disposable income, the interest rate, size of down payments and monthly installments. Marketers can lure customers to use credit by offering them attractive rates and payment plans.

- Wealth: It refers to the accumulated money of individuals, a group of individuals, or organizations. Wealth can be generated through savings, inheritance, gambling, gifts, and theft. It can also be in the form of shares and bonds, property, jewelry, and antique collection. Wealth increases the buying power of a person.

Willingness to spend

Willingness of a customer to spend depends on his buying power and the prevailing and expected economic conditions. For instance, when the income of individuals increases or when government subsidies increase, people come forward to make investments and their willingness to spend increases. Anticipated product shortage and fear of price hikes also increase the willingness to buy, but for a short period of time. On the other hand, a high rate of unemployment, attrition, or expected attrition, reduces the willingness to buy.

Marketers must study consumers' willingness to spend their money. Sometimes, when the price of a substitute product decreases, customers' willingness to spend money on a company's product decreases.

Socio-Cultural

Socio-cultural forces refer to the attitudes, beliefs, norms, values, and lifestyles of individuals in a society. These forces can change the market dynamics and marketers can face both opportunities and threats from them. For example, as the lifestyles of people have changed significantly in the last one-decade, with both husband and wife in a family earning, the market for readymade foods and garments has increased significantly. Similarly, if both the partners are earning, the time they spend on shopping is reduced significantly. This has given a boost to shopping malls, supermarkets, and hypermarkets where such individuals can get everything under one roof, and their time can be saved. Similarly, the average income level of a family, in general, has gone up and the dependents, that is, the number of kids in a family has reduced to one or two. Therefore, parents now spend more on their kids, because even if the total amount that they spend on their kids is same, they can spend more on each kid compared to when there were more kids.

Changes in the lifestyle of people affect the marketing environment. As health problems in people have increased primarily because of significant changes in their lifestyle, they have become concerned about their food. They prefer to eat low fat, low or no cholesterol food. This is especially true for people above 40 years. To a great extent, social forces determine what customers buy, how they buy, where they buy, when they buy, and how they use the products.

Technology

Technology is regarded as the use of scientific knowledge and tools to solve specific problems and perform tasks in an effective manner. Technology can be regarded as both beneficial as well as dangerous for the very existence of mankind depends on the use or abuse of technology.

Today, technology guides the way we lead our lives. For instance, our eating habits, sleeping patterns, health care, and work style, are all influenced by technology. With the advent of the Internet, people can work from their homes at their convenience or a remote location using a computer. Advancement in technology has a direct impact on economic growth, and businesses that ignore or do not keep pace with technological advancement often fail to survive in the market. Therefore, it is important for marketers to know the type of technology used, level of technological development in the country in general, type of R&D used by the company and its competitors, speed with which technology is adapted and disposed.

Impact of technology

Technology has a major impact on businesses. Business functions that are directly influenced by technology are listed below.

Product: The research carried out by a company, which gives birth to technology, can either help it improve the product design, reduce the cost of manufacturing the existing products or come up with a new product. For example, the technology developed by Microsoft, Windows, has changed the way the world uses personal computing and millions of people use the software. The use of automated systems in designing products has brought about a radical change in the manufacture of products. Banks have benefited from rapid technological developments. Six years back, the banks, which offered Automated Teller Machine (ATM) services to their customers, enjoyed competitive advantage. As almost all banks are now offering this service, it has become a standard feature of a saving account. This shows that technology is changing rapidly and the cost of technology is coming down significantly. Six year back, the cost of an ATM machine was around Rs 25 lakh. Now, it costs only Rs 8 lakh (approx). In the consumer-goods segment, video games emerged as a substitute for traditional toys and outdoor games. Today, companies are using 3Ds to develop video games. It was unthinkable even a few years back that complex games could be played on PCs. However, they have become reality now and companies like Sega, Sony and Microsoft have launched their products – Dream Cast, Play Station and Xbox respectively. Technology assessment helps marketers study the effects of new products and processes developed by them on their firm, rival firms, and the society in general.

Price: As the technology is available at cheaper rates, more and more businesses are adapting it fast. Therefore, it has helped companies reduce the costs of their products and business processes, which in turn, help them reduce the price of the products. For example, computers have replaced calculators, enabling marketing managers to manage supply, forecast demand and establish prices. The use of computers in a supermarket reduces human errors and improves customer service.

Promotion: Technology has revolutionized the way we communicate with a vast number of people, buyers and distributors through various media like the e-mail, voice mail, cell phones, and fax machines. Stores and supermarkets tie up with phone providers to promote them. For example, Tata Mobitel offers its customers the opportunity to download discount coupons for various products. Similarly, Hutch Cellular and Reliance Infocom have provided discount coupons for various products in select stores, with their services. The advancement in technology has reduced the time for transmission of data helping business firms to obtain a competitive advantage over other firms.

Advertising: Technological advancement has brought about a significant change in the way businesses advertise. Creative ads can be developed in a short period of time with the help of technology. The advancement in technology has led to the growth of a new business, that of ad agencies, which specialize in creating ad copy and ad design, as well as act as a medium between the client and the publication. All big companies have an account with an advertising agency. Table 3.2 shows some major advertising agencies and their clients.

Table 3.2: Select ad Agencies and their Clients

Name of the Agency	Name of the client
FCB Ulka	IBM
Madison Media	Britannia’s corporate advertising
Lowe	Vim

Leo Burnett	LaOpala
O&M	BSA Bicycles
RK Swamy/BBDO	Raymonds (blankets)

Source: http://www.agencyfaqs.com/cgi-bin/search/search.pl and http://www.agencyfaqs.com/news/stories/2003/07/17/6636.html

Companies can use the services of different agencies to handle the various products offered by them to the market. For instance, MUL accounts are handled by: Lowe – Alto, Baleno, Esteem, Omni and Versa, Hakuhodo Percept – Maruti 800 and Zen, Capital advertising – True value (auto finance), corporate advertising and N2N (fleet management services), Contract – Grand Vitara and Wagon R.

Apart from entertainment, radio and television provide a vast media for advertisements. Although the shelf life of commercials is reasonably small, the jingles and bylines are etched on individuals' memories soon. For instance, the words 'it's the coolest one' reminds most people of Kelvinator refrigerators. The cable network has brought with it the convenience of home shopping or shopping by TV, which has increased the medium for advertisements.

Distribution: Technological advancement in the transportation industry has helped in bringing markets closer. Customers can travel from one place to another. People from rural areas can easily travel to urban areas to make purchases. A salesperson can access the company's database through the Intranet and provide valuable information to a client about the price, order processing or status of stock. This saves time and increases customer satisfaction.

With the advancement in technology, manufacturers can deliver their products to retailers and wholesalers more quickly and in cost effective manner. For example, transit companies like UPS and FedEx promise to deliver light-weight products within twenty four hours via their overnight carriers.

Natural

It is man's duty to maintain the ecological balance. Technological developments have led to ecological imbalances. Examples are, global warming, Ozone layer depletion, and increase in harmful gases due to pollution. Many companies have now realized their responsibility towards maintaining the ecological balance. Refrigerator manufacturing companies are indicating on the packaging that their products are CFC (Chloro Fluoro Carbon) free.

Resources: Organizations consume natural resources for the production of goods and services. Sometimes, companies locate their production plants near the natural resources because the transportation costs may increase the overall cost of their products. Companies now realize that natural resources are limited and they need to be consumed judiciously. Otherwise, they will deplete fast. Therefore, some companies are demarketing their products. For example, Indian Oil Corporation tries to reduce the demand for its products by airing ads like "Save oil – save India".

Weather: Weather and climatic conditions create opportunities for marketers by increasing the demand. During summer, the demand for water coolers, air conditioners, cotton clothes, water, soft drinks, and ice creams goes up. Likewise, in winter or relatively cold regions, the demand for room heaters, woolen clothes, and spicy food is more. In regions like Delhi where the weather is cold in winter and excessively warm in summers, demand for seasonal products is significant. When organizations move to other countries, weather and climatic conditions require product modifications.

Pollution: Industrialization brought with it the hazards of pollution, air, water, noise, bio non-degradable wastes, and CFC, causing environmental degradation. Individuals, in general, are realizing the ill effects of environmental degradation and are using environment friendly products. They are using recycled paper, paper bags and gunny bags instead of polyethylene bags.

Government intervention: The policies of government, regarding the natural environment varies from one nation to another. Some countries restrict the import of goods that cause ecological damage. For example, the exports of countries like India has been hit by the policy of the US government to ban the import of shrimp that has been harvested without the use of turtle excluder devices.

The ninth Five-year plan, which lasted till 2002, stressed on the need for "environmental sustainability of development through social mobilization and participation of people at all levels". It focused on creating an information base, spreading environmental awareness and education, and networking the existing institutions for identifying pollution sources and prevention of pollution. The central government has set up a national environment appellate authority and created a national environment fund to support environment projects in the country.

Legal

The laws and regulations of a country have a major impact on the way a company conducts its business. Marketing activities in particular are greatly influenced by legislation. Ignorance of law is considered no excuse. Therefore, marketers must be updated with the important rules, regulations and Acts that have a significant effect on their businesses. Important legal Acts with regard to India are given below in Table 3.3.

Table 3.3: Important Legal Enactments in India

Name of the Act	*Year*
Prevention of Food and Adulteration	1954
Drugs Control Act	1954
Company Act	1956
Standard Weights and Measurement Act	1956
MRTP – Monopoly and Restrictive Trade Practices	1969
Display of Price Order	1963
Indian Patents Act	1970
Packaged Commodities (regulation) Order	1975
Consumer Protection Act	1986
Water (Prevention and Control of Pollution) Act	1974
Air (Prevention and Control of Pollution) Act	1981
Environment (protection) Act	1986

Consumer protection

The Consumer Protection Act came into force, in India in 1986 to safeguard the interest of consumers. The consumer protection law is applicable to the whole of India except Jammu and Kashmir.

A consumer can seek legal help when:

a) A trader adopts unfair trade practices or restrictive trade practices.

b) Goods suffer from one or more defects.

c) A trader charges a higher price, which is more than the fixed price of the product.

d) Services hired or availed suffer from deficiencies.

e) Goods that can be hazardous to life and safety are being offered to the general public for sale, against the provisions of any law.

State regulatory agencies

State governments pass laws and regulations for production, promotion, and sale of goods and services. They ensure that the laws enforced by them are not contradictory with the laws and regulations passed by the Central government. State governments have their own regulatory agencies to enforce laws and regulations and regulate the marketing activities of the firms operating within their jurisdiction. The common targets of the state regulatory agencies are liquor industries, financial institutions, and food and drug industries.

Non-government regulatory agencies

A number of trade associations form their own regulatory agencies to check their trade practices and avoid government intervention. Sometimes, these trade associations establish ethical codes and expect members to abide by the codes or risk exclusion. Trade associations can have a significant impact on the marketing activities of a firm. For example, Insurance Council is a non-government regulatory body in insurance industry. It complements the role of Insurance Regulatory and Development Authority (IRDA). It is involved in developing code of conduct and development of sound practices in rendering efficient service to customers, informing IRDA about insurers not acting in the interest of policy holders, advising the IRDA on admissible expense ratios, etc.

INDIAN BUSINESS ENVIRONMENT AND MNCs IN INDIA

If we compare the foreign direct investment (FDI) in India with that in China, India received just $2.3 billion in comparison to $52.7 billion FDI in the year 2002-03. The difference in the investment shows the reason for more multinationals in China than in India. However, the comparison between the Indian and Chinese economies is always debatable.

Countries have realized the need for private capital and are taking various steps to attract FDI. The World Trade Organization and regional trade associations help in removing trade barriers between nations and speed up the liberalization process. The industrial policy statement of 1991 advocates that while freeing the Indian economy from government control, steps should be taken to utilize foreign investments. Economies that have liberalized are gaining favorable FDIs. For example, India has been successful in attracting FDI through Korean electronic goods industry (Samsung and LG) and business process outsourcing. India has also invited foreign investments in key industries like power and telecom.

Reforms in government policies like the removal of FERA and liberalization of economy have paved the way for the entry of MNCs into India. MNCs found the vast untapped Indian market lucrative as they could invest up to 51 percent or more in their enterprise or Joint ventures. The companies that have invested 51 percent or more capital in their Indian enterprise are Unilever group, Cadburys, Singer, P&G, Merck, Philips, Kinetic Honda, Coats, and Pepsi Foods. Certain companies entered the Indian market through joint ventures. For example, General Motors (GM) set up a joint venture with Hindustan Motors to launch Opel Astra, Ford set up a joint venture with Mahindra & Mahindra to launch Escort and Fiesta.

Several MNCs have entered the Indian market either in alliance with local companies or through fully owned subsidiaries, for example, McDonald's, Wimpy, and Kellogg's. Some companies like IBM and Coca-Cola re-entered the Indian market. While some others, like L'Oreal, Maybelline, Amway, Oriflame, and Baskin-Robbins entered India for the first time. MNCs help in improving technology through technology transfers. When they open their manufacturing facilities in India, they not only bring the latest technology with them but also increase the employment in the country. MNCs help in national human resource development through training their employees in the host country. There has always been an apprehension in the minds of Indians that the MNCs will repatriate money to their home country. However, a research shows that the consumption of inefficient Public Sector Undertakings (PSUs) is more than the Indian fiscal deficit. Therefore, the role of MNCs in developing the economy is more important than repatriation.

SUMMARY

The business environment changes continuously and businesses need to adapt to it to sustain and prosper. Changes in the environment can be monitored through environmental scanning and environmental analysis. Firms perceive competition as an important component that affects their marketing activities. The number of firms in an industry affects the level of competition. The various types of competitive structures are monopoly, oligopoly, monopolistic, and pure competition.

Marketing activities of a firm, are influenced by both the internal and external environments. A firm can control internal forces to a greater extent, while external forces are uncontrollable and the firm has to adjust or manipulate its activities to survive in the market. The internal forces include vision, mission, values, culture, and employees.

The external environment can be divided into the microenvironment, which consists of suppliers, marketing intermediaries, and customers, and the macro-environment, which consists of the demographic, political, economic, socio-cultural, technological, natural, and legal environments.

Demographic variables help marketers analyze the market, because changes in demographic characteristics have a bearing on the way people live, spend their money and consume. Marketers can also divide customers in various groups on the basis of demographics such as infants, children, young adults, adults, women, senior citizens, singles, location, occupation and literacy and cultural diversity.

Government policies influence the marketing decisions and strategies of a firm. Government policies shape the economic conditions and trade relationships and are influenced by the political environment. Political environment consists of domestic and international politics. Customer buying trends reflect the general economic condition. Fluctuations in an economy generally follow a business cycle, which consists of growth, recession, depression and recovery. Socio-cultural forces refer to the attitudes, beliefs, norms, values, and lifestyles of individuals in a society. These forces can change the market dynamics and marketers can face both opportunities and threats from them. Technology had made significant impact on the consumer buying behavior and marketers. Marketers can offer better marketing mix to their customers with the help of technology. Technological developments have led to ecological imbalances. Many companies have now realized their responsibility towards maintaining the ecological balance. Natural environment consists of resources, weather and government intervention. The laws and regulations of a country have a major impact on the way a company conducts its business.

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Chapter 4

Marketing Budgets and Costs

In this chapter we will discuss:

- Marketing cost analysis
- Customer profitability analysis
- Budgeting for the sales force department
- Production and efficiency

A major retail businessman, John Wanamaker, the pioneer of department stores in the US, once said, “I know that half of my advertising budget is wasted. The problem is that I don’t know which half.” Even after 100 years of this statement being made, businessmen are struggling across the globe to budget their marketing activities and are still facing the same question: ‘Which half of their marketing expenditure can they cut?’ Budgeting and cost estimation for marketing programs is a tedious task. Marketing plans are developed to provide guidance and direction to marketing managers. Cost estimation is essential to measure the performance of the marketing plans. It helps marketing managers allocate resources accordingly. Some managers believe that the effectiveness of marketing plans depends upon the amount of money spent on them. However, this is more of a myth.

Companies increase their expenditure on marketing when the economy is growing. However, when economic conditions are gloomy, businesses need to reduce their marketing budgets and this can be a very difficult task. For example, marketing budgets across the globe also came down as a result of the September 11 terrorist attacks on the US.

As controlling and corrective actions are essential for the success of a marketing program, companies use ratio analysis as a control device in addition to variance analysis. Ratio analysis uses certain ratios to measure the effectiveness and profitability of the various marketing activities. Marketing cost analysis reveals absolute figures, whereas ratio analysis focuses on relative figures and is therefore used for comparison with industry norms.

Productivity can be considered at either a macro level (i.e. in relation to the entire industry) or at a micro level (i.e. in relation to particular firms or in relation to particular activities within firms). At its simplest, productivity can be conceived of as the relationship between output and input. Considering this aspect, we will discuss economies of scale, learning effects and the experience curve in relation to production and efficiency.

MARKETING COST ANALYSIS

Marketing cost analysis began in 1924. The US government, realizing the importance of marketing, set up the Domestic Commerce Division in the Department of Commerce. The surveys conducted by this division revealed that marketing costs were affected by the number of customers and the overall size of the product line and inventory. This research proved that product and customer cost analysis helped marketing managers in effective decision-making and allocation of resources. Later on, further improvements in the marketing cost analysis were made. These improvements were in the form of analyzing the marketing costs that were incurred on various marketing activities and helping companies allocate a base for developing and planning marketing efforts. Another improvement was made in the approach to marketing cost analysis by integrating the evaluation process of the customer and product profitability. Marketing costs can be divided into two categories. One category is closely associated with product characteristics such as inventory handling, advertising, investment, etc. The other is associated with customer characteristics and customer activities such as personnel selling, billing, order processing, credits, etc. Integrating the customers and products gave rise to the selection of an effective basis for allocation. It provided a basis for developing the budget and controlling measures for marketing efforts.

Importance of Marketing Costs Analysis

It is very important for marketers to conduct a marketing cost analysis, since it provides them with an estimate of the extent of profits that each product line brings to the company. But they fail to estimate the unprofitable customers, products and markets. A detailed analysis of marketing costs is essential to accurately estimate the profitability of customers and products. Marketing costs are defined as costs that are incurred after the products are made available for sale. Since marketing costs are not recorded in inventory costs, they often remain as hidden costs. If the marketing efforts are shifted from unprofitable accounts to profitable ones, then marketing costs can be significantly reduced. In fact, an American company followed this and reduced its marketing costs from 22.8 per cent to 11.5 per cent of sales.

An awareness of the profitability of various marketing activities helps the management to boost sales. The management can also keep track of marketing activities and control them effectively. Activities which are not profitable can be stopped or revised. The management can also calculate the variance between the actual and the budgeted costs. This information will help it estimate marketing costs as realistically as possible in the future.

Steps in Marketing Costs Analysis

1. The first step in marketing cost analysis is to divide various costs into fixed, variable, and semi-variable costs. Fixed costs are those that remain constant irrespective of changes in the volume of sales. Variable costs are those that change according to changes in the total sales volume. However, there are certain costs, which are difficult to categorize as fixed or variable. They usually remain fixed in the short-term but are variable in the long-term. Division of marketing costs into fixed or variable costs helps analyze and decide whether to add or drop a product line, customers, or a distribution channel.
2. After the classification of marketing costs, they can be assigned to the different divisions of the business for which they are being spent. In the regular accounting process, these expenses are categorized under the full cost basis. But, the marketing costs have to be classified under the functional cost groups. The functional expenses statement normally identifies the problem areas in the marketing costs. For instance, a company realized that its delivery costs were about 28 percent of the total marketing costs.
3. Periodicity of marketing cost analysis should also be decided because periodical analysis helps a company check and control its marketing expenses.

Full Costs versus Contribution Margin Approach

In marketing cost analysis, there are two methods of allocating indirect expenses. They are full cost approach and contribution margin approach. In the full cost approach, the net income is calculated by deducting the direct and indirect expenses from gross margin (Gross margin = Sales – Costs of goods sold).

In the contribution margin approach, the net income is calculated by deducting direct expenses from the gross margin. Therefore,

Contribution margin = Gross margin – direct expenses

It indicates the amount available to overhead and profit. The contribution margin approach highlights the behavior of controllable costs and pinpoints the contribution of each segment towards profits and indirect fixed costs. This technique helps the marketing managers analyze the efficiency of marketing programs and also the profits accrued on different products, segments, distribution channels, types and number of customers, and so on. The contribution margin approach helps the management to assess the profitability of a specific marketing mix in a specific area and also to determine whether an action is required to change it.

Exhibit 4.1

Implications of Customer Profitability

The following incident shows how important it is measure the profitability of a customer. A credit card customer applied for an increase in his credit limit from $2,500 to $5,000. However, the banker did not extend this limit because the customer lived in a rented house, had a new address and had rarely used the card in the past. As a result, the enraged customer closed all his accounts worth $170,000 in deposits. This happened because the bank failed to recognize the profitability of the customer. The entire analysis of the bank was focused on product decisions rather than on the customer's perspective.

Later, the issues which resulted in the refusal of his credit limit enhancement were clarified. The customer had recently lost his wife and was planning to use the higher credit limit for some traveling purposes. He was living in a rented house because he had recently sold his house and was in the process of constructing a smaller one. But, the bank did not investigate these issues before taking the decision and it cost the bank dearly.

Adapted from Charles Keenan, "Measuring the Stakes in Tracking Customer Profitability," Community Banker, February 2004, Vol 13, Issue 2, p22, 5p.

CUSTOMER PROFITABILITY ANALYSIS

Marketers are increasingly aware of the fact that along with managing their product portfolio, they also need to manage their customers. Apart from measuring the profit and loss impact of products, brands and distribution channels, companies are also measuring the profitability of each customer. In today's competitive business environment, customer profitability analysis has become a crucial and strategic tool for companies. The failure to measure customer profitability can have adverse effects. Exhibit 4.1 shows how a bank lost a very profitable customer by not analyzing his profitability. Customer profitability analysis is carried out with the help of customer and operational data by using specialized analytical techniques and advanced software technology. Customer information system (CIS) is a database that contains specific information about the behavioral and transactional aspects of each customer. This CIS database becomes very crucial for determining the profitability of each customer. For instance, in a call center, highlighting the profitable customers on the screens of the customer care executives can help them decide how much time and energy to spend in attending the calls of such customers. This process thoroughly analyzes the revenues of the company to identify the profit contribution of a customer. This analysis contradicts the traditional perception that 80 percent of the profits are derived from 20 percent of the customers. Instead it states that 10 to 20 percent of the customers contribute three to four times of the overall profitability of any given customer segment. For instance, in the United Kingdom, British Gas found that 10 percent of its customers were the most unprofitable due to their consumption patterns, high cost to service, unpredictable payment methods and their tendency to switch frequently. The company also found that the top 20 percent of the customers were 40 times more profitable than the bottom 20 percent. The goal of this analysis was not only to identify whether a customer was profitable but also to devise strategies to make each customer more profitable.

Steps in Customer Profitability Analysis

Businesses can be successful only with a better understanding of customer profitability. There are certain steps that should be followed to effectively analyze the customer profitability.

Step One: The product and service profitability of a company can be measured by including all the costs that might be incurred. These costs could be the operating expenses, the capital expenditure and so on. The company can arrive at an economic profit only after deducting such costs.

Step Two: After estimating the actual economic profitability of the products and services, managers should determine the profitability of the customers by observing which products customers buy. Some may buy highly profitable products, while others may buy unprofitable products. The manager gains an insight into customer profitability by observing customers. Collecting information on the purchases of customers is easy if the customers buy through a recordable format such as credit cards. Identifying customers who buy through cash and do not take bills is a difficult process. However, investigating the customers purchase patterns even through samples is beneficial for the company.

Step Three: Costs that are customer specific should be deducted from the customer profitability. Customer profitability does not merely involve what customers buy; it also involves customer behavior. For instance, some customers may be very profitable by paying their bills on time, while others might delay payment for a substantial period. Collecting data regarding the behavioral and purchasing patterns of customers is easy for industrial marketers, since they deal with a small number of customers. However, collecting data from mass markets is very difficult due to the large number of customers involved. However, studying these patterns even on a sample basis provides significant insight into the profitability of customers.

Step Four: Until stage three, all the costs have not been included. There are certain overhead costs that are incurred by the company such as traveling expenses of the top management, capital expenditure on the building of headquarters and so on. These costs must be included while arriving at customer profitability. Although it is usually believed that in an established company, only incremental costs should be established, while examining customer profitability, this argument is not valid. Let us assume that a company loses its biggest customer who covers the maximum chunk of the fixed costs. In the absence of this customer, the profitability of all the other customers is adversely affected. Therefore, it is essential to include all the costs while calculating customer profitability.

Financial Situation Analysis

Financial measures are used to analyze the current situation of an organization and ratio analysis is one of the widely used tools for financial situation analysis. However, when financial ratios are used, they should be calculated at least for a period of three years to get a better understanding of a situation and avoid any extreme observations.

Financial Ratios

Managers need certain yardsticks to analyze the financial condition and performance of a company. The yardstick that is normally used is called a ratio. Though there are numerous ratios, five main categories of ratio which help analyze the financial performance of a firm are discussed below.

1. Liquidity ratios
2. Debt ratios
3. Profitability ratios
4. Coverage ratios
5. Market-value ratios

Table 4.1: Financial Ratios

S No	Type of Ratio	Formula	Description
1 Liquidity Ratios	Liquidity ratios are used to assess a firm's capability to meet short-term obligations.		
	Current Ratio	$\frac{\text{Current Assets}}{\text{Current Liabilities}}$	This ratio reflects a firm's ability to meet its current liabilities based on its current assets. However, it does not take into consideration the liquidity of the individual components of the current assets.
	Quick Ratio	$\frac{\text{Current Assets - Inventories}}{\text{Current Liabilities}}$	This ratio is similar to current ratio. But, in this ratio, inventories are subtracted from the current assets because it is believed that the liquidity of inventory is very low.
	Average Collection Period	$\frac{\text{Receivables} \times \text{Days in a Year}}{\text{Annual Credit Sales}}$	The average collection period is used to calculate the liquidity of the receivables. The average collection period shows the average time in which the receivables can be converted into cash.
	Inventory Turnover Ratio	$\frac{\text{Cost of Goods Sold}}{\text{Average Inventory}}$	Generally, the higher the inventory turnover ratio, the greater the efficiency of the inventory management of a firm.
2 Debt Ratios	Debt ratios are used to calculate the long term liquidity of the firm.		
	Debt-to-Equity Ratio	$\frac{\text{Total Debt}}{\text{Shareholder's Equity}}$	Debt-equity ratio measures the financial leverage of a company. When it is high, it shows that the company is aggressively financing its growth from excessive debts. In such a case, earnings become volatile because of high interest rates.
	Long Term Capitalization	$\frac{\text{Long - Term Debt}}{\text{Total Capitalization}}$	Long-term capitalization represents all long-term debts, preferred stock and share holder's equity. It determines the relative importance of long-term debts in the capital structure.
3 Coverage Ratios	Coverage ratios depict a firm's ability to service its financial charges.		
	Interest Coverage Ratio	$\frac{\text{Earnings before Interest and Taxes}}{\text{Interest Charges}}$	Interest coverage ratio measures the number of times a firm can meet its interest obligations from its earnings before interest and taxes. A lower interest coverage ratio reflects a higher debt burden on the company.
	Cash Flow Coverage of Interest	$\frac{\text{Earnings before Interest, taxes, Depreciation and Amortization}}{\text{Annual Interest Charges}}$	Cash flow coverage of interest ratio measures the extent of coverage of interest charges from the cash flow.

4 Profitability Ratios Profitability ratios are classified into two types: ratios showing profitability in relation to sales and those showing profitability in relation to investment. These ratios in combination show the firm's efficiency of operation.			
	Gross Profit Margin	$\frac{\text{Sales - Cost of Goos Sold}}{\text{Sales}}$	The gross profit margin shows the efficiency of operations of a company.
	Net Profit Margin	$\frac{\text{Net Profit after Taxes}}{\text{Sales}}$	The net profit margin shows the profit that a company is making on every one rupee sales.
	Return on Equity	$\frac{\text{Net Profit after Taxes - Preferred Dividend}}{\text{Shareholder's Equity}}$	This ratio gives us the earning power on the shareholder's book investment and is generally used to compare two or more firms in an industry.
	Asset Turnover Ratio	$\frac{\text{Sales}}{\text{Total Assets}}$	It indicates the sales generated for every rupee of assets.
5 Market Value Ratios			
	Price/Earnings Ratio	$\frac{\text{Share Price}}{\text{Earnings per share}}$	It shows how many times in relation to a company's earnings an investor is paying.
	Dividend Yield	$\frac{\text{Dividend per share}}{\text{Share Price}}$	It indicates the income generated by the company's stock.

These ratios cannot individually provide a complete picture of the financial condition of an organization. Therefore, it is necessary to analyze a group of ratios to understand the overall financial picture of the organization. These ratios, when properly assessed, give a better understanding of the financial situation and the performance of the firm. They are normally used to measure past performance and also to predict future trends in the firm. They are also used to compare the firm's performance with that of other firms in the industry. Some of these ratios have been described in Table 4.1.

Contribution Analysis

Contribution analysis deals with techniques for determining profitability at the market segment level, the product level, the distribution level and the customer level. Many organizations use limited factor contribution analysis, which takes into account the contribution of each factor such as the contribution per labor hour, the machine hour, and so on. This analysis provides some important insights into business strategies. Limited factor contribution analysis offers accurate information on profitability as a percentage of revenue.

The contribution margin is equal to sales minus the variable costs. It represents the amount of money available for covering fixed costs. Net income refers to the contribution margin minus the fixed costs. An illustration of a contribution margin analysis is given in Table 4.2. In this example, product X is generating a positive contribution margin. If product X were eliminated, Rs 50,000 of the net product income would be lost and the remaining products would have to cover the fixed costs not directly traceable to them. If the product is retained, the Rs 50,000 can be used to contribute to other fixed costs and/or the net income.

Table 4.2: Contribution Margin Analysis

Illustrative Contribution Margin Analysis for product X (in Rs. 000)	
Sales	300
Less: Variable manufacturing costs	100
Other variable costs traceable to product X	50
Contribution margin	150
Less: Fixed costs directly traceable to product X	100
Net Income from product X	50

BUDGETING FOR THE SALES FORCE DEPARTMENT

Sales managers usually face difficulties with the budgeting issues of the sales department. The budget needs to be prepared keeping in mind various costs that salespeople will incur while carrying out the company's business. This is a difficult task. However, experts opine that a decent knowledge of the spending patterns of salespeople will make it easy for sales managers to forecast the budget. Simple information such as, a sales person's expenditure on each sales call and the number of sales calls he makes per month, is very important while budgeting for sales force needs. Before preparing a budget, a sales manager should have a contingency plan to face unforeseen events, along with specific details about different types of expenses that sales teams make. This includes salaries, commissions, travel expenses, phone and other technology costs.

Detailed planning is necessary for preparing a sales budget. It is also advisable for managers to study the spending patterns of salespeople, rather than just rely on the information provided by them about the costs that they are likely to incur. Usually, salespeople underestimate their expenses and overestimate their sales. Therefore, adjustments should be made to make the budget more realistic. Using these methods, budgeting can be easily and effectively done for the sales department.

PRODUCTION AND EFFICIENCY

Production is a function that transforms input into output. For instance, a textile company consumes inputs such as labor, cotton, machinery, capital, building, electricity, water and so on and produces output in the form of fabrics. The production process of changing input into output can be of three types. The first one is changing the form of the product, that is, changing raw material into finished goods. The second type is change in space, such as transportation of material. The final one is change in time which involves storage of the products. The efficiency of the production process increases with time. As the time passes, workers become more efficient at performing their jobs and the management also learns the finer parts of the production processes. Therefore, workers are able to produce more number of units in the same time, which in turn boosts the production efficiency of an organization.

Learning Effect and Experience Curve

Learning effect was initially introduced in 1935. It was used as a model to test the costs of producing airplanes. Learning effect is a function that reduces the number of labor hours needed to produce a unit of a product as the workers gain experience over a period of time. Research has proved that, as the number of units produced increases, the production time decreases due to the learning effect. This phenomenon is usually observed during the initial phases of the production process. Till the 1960s, the application of learning effect was restricted to the aircraft manufacturing and missile industries as the opportunity to decrease the initial costs of production was higher in these industries. We will use a simple example to demonstrate this learning effect. Let us consider that you are learning how to drive a car. Initially, for the first few days, you will be taught how to handle the steering; subsequently you will learn how to use the accelerator, the brakes and the clutch. Once you feel that you can drive the vehicle independently, you will start driving slowly and cautiously. You might take 30 minutes to cover a distance of four kms. As you gain confidence, say, after two weeks, you will be able to cover the same distance in 15 minutes. This example shows you that as you do the same job continuously, the time required to complete the job is reduced significantly. This happens during the initial stages only because once you reach a certain level of efficiency, the likelihood of improving further decreases.

Experience curve

The concept of the experience curve began almost half a century ago. This concept states that as the firm produces more and more products, it gains experience in the production methods over a period of time. This experience reduces the costs of production. Big organizations attain a twin cost advantage from this. On one hand, they realize the economies of scale, and on the other, they gain from the experience curve by increasing production. Firms generally use this twin advantage as a strategic tool to create a competitive advantage. The experience curve coupled with economies of scale gives the firm the strategic advantage of pricing its products lower than that of its competitors.

Exhibit 4.2

Building Strategy on Experience Curve

In 1972, DuPont decided to leverage the experience curve by investing $410 million over a period of seven years. This investment was targeted at competitors in the titanium dioxide industry. But by 1979, the industry utilization of titanium dioxide dropped from 88 percent to 64 percent. Subsequently, DuPont’s return on sales reduced to half its original level of 7.5 percent.

DuPont is not the only company that adopted this strategy. Between 1910 and 1920, Ford cut the costs of its famous Model T by almost 75 percent. The company could reduce costs by improving its plants, and expanding vertically to reduce the cost of its inputs. Model T was produced only in black because black paint dried quickly and therefore production could be speeded up. As a result, the market share of Ford rose from 10 percent to almost 55 percent. However, this strategy created trouble for the company at a later stage, when customer preferences changed and they demanded greater variety in comfort, and style. Ford could not immediately cater to this market demand and as a result it lost around $200 million and a significant portion of the market share. However, certain other companies have leveraged the advantage of the experience curve in a successful manner.

Leveraging benefits from the experience curve is possible for only those firms that operate in an industry, which exhibits significant experience curve. The firm should be able to take the advantage of the industry’s interrelated experience. It should identify the exact source of cost reduction and should hold those as a strategic tool for attaining a competitive advantage. The firm should also investigate the demand patterns of its customers, since a company with a stable demand can exploit the experience curve to its fullest potential. Apart from these factors, a firm should also analyze the price sensitivity of the customers and the competitors’ reactions.

Adapted from Pankaj Ghemawat, “Building Strategy on the Experience Curve,” Harvard Business Review, March/April 1985, Vol 63, Issue 2, p143, 7p.

As explained in Exhibit 4.2, DuPont and Ford developed their strategy on the basis of their experience curve. However, they failed miserably. It is not possible for all organizations to reap the benefits of the experience curve. The experience curve works

Exhibit 4.3

A Comparison with China on the Economies of Scale

India opened up its economy to globalization about a decade ago, whereas China did it about two decades ago. China saw the emergence of large capacity factories that could provide them economies of scale; India still has to leverage large economies of scale by collaborating through strategic alliances. China invited foreign companies by removing all the hurdles of bureaucracy. It amended its labor laws to attract foreign firms into the country. However, most foreign firms resist coming to India because of the outdated labor laws.

China enhanced its infrastructure facilities to world class levels. It provides private developers concessions on water, power and other utilities. Moreover, the developers get a 10 year tax holiday in a period of 20 years. Companies are given quick approval and clearance. Raw material prices are significantly lower compared to India. Productivity in China is also three to four times higher compared to most sectors in India. China also follows a high volume growth strategy with small margins that allow it to compete in the international market with the cheapest prices.

India can successfully fight back competition from the international market, especially China, if it increases its R&D activities and develops products that suit Indian conditions, like manufacturing fuel efficient automobiles confirming to emission standards as China cannot manufacture under such stringent norms. The government should not allow the dumping of cheaper products from China. India has to act proactively, keeping in mind the interests of the nation and develop economies of scale.

Adapted from Arun Firodia, "Elephant and the Dragon," Business India, June 11, 2001.

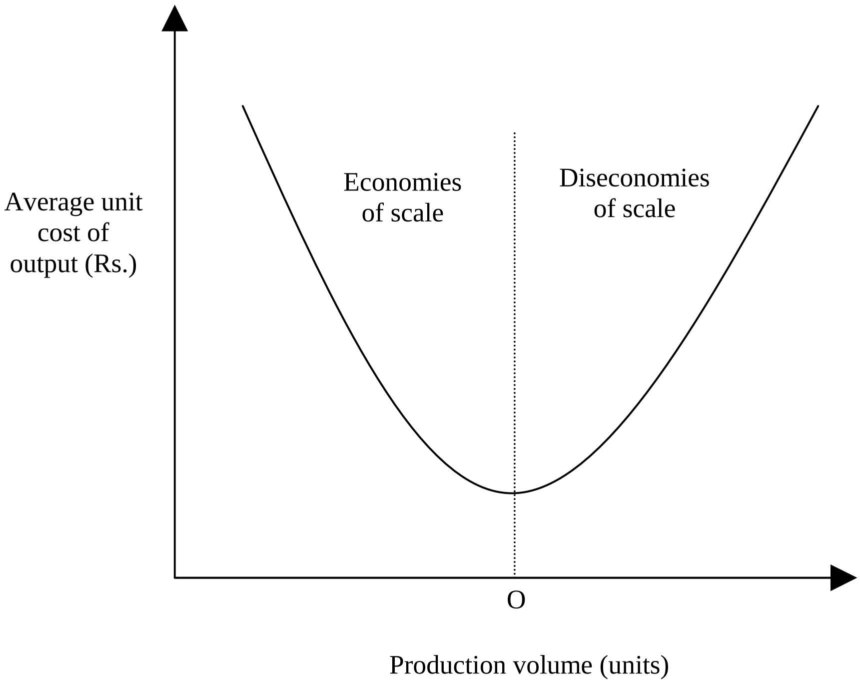
well in certain circumstances. When a product is in the early stages of its life cycle, the experience curve provides the greatest benefits to organizations. Organizations can also benefit if they take the risk of adopting new technology. Similarly, if a product is price sensitive, the demand can be significantly increased by reducing its price. Bausch & Lomb developed its strategy on the basis of the experience curve and increased its gross margin from 20 percent to 30 percent.

Economies of scale

Economies of scale refers to a decrease in the average cost incurred in the production of goods in large numbers. When goods are produced in large numbers, the fixed costs are spread over a large number of goods. Therefore, per unit fixed costs are reduced and organizations achieve economies of scale. Countries also look for leveraging economies of scale on a larger proportion (Refer Exhibit 4.3). However, it cannot be concluded that if the production capacity is continuously increased, the organization will continue to enjoy economies of scale. As shown in Figure 4.1, initially when the production volume increases, the average cost decreases. However, after reaching the point O, the average cost starts increasing. When the average cost increases with an increase in production volume, it is called diseconomies of scale. Organizations should always avoid the condition of diseconomies of scale. Generally, the economies of scale are of two types – internal economies of scale and the external economies of scale. Internal economies of scale occur within the firm due to factors such as the firm increasing its plant size and so on. External economies of scale occur due to the factors outside the firm. The economies of scale is not limited to manufacturing only. It is equally applicable to other functions of an organization such as purchasing, etc.

The classic example of such economies of scale is Ford's Model T automobile. The world's first mass-produced car, the Model T Ford was introduced in 1923. Until then, Ford had made cars using an expensive, hand-built "craft production" method. By

Figure 4.1 Economies and Diseconomies of Scale



introducing mass production techniques, the company achieved greater division of labor and specialization that boosted employee productivity.

One of the important reasons for companies to globalize is to maximize economies of scale. Companies achieve economies of scale in purchasing, product development, demand management, production, and order fulfillment. For example, Xerox achieved economies of scale in purchasing. In 1982, it realized that if it consolidated raw material sources, it could reduce costs. A central purchasing group was created. In this group, senior managers from more than a dozen of its multinational companies were included. The group identified suppliers that could provide Xerox with high-quality and low-cost components globally. This process helped Xerox reduce the number of suppliers from 5000 to just 400. The company saved more than $100 million annually.

SUMMARY

Marketing cost analysis is very important for marketers to measure marketing costs, since marketers can generally estimate the extent of profits that each product line brings to the company. But, they fail to estimate the unprofitable customers, products, and markets. To estimate the profitability of customers and products, a detailed analysis of marketing costs is essential.

Marketing costs can be segmented into fixed, variable and semi-variable costs. Fixed costs can be termed as those that remain constant irrespective of the changes in the sales volume. Variable costs change according to changes in the total sales volume. Marketers are increasingly realizing the fact that apart from managing a host of products, they also need to manage their customers.

Businesses can be successful, only with a better understanding of customer profitability. There are certain steps that should be followed to effectively analyze customer profitability. Contribution analysis offers techniques for determining the profitability at the market segment level, the product level, the distribution level and at the customer level.

Sales managers usually face difficulties with the budgeting for sales department. The budget should be prepared keeping in mind the various costs that salespeople will incur while carrying out a company's business.

Production is a function that transforms inputs into outputs. Economies of scale is a decrease in the average costs of production when goods are produced in large numbers for mass consumption. Learning effect states that the number of labor hours needed to produce a product reduces significantly as the workers gain experience over a period of time and this can be mostly observed during the initial stages of production. The concept of experience curve states that as the firm produces more and more products, it gains experience in the best production methods over a period of time. This experience reduces the costs of production.

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Part II
Analyzing Marketing Opportunities

Chapter 5

Understanding Consumer Buying Behavior

In this chapter we will discuss:

- Factors influencing consumer buying behavior
- Buying decisions
- Buying decision process

Consumer behavior is a study of how individuals make decisions to spend their available resources (time, money and effort) on consumption related items (what they buy, why they buy, when they buy, where they buy, how often they buy and use a product or service). The heterogeneity among people across the world makes understanding consumer buying behavior an intricate and challenging task. The consumer's identity, his beliefs, specific needs, attitudes and the kind of product and brands available in that product category influence his buying behavior. The marketing efforts of a firm have a profound impact on the buying decisions of customers. Therefore, marketers attempt to obtain an in-depth knowledge of customers' buying behavior. The success or failure of a product or service is directly related to the buying behavior of the customer. Hence, an understanding of the buying behavior of customers helps marketers come up with innovative product mixes. Finally, buyer behavior acts as an imperative tool in the hands of marketers to forecast the future buying behavior of customers and device marketing strategies accordingly in order to create long term customer relationship.

FACTORS INFLUENCING CONSUMER BUYING BEHAVIOR

Consumer buying behavior is affected by various factors that determine the product and brand preferences of consumers. It is essential for marketers to understand the impact of these factors on consumer buying behavior because it helps them design marketing strategies to appeal to consumer preferences. The factors that influence the consumer buying behavior include cultural, social, personal and psychological factors.

Cultural Factors

The cultural factors that influence consumer buying behavior include the culture, subculture and social class of the buyer.

Culture

Culture is considered as a set of rules, values, beliefs, behavior and concepts that is common to and binds together the members of a society. It is usually passed on from one generation to the other. During our lives, there is constant – conscious and unconscious – pressure on us to display certain types of behavior.

Perceptions, wants, and behavior learnt by an individual, influence his buying behavior. Our culture reflects what we eat, what we wear, the code of conduct, our buying habits, consumption pattern and the way we use and dispose products. Culture also determines what is acceptable about product advertising. Thus, an individual's buying pattern is largely influenced by the culture. The diversity of cultures across the world calls for marketers to adopt different approaches/strategies and use variations in their marketing mix to cater to the needs of those markets. For example, the initial failure of Kellogg's in India revealed the myopic view of the company in understanding the cultural differences that exist between India and the US (read Exhibit 5.1 to know more about this).

Subculture

Every culture has its own set of subcultures. A subculture is a culture followed by a group of people within a culture that is distinctly identified within a larger society. These groups have similar habits, behavior patterns, shared value system, buying behavior on the basis of their age, religion, common experiences or even geographic location. To tackle the problems created by subcultural differences marketers need to understand the requirements of the subcultural groups and adopt strategies like altering the product, promotion, packaging or price suitable to these groups. Advertisement strategies of a firm are also affected by the subcultural differences, For example, a firm that markets most of its products in Andhra Pradesh has to air its commercials in Telugu to reach the vast majority of people in the state.

Exhibit 5.1

Breakfast – No Kidding Around!

Kellogg's launched its products in India in September 1994, and offered corn flakes, wheat flakes and Basmati rice flakes. Despite offering good quality products and being supported by the technical, managerial and financial resources of its parent company, Kellogg's products failed miserably. Even a high-profile launch backed by hectic media activity failed to make an impact in the marketplace.

Most of the average mid income and lower income groups in India skip their breakfast and those that do take their breakfast, prefer milk, tea, biscuits, bread and butter or local preparations like idlis, parathas etc. over flakes. Kellogg's banked heavily on the quality of its crispy flakes. But Indians habitually boil the milk before using it, unlike the west, and pouring hot milk over the flakes made them soggy. Indians also like to add sugar to their milk, which made the product too sweet.

In April 1995, Kellogg's India Ltd. reported a gradual decline in sales in Mumbai and a 25% decline in countrywide sales. Consumers were just not ready to accept a radical change in their eating habits. The rice and wheat version did not do well. In fact, some consumers even referred to rice flakes as 'rice corn flakes'.

Kellogg's sources were however quick to assert that the company was not trying to change the eating habits; the idea was only to launch its products on the health platform and make consumers see the benefit of this healthier alternative. Disappointed with the poor performance, Kellogg's decided to launch two of its highly successful brands – Chocos (in September 1996) and Frosties (in April 1997) in India. Chocos were wheat scoops coated with chocolate, while Frosties had sugar frosting on individual flakes. The company hoped to repeat the global success of these brands in the Indian market. And the success of these variants took even Kellogg's by surprise and sales picked up significantly. The success of Chocos and Frosties also led to Kellogg's decision to focus on totally Indianising its flavors.

Source: Mukund, A. "Kellogg's Indian Experience", ICFAI Centre for Management Research, October 2001.

Social class

Social class refers to the classification of members of the society into a hierarchy of distinct classes so that every individual in a class has approximately same position in the society. Most societies in the world have different social class structure. Members of each social class are free to move in an upward or downward direction within the social class, on the basis of their social status.

Social class can be subdivided into four categories viz. upper class, upper middle class, middle class and the lower class.

i. *Upper class:* This class consists of people who are rich and possess considerable wealth, for example, people with large businesses and wealthy corporate executives. These people live in large bungalows in posh localities and tend to buy expensive products and patronize branded exclusive shops for snob and luxury goods. This class is very important for marketers.

ii. *Upper middle class:* This class consists of well-educated people holding top class positions in middle size firms, or professionals who are successful. They have a strong drive for success and indulge in shopping for goods that speak of their social status.

iii. *Middle class:* This class consists of white collar workers like middle level and junior executives, sales people, academicians, small business owners, etc. These people lead a conservative lifestyle and spend moderately. They live in apartments or reasonably smaller houses and seek to buy products, which give more value for money.

iv. *Lower class:* This class consists of blue collar workers like factory laborers, semi skilled and unskilled laborers in the unorganized sector. These people are more family oriented and depend on their family for economic and emotional support. Their families are usually male dominated. These people are less or poorly educated, live in smaller houses in less desirable neighborhoods. Due to their low income levels, these people tend to live in the present and have no concept of savings.

Every social class prefers to buy distinct products and exhibits brand preferences in categories like clothes, home appliances, furnishings, leisure activity, food, automobiles, etc. To an extent, social class determines the type, quality and quantity of products that a person buys or uses. Therefore, marketers tailor their product offerings for different social classes. For example, marketers of designer wear target upper class and upper middle class people.

Social Factors

Family, friends, formal social groups, colleagues at work and consumer action groups influence the consumer's buying behavior significantly. An individual's family, greatly influences the buying patterns of the individual. However, this depends on the amount of interaction he has with his other family members. Subsequently, friends are the next important social group that influences the buying behavior of the individual. A friendship group is an informal and unstructured group. The influence of this group is significant on individual buying process, because things that are not normally discussed with the family members are discussed with friends. Suggestions offered by friends on such aspects influence an individual's buying behavior. Formal social groups like Lion's Club, Rotary Club and Jaycee's Club do influence the individual buying behavior. The members in such groups influence other members during informal discussions or by becoming a role model to other members. The average amount of time an individual spends at his workplace is around 40 hours per week (five working days). During the working hours, an individual normally has formal and informal discussions with other employees and therefore, there exists an ample opportunity for influencing the buying behavior of the individual. These social groups influence buyers to refrain from buying those goods and services that exploit customer vulnerabilities.

Reference groups

An individual's attitude, value and behavior are influenced by different (small) groups. These groups are called reference groups and they have a direct or indirect influence on the individual. Buying behavior of consumers is largely influenced by the reference group to which they belong or aspire to belong. Reference groups can be of two types, viz. primary reference group and secondary reference group.

Primary reference group: This group is divided into four subgroups namely a) membership reference group, b) aspiration membership group, c) disclaimant reference group, and d) avoidance group.

Membership reference group: This is the group to which a person holds membership and has frequent interactions with other members of the group. He comes in regular and informal contact with the members of this group and is directly influenced by them.

Aspiration reference group: This is the group to which the individual does not hold any membership but desires to belong to that group. He tries to copy the attitudes and behavior, including buying behavior of the members of this group.

Disclaimant reference group: This is a reference group to which an individual holds a membership but does not want to belong to and therefore, all his actions would be opposed to that of the group. He tries not to be influenced by the attitudes, values and behavior of the members of this group.

d) Avoidance group: This is the reference group to which an individual does not hold any membership. He tries to resent the values and beliefs of such a group.

Secondary reference group: Secondary groups include religious groups, professional associations and trade unions with which the interaction of customer is formal and infrequent. Every reference group has its own set of opinion leaders. Opinion leaders are perceived as people with special skills, knowledge, personality etc. Opinion leaders influence the actions or attitudes of others informally. Marketers should identify the opinion leaders of their target group for specific product/s and then they should target their marketing efforts towards these role models. For example, once the marketer has identified the opinion leader of a target group as a housewife/home maker, or a celebrity or a doctor, etc., the marketer can use the opinion leader to communicate the company's message through its promotion and advertising campaigns.

Family

A family is defined as two or more persons related by blood, marriage or adoption and reside together. A family is a small reference group but it is prominent in influencing consumer behavior. Families go through various stages of life cycle, each stage creates different demands for different products and the buying behavior of the members is greatly influenced by the stage of the family life cycle. For example, the consumer demands of a bachelor are different from those of a newly married couple, or a family with children/no children, older couples with dependent children, older couples with no dependent children and solitary survivors.

Members of a family exert a strong influence on the buying decision. The husband, the wife and the children play different roles while purchasing different products and services and these roles vary from country to country. For example, in India, the major buying decisions for the children are taken by the parents. Joint decisions are taken by both the husband and the wife for purchasing expensive products and services. Therefore, marketers are keenly interested in the roles played by the members and the relative influence each member exerts on the buying decisions. Marketers try to adjust their marketing mix to influence the decision of the decision maker in the family (Refer Exhibit 5.2 to see how marketers try to influence the behavior of the customer and the consumer).

With the increase in number of women working away from home and many people, including men, working from home, the traditional husband-wife buying roles are changing. The challenge for a marketer lies in understanding how this might affect demand for products and services. For example, the new commercial aired by Ariel washing powder shows the ease with which a man can use its product.

Personal Factors

There are different personal factors, which affect the buying decision process. These factors, such as the age, sex, lifecycle stage, occupation, economic conditions, personality, etc, are unique to every individual.

Age and lifecycle stage

Changes in the society have led to the creation of different categories like couples marrying late in life, childless couples, single parents, etc., besides the traditional lifecycle stages which included young singles, married couples and lone survivors.

Exhibit 5.2

Influencing the Influencer

Every business tries to increase its market share by offering something extra to the customer, thereby gaining customer retention and loyalty. Companies indulge in various activities to influence the behavior of the customers (buyers) as well as the consumers (users) to gain leverage over its competitors.

Let us see some of such strategies adopted by HLL and P&G to attract and retain the customers. These strategies are directed especially at the middle and lower class customers in both the urban and rural India.

HLL

Product - Surf

Strategy - Surf Kidstain runs a painting competition "Color Your Future Contest" and is offering scholarships worth 1-5 lakhs in the form of fixed deposits to kids in the age group of 4-12 years.

Product - Fair and lovely

Strategy - Created Fair & Lovely Foundation to encourage economic empowerment of women through various projects.

Project Saraswati - Provides scholarships in the field of education.

Project Disha - Provides career guidance by organizing career fairs.

Project Sanjeevani - Fair & Lovely Foundation in partnership with Dr. Reddy's Foundation provides a nursing assistant course to young ladies in the age group of 18-30 years.

Product - Clinic Plus

Strategy - Managing events like "glowing mothers" for mothers and daughters in rural areas and sponsoring Kalakar balika (talented girl child) and Budhiman balika (meritorious girl child) award.

P&G

Products - All premium brands like Vicks, Whisper, Ariel, Hide, Pantene and Head & Shoulders.

Strategy - Provides scholarships through "Shikha - secure your child's future" program.

Through such programs, the companies get access to schools where they get a chance to come in direct contact with children, demonstrate their brands and their benefits and create a memorable brand impact. Such strategies adopted by various multinational companies are helping them influence the influencer and the decision maker.

Adapted from Purvita Chatterjee, "Educational Enterprise", The Hindu - Business line – Catalyst, 28 August 2003.

Over the lifecycle stages, people use different products and their demand for goods and services keep changing. People at different ages will have different tastes in food, clothes, furniture and recreation. Even families pass through different stages of the life cycle over time. Therefore, marketers should determine the needs of their target markets and introduce different products and marketing efforts targeted at different stages.

Occupation and financial status

Occupation and income level of a person have a major impact on his savings and buying behavior. For example, a blue collar worker will indulge more in purchasing clothes, shoes, etc., which he can wear to work. Similarly, a company's chairman may buy clothes, accessories and other products and services that suit his lifestyle. The financial condition of an individual such as his disposable income, savings, his ability to buy costly products and services on installments and bear the interest rates, etc. will have a significant influence on his buying behavior.

Lifestyle

An individual's way of leading his life will determine his lifestyle. Factors such as work life, interests, social groups, etc. influence the life style of an individual.

Psychological Factors

Psychological factors that influence consumer buyer behavior are motivation, perception, attitude, and learning.

Motivation: A motive is a strong urge that drives a person's activities towards unfulfilled needs and wants. Customers are influenced by a motive or a set of motives when they have unfulfilled needs. In other words, needs are the motivational elements behind the purchasing decision of customers. One of the most widely known motivational theory, the hierarchy of needs, was proposed by Abraham Maslow and explains why people are driven by particular needs at particular times. According to Maslow, needs can be classified as (a) physiological needs, (b) security needs, (c) social needs, (d) esteem needs and (e) self actualization needs.

Customers tend to satisfy their needs on the basis of the intensity or requirement of the needs. For example, physiological need is the most basic need and hence, an individual would satisfy it first. Satisfaction of one need leads to emergence of higher level unfulfilled needs. Needs are general in nature but wants arise out of the desire to fulfill the needs in a specific way. For example, food can be classified as a need, but eating a particular dish or at a particular food joint is a want. Wants that are conditioned by certain motives are known as buying motives. Marketers must work to create these wants in the customers and target/position their product in such a way as to invoke desire in the customer to fulfill these wants.

Perceptions: Perception is defined as the process by which an individual selects, organizes and interprets stimuli into meaningful thoughts and pictures. Customers base their perception on their needs, wants, past experiences and something that they consider to be true. For example, a subscriber/reader who reads a particular newspaper or journal might perceive it to give the true picture of the happenings around him.

Perceptions of a person are affected by many factors like reality, sense, risk etc.

- Customers perceive their environment through the sense of touch, smell, taste, hearing, etc.
- Customer's buying decisions are also influenced by the risk factor involved. For example, does the customer perceive the product to be safe, does he find it worth spending the time on shopping, does he think that the price is worth the amount paid for? Marketers can address these problems through appropriate marketing communication strategies.
- Understanding the customer's perception helps the marketers position their product better than that of the competitors. It helps them develop the right store image, product quality, price, distribution channel etc.

Therefore, marketers must make an effort to understand the perceptions of the customers and adjust their marketing mix accordingly.

Beliefs and Attitude

A belief is a descriptive image or thought that an individual holds about something. People acquire beliefs and attitudes through experience as well as learning. The beliefs and attitudes held by people, in turn, influence their buying behavior.

A person's attitude is a set of his feelings and the way in which he reacts to a given idea or thought. Attitudes can be positive, negative or neutral. Customer attitudes and beliefs influence his perception and buying behavior. Customer attitudes are based on their past experiences with the products and through their interaction and relationship with their respective reference groups.

Customer attitudes can have a major impact on a firm's marketing efforts. For example, a customer with a negative attitude towards a company or its product, does not only stop purchasing the product but is also likely to influence, by appealing, his reference group to refrain from buying the same. Therefore, marketers must try to adjust their marketing mix to counter neutral and negative attitudes of the customers.

Marketers can use several methods like observation, personal interviews and direct questionnaires to study the attitudes of the customers. The simplest method would be to phrase a set of direct, close-ended questions on a continuous five point scale (Likert's Summated Rating Scale) to study the degree of agreement or disagreement of the customers towards their marketing efforts.

BUYING DECISIONS

Every person takes a number of decisions (to solve his/her problems) every day without stopping to think about the process involved in arriving at such decisions. Decision-making is a process of selecting an appropriate option from two or more alternatives. A customer enjoys the freedom of choosing a particular brand or product when there is more than one brand or product to choose from.

Buying Roles

There can be single user for a product or there may be multiple buyers for it. Buying roles are the roles, a person or a group of persons, play in purchasing and using the product. The number of members involved in each role may vary from product to product. In case of families, it may vary from one family to another. Buying roles are dynamic in nature. Hence, in order to target the right audience, marketers should have a clear idea about the different buying roles that people assume.

Different roles assumed by people

i. Initiator: A person who initiates the idea of purchasing the product. He recognizes that the problem can be solved or avoided by acquiring the product.

ii. Influencer: A person whose views and advice influence the buying decision. The range of influencers becomes broad when major purchase decisions have to be made.

iii. Decider: A person who decides where, when, why and how to buy the products. Deciders make the final decision about the contemplated purchase. In case of major organizational purchases, it is often found that many senior managers act together to make the decision.

iv. Buyer: A person who actually purchases the product.

v. User: A person who actually uses the product.

vi. Maintainer: A person who repairs or services the product.

vii. Disposer: A person who disposes the product.

A particular type of product is bought by a particular category of people who might or might not be the end user of that product e.g. parents buy chocolates and toys for their young ones. In the above example, we can see that there are different and distinct roles adopted by the parent and the children. The parent might assume the role of a decider, buyer, preparer and maintainer and the child assumes the role of an initiator, influencer, user and disposer.

Buying Behavior

The buying behavior of people is not predictable. When a consumer buys an expensive product, it involves careful thinking and a large number of participants. Buying day-to-day products like vegetables and groceries is different from buying an apartment or an automobile. Consumer buying behavior is based on the degree of buyer involvement and the degree of differences, he perceives among brands.

Extensive problem solving buying behavior

Consumers exhibit this type of behavior when they indulge in buying expensive, infrequently purchased and unfamiliar products. Consumers gather a lot of data regarding the various brands available in the product category. Extensive problem solving consumer behavior is a three-stage process.

1. Buyer develops a belief about the product.
2. Attitudes are shaped around that belief
3. The buyer makes a well-planned decision.

This type of decision-making process calls for marketers to develop strategies that assist the customers to learn more about the product and the distinct features of their (company's) particular brand. Tying up with various stores for promoting the product and motivating the sales personnel can also be an effective tool in this regard.

Routinized buying behavior

When customers buy low-cost, regularly purchased/routine products, they do not make significant efforts to gather much information about the product. Instead they choose the brand, which they are familiar with or have been choosing for a long time. Purchase decision in such cases is quick. Therefore, customer involvement in such purchase decisions is low. Customers usually do not evaluate the post purchase performance of such products.

Variety seeking behavior

Consumers show a great amount of brand differentiation when buying a low involvement product. They are not very brand conscious and often switch brands. They evaluate the product during consumption. For example, in the case of toilet soap, only very few people stick to a particular brand while buying soaps. This is not due to dissatisfaction, but due to the need for variety.

Impulse buying is the situation where the customers do not make any purchase decision before buying the product. It is an on-the-spot decision based on the instinct to buy. When a buyer perceives that there is little difference between different brands, the buyer will purchase instantly and impulsively. Purchase may be based on criteria

Exhibit 5.3

Impulse Buying – A Myth?

Most of us shop as per our convenience and store location. People are familiar with the malls they shop in and know exactly where, which product is displayed. They just walk up to the display point and simply pick the product. Malls try to categorize various brands of the same product, similar products or substitute goods together to facilitate point of purchase (POP) decisions. People buy impulsively when they find a new, better brand/s of the same product. POP display is claimed to help snap the customer out of his routine shopping behavior. Research conducted by University of California which analyzed 30,000 purchases made by 4,200 customers engaged in major shopping trips in the US, revealed that 68% of purchases were unplanned. A similar study conducted by Point of Purchase Advertising International (POPAI) in the UK, revealed that more than 70% of the customers' decisions were taken in-store.

But do customers really buy impulsively?

A research revealed that a customer might not be able to express his selection of a brand or might not even be aware of his decision making, but an unconscious decision making process takes place in his mind. A customer's decision is influenced by conditioned behavior and experience. Thus, impulse buying is very much in tune with the psychological and physiological need of the customer. In fact, the buying behavior gets more conditioned with age and experience.

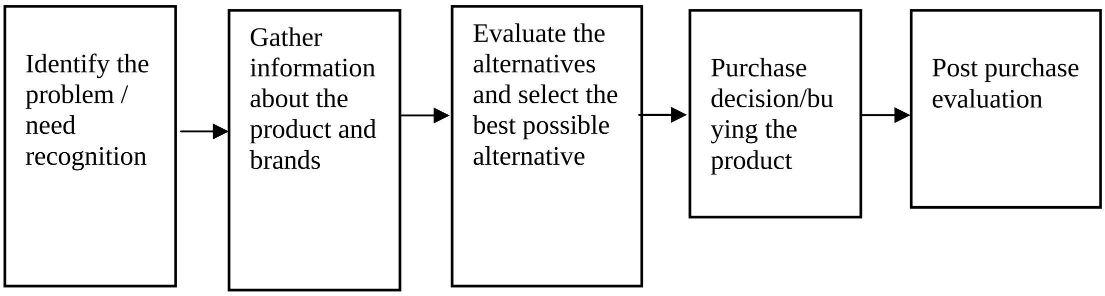
Adapted from Millner, Ian, "Burying the Myth of Impulse Buying," Brand Strategy, Issue 163. September 2002.

like price, convenience, etc. Hence, marketers use strategies like offering the product at a low price, free samples, discount coupons etc. to allure the customers for impulse buying. Exhibit 5.3 describes a research which concluded that there is no such thing as impulse buying.

BUYING DECISION PROCESS

Consumers pass through different stages before actually buying products. Data regarding these stages in the buying decision process can be obtained from the consumers who have already purchased the product or from prospective customers. Generally, the buying decision process can be divided into five stages – problem recognition, information search, evaluation of alternatives, purchase decision and post purchase behavior (See Figure 5.1). All consumers may not go through all of the five stages. For example, low involvement products that are frequently purchased do not need all the five stages of decision-making process. But in case of less frequently purchased, high priced products or while buying the product for the first time, the customers go through all the stages in the decision process. Sometimes, the change in product, price or even service might compel the customer to go through all the five stages of decision-making.

Figure 5.1: Stages in Consumer Buying



Problem Recognition

The process of buying starts when a person realizes that he has a problem or an unsatisfied need. A need can be aroused internally within the person, for example, hunger or by an external stimulus. An external stimulus such as an advertisement or the attractiveness of a product package may also trigger a need in the person. Marketers try to arouse these needs and help people identify these through products, pricing strategies, packaging and advertisements.

Information Search

A consumer who realizes the need for a product will try to gather information regarding the product. Information search helps the customer understand the features of a product and competing brands better. Past purchase experiences can also help the customer reduce the time for information search and evaluation. The information can be gathered from several sources like

- Personal sources: Family, friends, neighbors and reference group.
- Commercial sources: Advertisements – print media, broadcasting media and the Internet and other marketing sources like department stores and retail outlets.
- Public sources: Articles in newspapers and journals, and consumer rating organizations.
- Experiential sources: Free trials, etc.

Personal sources influence the buying decision of a prospective buyer. Though all types of sources provide information, maximum amount of information is obtained through commercial sources. As the consumer gathers more and more information, his awareness level about the products or brands and their features will increase. After gathering all the relevant information, a customer then evaluates the information.

Evaluation of Alternatives

In this stage, a customer analyzes the information available with him to select the right brand or product. The criteria to evaluate a product may differ depending either on the buying situation or on the level of involvement required. For high value and infrequently purchased items, a customer can be involved in detailed analysis of information. However, for low involvement or low priced products, customers can use simple criterion, such as price. Customers can also give a certain level of attention to the different features and characteristics like the quality of the product or guarantee provided with the product.

Sales personnel can help customers evaluate the product or brand features vis-à-vis other products and project the brand in the TOMAS (top of the mind's awareness slot) of the customers. When the customer's evaluating process results in identifying brands, which he is ready to buy, he moves on to the next stage – the actual purchase.

Purchase Decision

Selection or purchase of a particular brand is dependent on the evaluation criteria and ratings. The purchase decision also depends on the availability of the brand. This stage also accounts for a large number of sub decisions about purchasing a product like

- Seller and location of the store
- Time of purchase
- Size of the product, color and attractiveness of the package
- Price of the product
- Delivery and warranty
- Payment method like credit arrangements
- Ancillary services offered, like installation and maintenance arrangements

Post Purchase Behavior

A customer evaluates the performance of a product after buying it. He will also compare the performance of the product with that of the competitors' product. The consumer will be either satisfied or dissatisfied after this evaluation. Buyer's post purchase feelings are of significant importance to marketers. The post purchase evaluation might either lead to repeat purchase and the buyer talking favorably about the product to others or the buyer may talk negative about the firm's product.

Post purchase satisfaction: If the product meets the expected performance, the customer is satisfied. If the performance exceeds the expectations, the customer is delighted and if it doesn't, the customer is dissatisfied. Marketers should try to improve the performance of the products and add new and unique features to delight the customers. Post purchase satisfaction with the product leads the customer to make repeat purchase and recommend it to others in his reference group.

Exhibit 5.4

Advantage – Reuse

In the manufacturing sector, containers are an indispensable asset. They are widely used for storing goods in a warehouse and for transporting goods from one location to another. Many companies use 'reusable' containers, as they provide a number of benefits.

Reusable containers eliminate the cost of purchasing or manufacturing the containers again and again. If they are used multiple times, the cost of the container is spread over the number of times it is used thereby recovering the actual cost of the container within a span of six months to two years. Beyond that period of time, it increases the savings of the firm. For example, in 1992, the Chrysler plant in Ontario, Canada saved more than $9 million and a General Motor's plant at Michigan saved over $10 million with the help of reusable containers.

Recycling the containers and reusing them helps companies to overcome the cost of disposing the degradable and non-biodegradable materials used in the containers. This avoids the landfills cost and helps in preserving the natural environment.

Adapted from Witt, Clyde E, "How to be successful with Reusable Containers," Material Handling Engineering, Vol 52. December 97.

Post purchase dissonance: In case of high involvement and less frequently purchased products, a customer tries to gather information about the product. The post purchase use of the product might make him feel dissatisfied about his purchase decision. This dissatisfaction or dissonance might arise, when the customer hears good things about other brands, or when he does not get all the features he was looking for in the product. When products of competitors' brands have the desirable features that the customer was seeking, the customer experiences cognitive dissonance. The buyer may even try to return the product. In order to avoid these, marketers should try to reassure the customer about his purchase decision.

Post purchase use and disposal

Marketers should observe how consumers use the purchased product and how they dispose off their products. Some consumers may discover new uses for the products other than what the product was meant for. For example, people in Punjab used the single tub washing machines for making the summer drink "lassi".

Marketers should also make an effort to educate the customers on how to dispose the products like hazardous material and other items like napkins, plastic bags, beverage containers, aerosol cans, etc. They come up with new ideas like refilling the packs. For example, Hewlett Packard offers a discount to its customers who return empty cartridges back to the company. Reusing the product's package helps the company reduce cost of packaging, reduces the waste disposal cost and improves ergonomics (Refer Exhibit 5.4).

Many socially responsible companies are engaged in recycling their products. Kodak recycles acetate films and other manufacturing solvents, uses recycled paper, and jute for packing its products. Marketers may also come up with innovative products for successful disposal of their product, for example, GumPals offers special tissues and dispensers to dispose off its chewing gum.

SUMMARY

Studying the consumer buying behavior is a very complex process, as it involves not only the economic factors but also the emotional factors. However, marketers need to study the consumer behavior, as it helps them position their products better and develop effective marketing strategies.

Consumer buying behavior is influenced by the culture and subculture. Habits, likes and dislikes of the people belonging to a particular culture or subculture can affect the marketing efforts of a firm to a great extent. The social class to which the individual belongs tells about the type of products the individual prefers. Other factors that influence the buying behavior are social factors like reference group and family, personal factors like the age, life cycle and occupation, and psychological factors like motivation, perception and attitudes of the customers.

Buying roles and buying decision constitute consumer's decision-making behavior. A customer can adapt various buying roles like initiator, influencer, decider, buyer, preparer, maintainer and disposer in purchasing and using the products. Buying behavior helps marketers learn the intensity and degree of involvement of customers in purchasing the products. Customer buying behavior is broadly classified into three types. Extensive problem solving buying behavior is exhibited when a customer buys high involvement, expensive and less frequently purchased products. Consumers are involved in routine problem solving decision-making process, when they purchase routinely purchased, low cost products. Variety seeking behavior is seen when customers purchase low-involvement products.

Customers usually go through five stages in arriving at a purchase decision, though it might not be so in all the cases. In the first stage, the customer identifies an unsatisfied need in him. In the second stage, customers collect the information about the product and available brands through personal sources, commercial sources, public sources or experiential sources. In the third stage, the customers evaluate all the alternatives with the help of available information. In the fourth stage, the customer makes a purchase decision. And finally in the fifth stage, he experiences post purchase satisfaction or dissatisfaction.

Post purchase usage and disposal of the product is also of equal importance to the marketer, as it can save cost and time of producing as well as help in protecting the environmental equilibrium.

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http://www.gumpals.com/default.htm

Chapter 6

Organizational Markets and Organizational Buying Behavior

In this chapter we will discuss:

- The concept of organizational buying
- Dimensions of organizational buying
- The classification of organizational markets
- Factors influencing organizational buying
- Participants in organizational buying
- Procurement process
- Stages of buying
- Using standard industrial classification codes

With the economy growing at a faster rate than ever, the demand for industrial products is increasing significantly. This has led to more and more companies entering the fray and existing companies trying to find ways to sustain their competitive edge. And with the changing business environment, the dynamics of industrial markets is also rapidly changing. Companies in this market have realized that they need to reduce their product development cycle and also be more innovative. For instance, Godrej & Boyce, manufacturer of a wide range of office furniture, is keeping pace with the times by constantly enhancing its manufacturing, design and marketing capabilities. It is facing stiff competition from the American company, Haworth, the Malaysian company, Bristol, and the Chinese brand, UB. Godrej & Boyce is upgrading its technology and designing techniques to cater to the rapidly changing market requirements as well as to beat the competition. Godrej is focusing its efforts on new product development activities. As against two new products that were developed per annum earlier, the company now develops around seven new products.

The company is also taking proactive steps to influence the buying process of customers. The buying process for industrial products is totally different from that of consumer products and it takes a lot of time. Towards this end, it is targeting architects, builders and interior designers for its products, while keeping a watchful eye on the competition. The business process outsourcing and the call center boom in India are presenting enormous opportunities for office furniture manufacturers. Godrej has already launched a variety of chairs to cater to this sector.

In large cities such as Delhi, Mumbai, Chennai, Hyderabad and Bangalore, the company is segmenting its dealers, with each dealer concentrating on one segment of the market. For example, individual dealers will cater to the PSUs market, hospitals and so on. The company is training its dealers in smaller towns to visit offices and recommend furniture that will suit the office in both functional and aesthetic terms. It offers design options at no additional cost to cater to the small and medium enterprises, which generally do not like to spend money on the services of architects or interior designers for their offices.

If a company catering to the industrial segment is to succeed, it has to have a thorough understanding of the organizational markets and their buying behavior. Godrej's understanding of the office furniture market helped it to effectively serve the organizational market and thus increase its profitability. The company even entered into a tie-up with Milliken Carpets, a $3 billion company in the US, to provide complete office solutions to its customers.

In this chapter, we discuss the different dimensions of organizational buying along with the classification of organizational markets. We then move on to analyze the factors influencing organizational buying and also the various stages of the buying process. Finally, we discuss some details about standard industrial classification codes.

THE CONCEPT OF ORGANIZATIONAL BUYING

The concept of organizational buying is entirely different from that of consumer buying. While the buying decisions of individual customers are made relatively easily and quickly, usually without any systematic decision-making process, organizational buying involves a thorough and deep analysis. In organizational buying, managers deal with personnel with varied responsibilities, before actually buying a product. Organizations purchase products ranging from highly complex machinery to small components, and from products that are bought on a regular basis to those that are very rarely purchased. The purchasing manager's experience in organizational buying affects the buying process in organizations.

Exhibit 6.1

Advantages of Internet Marketing to Industrial Marketers

The Internet has wiped out the geographical boundaries of business. Seeing the potential of this medium, buyers and suppliers of industrial products have begun using it to their advantage. Industrial suppliers are using advanced marketing techniques to reach potential customers. Portals like indiamarkets.com are offering excellent facilities to both buyers and suppliers of industrial goods and services. For instance, a supplier, Amarpreet Nanda, received an order worth several crore rupees from a European company, through indiamarkets.com. Nanda had adopted the latest marketing technique – registering his company on several business-to-business (B2B) websites, apart from indiamarkets.com. According to the founder of indiamarkets.com, there are over 3,000 companies across the globe that visit the site to search for potential suppliers for their requirement of products and services. The site provides access to over 130 product categories. Besides indiamarkets.com, there are other websites like matexnet.com and indiaengineering.com, which cater to specialized market segments.

indiamarkets.com offers its potential customers services such as supplier catalogs, e-procurement, sales and distribution facilities, online auctions and reverse auctions and business communication systems. matexnet offers business processing and inventory management solutions to its clients while indiaengineering offers its services in the areas of procurement, asset management, consultancy, market making and sourcing intelligence.

Adapted from "Connecting to manufacturers," Business India, Jul 24, 2000, <http://www.indiamarkets.com/imo/>, "Company Overview," <http://www.indiaengineering.com/company.htm> and "About Us," <http://www.matexnet.com/home/AboutMatex.asp>

If the purchase is of a regular kind, it is normally done without much thought. But if it is not of the regular kind and a relatively new one, then the manager needs sufficient information about the product and the service provided by the vendors, before actually taking the decision. For instance, the manager may not wish to spend significant time on taking a decision, in the purchase of stationery, office equipment, etc., However, if s/he wants to purchase raw materials, machinery, etc., his/her decision will be dependent on various organizational factors and s/he needs to follow the organizational process. With organizations having such a varied range of requirements, it is difficult for marketers to effectively target these buyers individually. Therefore, some popular websites like indiamarkets.com are offering intermediary services wherein the website acts as a link between the supplier and the customer. Exhibit 6.1 provides an outline of the advantages of Internet marketing to the suppliers.

Differences between Organizational Markets and Consumer Markets

Organizational markets differ from consumer markets in a number of ways. The differences could range from the time spent in the purchase process to the number of people involved in it. Generally, the time spent in the purchase process by an individual customer is much less compared to the time taken for the purchase process in organizations. Organizational buyers are fewer compared to individual buyers. So, it becomes easier for marketers to offer specialized marketing services to organizational buyers. The quantity of products or services needed by industrial buyers is significantly more than that required by individual customers. For instance, a chocolate factory requires hundreds of liters of milk whereas an individual customer needs only one or two liters per day. Consumer markets are mostly segmented on the basis of geographic, demographic and psychographic factors. Industrial or organizational markets are usually segmented on the basis of factors such as operating variables, purchasing approaches, situational factors and personal characteristics.

Types of organizational buying situations and situational factors

Organizational buying situations can be classified into three categories – new task, straight rebuy and modified rebuy. These represent a continuum of a firm's purchase process ranging from first time purchase to regular repeat purchase. New task involves a situation wherein a product is purchased for the first time. In modified rebuy, a purchasing manager buys goods that have been purchased earlier but changes specifications, quantity, delivery schedules, etc. The participation between the buyer and supplier is more than straight rebuy but less than new task. Straight rebuy is a process of buying a product that has been purchased frequently and regularly. The buyer orders from an approved supplier and the terms and conditions remain the same as they were there for previous orders.

This classification has received wide support since it efficiently estimates certain aspects of organizational buying like the time spent on each purchase process (more time for a new task to a significantly less time for a straight rebuy), number of employees involved (a large number for a new task to a small number for straight rebuy), etc.

System buying and selling

System buying is a process in which an organization selects only one supplier for all its raw material requirements. It helps managers cut down significantly on costs, which he would have otherwise incurred for sourcing raw material from multiple suppliers. System selling is a process in which a seller himself sells all the raw materials needed by a purchaser (customer).

Organizational Markets in India

Industrial markets in India can be divided into three sectors – chemical and pharmaceutical; energy and natural resources; and industrial and automotive sector. With the increase in competition on all fronts, firms have to adopt unique marketing practices in order to survive. In the chemical industry, products are produced in bulk quantities and are conventionally sold to organizational customers. There is a vast opportunity for growth in the specialty chemicals segment, where custom-made chemicals with the potential of earning huge margins of profits are produced. On the other hand, pharmaceutical companies are set to have a very high growth rate with most of the global companies making strategic moves such as mergers or acquisitions to consolidate their position in the global competitive market. These types of consolidation moves are likely to have an effect on the Indian market as well. Companies vying with each other to survive in this market have to adopt innovative marketing practices. They also need to develop products that can be patented for ensuring long-term sustainability and profitability in the market. There are also vast opportunities for them to advance in the biotechnology and genetics area. The chemicals and pharmaceutical sector can be divided into sub segments as shown in Table 6.1.

Table 6.1: Sub-segments in Chemical and Pharmaceutical Sector

Metals including aluminum, copper, iron and steel etc	Dyes and pigments
Abrasive	Explosives
Asbestos	Industrial gases
Alloys	Paper and pulp
Biotechnology	Plastic and rubber
Crop protection chemicals	Pharmaceutical

Caustic soda	Sugar
Carbon black	Sulphuric acid
Cement	Fertilizers and pesticides
Cotton and blended yarn	Textiles

Adapted from "Industrial Markets,"
<http://www.in.kpmg.com/industries/ind_automotive2.html#top>

Energy and natural resources

The population growth in our country and increasing urbanization are responsible to a large extent for the depletion of natural resources. The looming energy crisis due to dependence for energy on conventional fuels like coal is making companies look for alternative sources of energy such as natural gas. Further sub segments within the energy and natural resources sector include crude oil and natural gas, coal and lignite, forests and timber, and precious metals. Thus, industrial markets are spread across all these sub segments.

Industrial and automotive sector

The industrial sector is normally associated with the infrastructure development in the country. As the infrastructure develops, so does the industrial sector. Therefore, the success rate of companies is directly linked to the financial status and the economic growth of the country. The Indian automotive sector, over the years, has changed into a highly competitive industry, especially with the advent of multinational companies in large numbers into this sector. The presence of a large number of competitors in the industrial and automotive sector is making manufacturers seek ways to reduce costs at all levels. For instance, multinational companies in this sector are procuring raw materials from local companies, and this is helping them to reduce their costs. The industrial and automotive sector can be divided into sub segments as shown in Table 6.2.

Table 6.2: Sub-segments in Industrial and Automotive Sector

Ball bearings	Industrial hardware
Communication equipment	Heavy engineering
Cars	Glass and glassware
Two wheelers/Three wheelers	Machinery manufacturers
Commercial vehicles	Defense and air-conditioning
Automobile ancillaries	Machine tools and tool rooms
Electronic components and equipment	Semiconductors
Electrical equipment	Ship building
Fasteners	

Adapted from "Industrial Markets,"
<http://www.in.kpmg.com/industries/ind_automotive2.html#top>

DIMENSIONS OF ORGANIZATIONAL BUYING

The magnitude of organizational buying, as discussed earlier, varies from small nuts and screws to the purchase of large machinery. About one half of all manufactured goods, and about 80 percent of all agricultural products, minerals, forests and sea-based products are sold to the industrial markets.

The decision-making process for the purchase of industrial products also varies significantly from the decision-making process for purchase of consumer products. In an organization, the various teams and team members have a significant influence on the purchase decision. Therefore, normally, the purchase manager does not make the purchase decision in isolation. Sometimes, even psychological factors affect the organizational purchase process. A manager who thinks logically and buys good quality products that help him attain organizational goals, derives psychological satisfaction.

Organizations can use various techniques such as 'Material Requirement Planning' and 'Just-In-Time' to take organizational buying decisions. In materials requirement planning, a firm forecasts its sales and develops its production schedule accordingly. The firm then orders the goods according to its production schedules. This helps the company avoid buying too much or too little of the raw material.

On the other hand, Just-in-time is a method for maintaining the minimum inventory of raw materials and finished goods. In this method, raw materials are purchased on the basis of customer demand. In other words, raw material is procured only when the production process is about to begin. Besides the materials requirement planning and just-in-time methods, centralization of the purchasing process is gaining significance. Centralization of the purchasing process helps a company gain better knowledge of the products and markets and aims at ensuring long-term benefits for the company through better vendor relations and so on.

Organizational buyers are more concerned about the price and quality of the product along with the service provided by the vendors. Sticking to the delivery schedule is also one of the critical parameters for vendor selection because with the organizations keeping the minimum level of inventory, the whole production process may come to a halt if the raw materials do not reach on time. The cost of products plays a major role in the profitability of a firm, which itself depends to an extent, on the cost of raw materials. To ensure better quality raw materials, organizations now adopt strategies such as 'reverse marketing.' Reverse marketing is a process in which the organization specifies the quality level of the raw materials it requires from its suppliers and suggests that they take sufficient steps to conform to the quality level. Service also plays an important role, because no organization would like to buy goods from a vendor who cannot provide timely and efficient service.

While buying the raw material they need, organizations adopt certain methods such as checking a sample before the actual purchase. For most products that are bought in large lots, it is not feasible to individually inspect each and every item in the lot. In such situations, a sample is checked on the assumption that it represents the entire lot. However, there are products which need to be thoroughly inspected before their actual purchase. For instance, the purchase of control and relay panels used in transmission and distribution of electrical power requires inspection of each panel because of their cost and their criticality in the transmission process. Negotiations are also a critical part of the purchasing process. Organizations negotiate on the price of the materials and the delivery schedule. The process of negotiation can vary from one organization to other.

Organizations follow certain practices while buying goods or services from vendors. When an organization is making a purchase for the first time, it does some groundwork such as issuing guidelines regarding the product specifications, the quality levels that have to be maintained by the supplier and takes into account other considerations, such as the geographic location of the supplier. Geographic location is important for an organizational buyer because a supplier who is located closer can deliver the raw material within a shorter period of intimation than one who is located farther away. However, it is not as critical an issue as quality and sticking to delivery schedules. If a nearby supplier is not able to ensure quality and finds it difficult to maintain the delivery schedule, then a distant supplier is a better option. Once a supplier is selected, organizations usually buy regularly from him. In certain situations, the organization might have to change its production process or adopt a new technology. In such cases, the specifications of the raw material also changes. If the existing supplier can deliver the raw material to meet the new specifications, the organizations can retain the same supplier; otherwise it will have to look for new suppliers.

Like consumer markets, organizational markets also possess certain demand characteristics. The organizational demand for products or services may be of four types – inelastic demand, derived demand, joint demand and fluctuating demand. Inelastic demand is one in which the increase or decrease in the price of the raw material does not significantly impact the purchase process of an organization, unless and until there is a very large change in the price. Derived demand is based on the consumers' demand for the products produced by an organization. In other words, an organization purchases raw material from the suppliers on the basis of the consumers' demand for the products manufactured by it. Joint demand is a type of demand in which the demand for a particular product is affected by the demand for a related product. For instance, a watch manufacturer needs the same number of watch dials as watch straps. Any decrease in the supply of any one of these components will decrease the demand for the other. Finally, fluctuations in demand can occur due to changes in the demand patterns of the end consumers. If there is a major fluctuation in the demand for their products, organizations obviously reflect these fluctuations in their demand for raw materials.

THE CLASSIFICATION OF ORGANIZATIONAL MARKETS

Organizational markets comprise organizational users or producers, who normally purchase goods or services to use them as raw materials for producing other goods and services. There are also resellers, who purchase the products to sell directly to other customers without any modifications. Apart from the above producers and resellers, there are also government and institutional customers who buy the goods and services. Governments buy goods for public utility or for use in their departments or for production purposes. We will now analyze each of these organizational markets individually.

Producer Markets

Producers buy the products from suppliers, not for direct sales to the customers but for processing them and converting them into finished goods. These finished goods are then sold to customers for their use. For instance, Britannia purchases farm products such as wheat, milk, and sugar not for selling them directly to the customers but for processing them into various products like biscuits, bread, cookies, and so on. These finished products are then sold to the end customers for consumption. The producer markets are further divided into original equipment manufacturers (OEM), industrial dealers and users. Original equipment manufacturers buy industrial products and incorporate them into their final products. For instance, Hero Honda is an original equipment manufacturer, which buys tyres from other companies to fit their motorcycles. Similarly, IBM, the computer manufacturer, buys microprocessors from Intel. Therefore, IBM is an OEM for Intel. Industrial dealers purchase the products and sell them as they are to other customers. These dealers are generally termed as intermediaries for industrial goods. Finally, the third type of producers are, users who buy the products which will facilitate their production process though they are not part of the end product. For instance, industrial tools such as drilling machines, lathes, electromagnetic equipment, welding machines, gas cutters, etc. are used in producing other goods but they are not converted into or integrated into the final product.

Exhibit 6.2

Metro's Business in India

Metro Cash & Carry, which recently entered the Indian market to sell its products and services to retailers in India, has been caught in a controversy. This company was allowed to operate in the business-to-business (B2B) sector by the government of India. But the trading community has charged that Metro is retailing in India, which is not allowed legally. The Indian retail sector has not yet been opened to foreign direct investment. Metro, in its reply, stated that it was allowed to sell products ranging from FMCGs, pharmaceutical products, clothing, jewelry, consumer durables, cassettes and CDs to any business that has been registered under the Shops and Establishments Act and Weights and Measures Act or those having sales or excise registrations. However, the company has attracted a large market by entering the Indian wholesale segment. More and more retailers are getting attracted to the low prices offered by the company to resell the vast category of goods in the consumer market.

Adapted from Boby Kurian, "Metro Cash Blocks Over 3,000 Memberships," Business Line 22nd December 2003.

Reseller Markets

Resellers are marketers who do not purchase products for converting them into finished products or for personal use, but for selling them to other customers for a monetary gain. Wholesalers and retailers form a part of the resellers market. As the retail market in India is huge, it has attracted wholesalers like Metro Cash & Carry (Refer Exhibit 6.2) to sell their products and services to the retailers. Similarly, some Indian companies like Mirc and Videocon, the manufacturers of Onida and Videocon brands of CTVs respectively, are planning to sell their products in the international markets through resellers. Exhibit 6.3 discusses the plans of these two companies. Buyers wield a greater bargaining power in the reseller markets. In the reseller market, buyers can influence the producers to change and enhance the product features at no additional cost to make the products competitive in the market. While purchasing some products, resellers have to keep certain things in mind, such as after sales service and the durability of the product, which play a major role in the success or failure of the product. Resellers buy products on the basis of a logical approach rather than by following a psychological or instinctive purchase pattern. In the reseller markets, the length of the distribution channels is important since the profitability depends on it. If there are more channels, then the profits have to be shared at all levels. The length of the distribution channel is also dependent on the type of product being marketed. There are some products such as durables, which are directly sold to retailers, while others such as hardware are sold through various intermediaries. Price is also a major factor governing the success of resellers, since it is the single most important factor that drives the sales of resellers. Therefore, resellers normally bargain with the manufacturers for heavy price discounts.

Government Markets

Government agencies are the largest buyers of goods and services in a country. The Indian government spends billions of dollars every year on goods and services for the various government departments at the central, state, district, municipal and village *(panchayat)* levels.

Exhibit 6.3

Selling Color Televisions through Wal-Mart

Television manufacturers, Mirc Electronics and the Videocon Group, both of which enjoy a significant market share in the country, are planning to enter the US market by tying up with the biggest reseller Wal-Mart. Mirc Electronics manufactures the Onida brand of televisions while the Videocon Group manufactures the Videocon brand of televisions. There is a huge market potential in the US for CTVs. With the total size of the North American market at 34 million sets, both the companies feel that Wal-Mart can open up a huge market base for them. Normally, in the western markets, there is very high demand for high technology televisions. However, there is also enough of a market for a third or even fourth television set in these markets. To match the Wal-Mart demand levels, which are very high, Onida has recently started its second plant with a total capacity of 1.8 million units, while Videocon's cumulative capacity is 12 million units.

Adapted from Vivek Sinha, "Onida, Videocon in Talks With Wal-Mart to Sell CTVs," The Economic Times, 22nd December 2003.

To be able to sustain and compete in this market, industrial marketers must have a clear perspective of the procedures followed by the government in its buying methods. The purchasing process of the government is influenced by different groups of people at various levels, who legislate, select and analyze the goods and services before actually purchasing them. Each year, the government of India spends a massive amount for the defense of the country. The defense expenditure for the year 2004-2005 is $14.6 billion (Rs.660 billion). The government has also announced a $5.5 billion defense modernization fund that includes the purchase of a warning and control system for combat aircrafts and an old Russian aircraft carrier for the navy. Normally, it appears difficult to market any product or service to the government departments. No amount of marketing, advertising or promotional effort will have an effect on officials in charge of purchases in government departments since they give the maximum importance to the cost of the product or service and purchase only those with the lowest price. However, if an industrial marketer is able to gather information about the requirement of a particular department and project himself as the best supplier to match those needs, he stands to gain. Government agencies follow rules strictly and purchase products or services by calling for tenders. These agencies give a lot of importance to rules and regulations even if it means a delay in the project. Government departments and ministries at the Center, such as Defense and Railways, have a substantial amount of funds at their disposal for purchasing products and services. The Government of India purchases raw materials, finished goods, capital intensive goods, tools and spare parts, consumables, office furniture and other equipment and services. It buys products ranging from small pins to airplanes and aircraft carriers. The government also purchases services ranging from garbage clearance to huge construction projects such as construction of dams on major rivers. The need to fulfill certain social obligations makes the government purchase a minimum amount of products and services from the unorganized sector and cooperative societies as well. Otherwise, all purchases by government departments take place formally with the organized sector with tenders being called for and rules and procedures being strictly followed. Normally, the entire process of calling for tenders, giving the work order, and issue of payment takes a very long time.

Institutional Markets

Institutional markets are a combination of government and private organizations. The purchasing process in institutional markets is quite different from the purchasing process in the other markets. A marketer trying to cater to customers in these markets must adopt marketing strategies that suit both government markets and private commercial markets. It is always a better strategy to approach these customers individually and offer tailor made solutions to address their needs. Generally, non-profit organizations such as schools, colleges, universities, hospitals and museums comprise institutional markets. Universities, schools and colleges require a lot of infrastructure facilities like classroom furniture, books, computers, and so on. Hospitals require surgical equipment, diagnostic machinery, beds and many other products. Marketers who cater to these sectors should carefully plan out their marketing strategies to suit the individual needs of these customers.

FACTORS INFLUENCING ORGANIZATIONAL BUYING

As discussed earlier in the chapter, the purchasing process in an organization involves many individuals and different procedures and techniques. Traditionally, marketers were of the view that organizations purchased products and services on the basis of economic factors, such as purchasing those products that cost the least, or purchased products on the basis of the impulse of managers. This view of industrial marketers completely lacked an overall perspective of the organizational purchase process. In reality, buying decisions of organizations are also influenced by other factors such as environmental, organizational, social and personal factors.

Environmental Factors

Environmental factors influence the organizational purchase process in several ways. They may influence the purchase process in the form of climatic conditions, geographical location and even ecological concerns. Other environmental factors such as legal, political, economic, technological and cultural factors also affect the purchase process. Legal factors influence the purchase process by providing information regarding laws governing the organization and the industry. Similarly, economic factors influence the organizational purchase process by providing information about the general market situation, economic condition of the country, growth rate, poverty rate, unemployment rate, etc. Political factors influence the organizational purchase process by means of the policies and procedures taken by the government from time to time, and also by means of the general political climate prevailing in the country. It is very important for an organization to be vigilant regarding the technological changes taking place in the market. These changes substantially influence the purchase process of an organization. Most organizations give importance to the geographical location of the suppliers and generally tend to buy goods and services from those suppliers who are located close to the organization. In this way, geographical factors too play a role in influencing the organizational purchase process.

Organizational Factors

An organization’s goals and objectives also affect the decision-making process of its purchase department. An organization’s systems and procedures, rules and regulations, decision-making process, purchase policy, etc., affect the purchase process. The purchase process of one organization can differ from others in the same industry. There are four major aspects of organizational functioning that affect the purchase process. They are the individual and collective tasks the organization performs to reach its objectives, the hierarchical processes or the work flow in the organization, the technology adopted currently and also the one planned to be adopted in the future. Finally, the employees of the organization also considerably affect the purchase process.

Social Factors

Interpersonal and social factors also have an impact on the buying process of organizations. The industrial marketer must first understand the various roles and tasks performed by the members involved in the organizational purchase process. This needs to be followed by an analysis of the interpersonal relations among the group members, and between the group members and external individuals. Subsequently, the marketer has to develop an overall perspective of how the group functions. Careful analysis of the above interrelationships will help the industrial marketer plan his marketing strategies more effectively.

Personal Factors

Although industrial marketers study and analyze organizational buying behavior, it is finally the individuals within an organization who take the decisions pertaining to the purchase of products and services. So, marketers usually direct their marketing efforts at the key individuals in the organization and not at the organization as a whole. These individuals are bound by the organizational objectives and are therefore motivated to take purchase decisions that conform to its policies and procedures, which will in turn help in achieving its objectives. These individuals also display certain psychological characteristics in the form of motivation, knowledge, perception about the product/service, tastes and preferences, and so on, while buying the products and services. Therefore, studying the individual psychological factors apart from the social and environmental factors will be of immense help to the industrial marketer to market his goods and services successfully.

PARTICIPANTS IN ORGANIZATIONAL BUYING

There are several people involved in the organizational buying process. Each of these individuals plays a different role in the purchase decision-making process. If the industrial marketer identifies the roles played by various individuals, he stands to gain a considerable advantage in selling his products and services. Participants in the organizational buying process play as many as seven different roles, and these are discussed below:

Initiators: Initiators are the people who identify the need for a product or service. They may or may not be employees of the organization. Sometimes, an organization does not identify the need for a product or service; hence an outsider to the company, like a supplier, identifies the problem and initiates the purchase process. Sometimes, even the end users of the product may request the organization for a product. For instance, an accountant in an organization may request the purchase department to buy the latest software accounting package that will greatly improve his own performance as well as that of the organization. In this case, the accountant is both the initiator and the user.

Influencers: An influencer is a person who influences the purchase decision and usually provides the required information and necessary data to choose a product from the available alternatives. By providing such information, he may directly or indirectly influence the decision making process of the organization. For instance, if we consider the production department, technically qualified people in the organization, like production engineers or shop floor managers, may act as potential influencers as they are usually the ones who possess adequate information about the production process and about their requirements.

Users: The people who use the products or services are the users. Users may sometimes also act as potential influencers as well as initiators of the buying decision process.

Deciders: Deciders are the people with sufficient power to choose the best alternative among the available options regarding the purchase of a product or a service. These are the people who actually take the decision whether to buy a particular product or service or not. Different individuals in the organization wield the decision-making authority for the purchase of different products and services. For instance, in purchases involving regular products, the decisions are usually taken by the lower level managers. However, if the product is complex in nature, then the decision is taken by a manager at a higher level.

Approvers: These are the individuals who authorize the purchase process before it is actually implemented by the buyers in the organization. Usually, a panel consisting of senior managers evaluates the necessity of purchasing the product or service and approves the decision being taken.

Buyers: Buyers are the people in the organization who have formal powers to select the most suitable vendor from a group of vendors. They are responsible for following the policies and procedures of the purchasing process stipulated by the organization. Sometimes buyers may also be involved in setting the standards desired by the company; they may also negotiate with the suppliers. However, in purchases involving capital intensive items, the role of the buyers may be confined to searching for the suppliers and submitting a list of potential suppliers to the decision-makers at the top level of the organization.

Gatekeepers: People who control the flow of information into the organization are termed gatekeepers. Employees such as the telephone operator and the receptionist are the potential gatekeepers of an organization. They control the flow of information from the suppliers to the buyers. They also restrict the salespeople of the suppliers from meeting the members of the purchase department. Therefore, it is important for a supplier to effectively tackle the gatekeepers. Only then will he have access to the prime decision-makers of the organization.

PROCUREMENT PROCESS

Organizations employ individuals who have an extensive knowledge about the supplier markets as their product managers. Such individuals facilitate efficiency in the procurement process by identifying the right suppliers who can offer tailor-made solutions to the organization's requirements. Companies should also take care of the social and legal obligations during purchase. Techniques such as materials requirement planning and just-in-time (which have been discussed earlier in the chapter) are adopted by organizations to ensure efficiency in the procurement of raw materials. The quality of the raw materials procured will significantly affect the quality of the output, which can in turn, affect the image of the firm in the long-run.

Buying

Sometimes, organizations may want to reduce their inventory management costs. In such cases, the organizations prefer just-in-time supplies. The purchasing department, nevertheless, expects its suppliers to maintain consistent quality levels. Thus, suppliers have to be aware of the desired quality standards of their customers and formulate effective strategies to address their varying business needs. Traditionally, the purchasing department has not been given its due importance because of the general feeling that the purchasing task is a routine one that does not involve a substantial thought process. However, companies have now begun to realize the importance of this department and its role in organizational profitability. Strategic decisions pertaining to the purchase process include decisions such as what type of products should be purchased in the future, how many suppliers need to be maintained, and so on. Organizations are increasingly focusing on maintaining a single supplier so that a long-term relationship can be developed. Moreover, a single supplier will be more loyal and committed to the organization if it assures him of continued business.

Supply Management Orientation

Supply management orientation involves efforts made by an organization to improve its overall value chain starting from supplier's supplier to customer's customer. The organization tries to improve the processing capabilities of the supplier so that he can supply better quality raw materials to it in the future. Good quality raw materials can be processed into good quality finished goods, which can then be offered to the distributors who are the organization's immediate customers. By supplying good quality products, these distributors will have an edge in the market. In this way, a company can increase its value in the entire value chain through supply management orientation.

STAGES OF BUYING

Although organizations differ significantly from each other in their purchasing process, most buying processes pass through certain stages. These stages are problem recognition, general need recognition, product specification, value analysis, vendor analysis, order routine specification, multiple sourcing and performance review.

Problem Recognition

Normally, the purchasing decision process starts with the problem or need recognition. The problem can be recognized by someone who is internal to the organization (e.g. employees) or by someone who is external to the organization. The problems that employees are most likely to recognize pertain to machinery becoming obsolete, certain parts of it becoming very old and requiring replacement or unsatisfactory quality levels of certain products. The top management of the company may be considering the idea of developing a new product. Consequently, the need for new raw materials will arise. The apprehension of potential damage occurring to some of the machinery may warrant a replacement. Likewise, low or poor service standards of the existing supplier may trigger a search for new suppliers.

Problem recognition may also take place by someone external to the organization such as the suppliers to the organization. A supplier may come up with a product idea, or provide information about a new technology in the market that will considerably enhance the operational capabilities of the organization. The advantage in the supplier giving such ideas or information is that the organization will most likely purchase such technology from the same supplier.

General Need Recognition

After problem recognition, the firm has to identify the exact quantity of the product required and the quality levels desired. The people involved in problem recognition must find out the alternatives available to solve the problem that has been identified. For products that are purchased regularly, the specifications will be standardized. Also, for the smaller general products, the specifications can be easily given by the people who actually use the product. But for products of a complex nature, the purchase department needs the assistance of all those who are concerned with the product to lay down the product specifications. It requires technical assistance from the engineers and technicians, and general inputs from the ultimate users of the product.

Product Specification

This is a crucial stage in the buying process, where the firm starts negotiating with the suppliers by giving the technical specifications of the product. Methods such as product value analysis are adopted by means of which the firm will search for chances of reducing the price of the products and alternately identify ways and means of producing those products through cheaper methods. This is the stage where those who have specified the details of the product have a say in the purchase process. In this stage, the purchase department searches for external information to issue product specifications. It is beneficial at this stage for the suppliers to maintain a close coordination with the buyers of the organization, since such suppliers will have an early advantage over competitive suppliers.

Searching for Potential Suppliers

At this stage, the buyers in the organization search for potential suppliers who can supply the products at the desired specification levels. Potential suppliers are found with the help of trade related directories and magazines. The Internet has become a powerful tool through which the search process can be carried out very effectively. Once a list of suppliers is finalized, the company carefully analyzes each supplier and selects one who meets the specifications, quality standards and delivery schedules set by the purchasing department. Industrial marketers who have a significant presence in all of the above said media will have a significant advantage over other suppliers.

Value Analysis

Value analysis involves various techniques to reduce costs and improve performance of equipment, production processes, etc. Whenever a purchase process is initiated, the manager first analyzes the value and quality specification given by the users of the product. He then compares these specifications with the product supplied by the suppliers. Each component that is used and every attribute and feature of the supplier's product is thoroughly analyzed to ensure that no component or feature is added to the product that does not add value to it. It is the objective of the purchase department to find the most economical product. At the same time, the desired quality levels should be met. Therefore, value analysis helps the manager cut the costs of the components that are not adding any value to the final product.

Vendor Analysis

Suppliers need to deliver products that match the technical specifications. However, just conforming to the quality levels is not sufficient for a supplier to qualify for supplying goods to an organization. Apart from meeting the quality levels, he has to deliver goods on time and stick to the delivery schedules. Suppliers must ensure that they deliver the goods on time, since any delay on their part will have an adverse impact on the company's manufacturing process, delay production, and eventually result in losses. Especially in today's competitive scenario where companies are cutting costs to the extent of zero level inventory maintenance with the help of techniques like just-in-time, the supplier has to be more careful and responsible in his dealings with the organization. Vendors must also be evaluated according to their infrastructure and management capabilities.

Order Routine Specification

Order routine specification involves the process of specifying the quantity of goods required by the company, the time and frequency of delivery, and finalizing issues regarding warranties and service contracts. Organizations do not treat the purchase process as complete till the ordered goods are delivered in good condition to the user department. It is only after receiving confirmation from the user department that it is satisfied with the quality and quantity of the goods delivered, the purchase department forwards the bill to the finance department.

Multiple Sourcing

Multiple sourcing is the process wherein an organization depends on several different suppliers for purchase of goods and services. Sometimes organizations adopt the policy of multiple sourcing because having many suppliers from different backgrounds gives the organization an edge over its competitors as it can have access to the latest information about the products and services. Another major advantage is that the firm need not completely rely on the skills and capabilities of one single supplier.

Performance Review

The organizational buyer continuously monitors the performance of the products delivered and the service provided during the product's life. By conducting periodic reviews and evaluations of the supplier and the product's performance, the company can ensure that it is not incurring any losses at any stage of the production cycle due to negligence or lack in the service performance of the supplier.

The company may adopt different methods to evaluate the suppliers such as contacting the end users of the products from time to time to enquire about the performance of the products. The company may also adopt techniques like weighted score methods to grade the suppliers. The performance review will greatly help the organization in evaluating the suppliers and taking effective decisions, such as whether to retain the existing supplier or search for a new one.

USING STANDARD INDUSTRIAL CLASSIFICATION CODES

Marketers need relevant information about the characteristics of the industries to effectively market their goods and services. The prime sources to search for such information are government and industrial publications. The Standard Industrial Classification is a process by which such characteristics of manufacturing, financial and service sectors are depicted in a coded format.

The Standard Industrial Classification codes were first developed by the US Bureau of Census in the 1930s. The SIC divides the manufacturing sector into 20 major industry groups, wherein each industry is represented by a two digit code. Code 25, for instance, represents the furniture and fixtures industry. Each industry group is further divided into 150 industry groups represented by 3 digit codes. Code 252, for instance, represents the office furniture industry. Each such industry is further divided into 450 product categories represented by a 4 digit code. Code 2521, for instance, represents wood office furniture. The United Nations Statistical Commission (UNSC) is responsible for the classification of industrial codes at the global level. The UNSC released the classification of standard industrial codes for the first time in 1948. In India, the Central Statistical Organization (CSO) under the Ministry of Statistics and Program Implementation is the authorized agency to release the SIC codes. The CSO developed the SIC codes in India in 1962 for the first time on the basis of the codes developed by the UNSC. Generally, these codes are revised every 10 to 15 years. The UNSC issued the revised codes in 1958, 1968 and 1990, while the CSO revised its codes in 1970, 1987 and 1998 under the name, National Industrial Classification codes. These revisions are necessary due to the ever changing economic and industrial environment. For instance, the NIC 1987 is divided into the following ten sections. a) agriculture, hunting, forestry and fishing, b) manufacturing, c) mining and quarrying, d) electricity, gas and water, e) construction, f) wholesale and retail trade, and restaurants and hotels, g)transport, storage and communication services, h)financial, insurance, real estate and business services, i) community, social and personal services, and j)activities.

The CSO in 1962 released a 4 digit classification code comprising 9 divisions, 55 major groups, 284 groups and 753 sub groups. For example, the division 27 represents the manufacture of basic metals, and the group 271 represents the manufacture of basic iron and steel and the further division 2711 represents the manufacture of ferro alloys. Similarly, 2713 represents the manufacture of pig iron.

The NIC 1998 has changed the 4 digit classifications to 5 digit for covering the expanding businesses in the country. For instance, the 4 digit code 6023 representing freight and transport by road has been further divided into two codes, 60231 representing freight transport by motor vehicles and 60232 representing freight transport other than by motor vehicles.

The CSO has also issued two versions of product classifications under the common product nomenclature (CPN), first in 1978 and then in 1988/1990. The CPN 1988 covers product classification of transportable goods, while the CPN 1990 covers the product classification of non transportable goods (services).

These divisions of the industries and product categories will help industrial marketers immensely in analyzing the buying capabilities of the organizations along with the size of these markets in the country.

SUMMARY

The organizational buying process is entirely different from the consumer buying process. While buying decisions are made relatively easily and quickly by individual customers, organisational buying involves thorough and deep analysis. Organizations purchase products ranging from highly complex machinery to small components.

In an organization, the purchase decisions are influenced by several individuals and are not made in isolation by an individual. Organizational buyers are more concerned about the price and quality of the product along with the service being provided by the vendor. Price plays a major role, since the price of the raw materials is the investment from which profits are generated. Thus, price is a major factor which affects the profitability of the firm. Service also plays an important role, because no organization would like to buy goods from a vendor who cannot provide timely and efficient service.

Organizations adopt certain methods for buying products such as checking a sample before the actual purchase. Most organizational purchases involve purchase of products in large lots. So it is not feasible to individually inspect each and every item in the lot. In such situations, a sample is checked assuming that this sample represents the entire lot. Like the consumer markets, organizational markets also possess certain demand characteristics. The organizational demand for products or services may be inelastic, derived, joint or fluctuating in nature. Organizational markets normally purchase the goods or services for producing other goods and services, using these as raw materials. There are also resellers, who purchase the products to sell directly to other customers without any modifications. Apart from producers and resellers, there are also government and institutional customers who buy the goods. Government buys goods for public utility or for use in their departments or for production purposes.

The buying decisions of organizations are influenced by environmental factors, organizational factors, social factors and personal factors. Participants in the organizational buying process play as many as seven different roles, namely those of initiator, influencer, user, decider, approver, buyer and gatekeeper. Although organizations differ significantly from each other in their purchasing process, the various stages of industrial buying comprise problem recognition, general need recognition, product specification, value analysis, vendor analysis, order routine specification, multiple sourcing and performance review. Marketers need relevant information about the characteristics of the industries for marketing their goods and services effectively. To search for such information, the prime sources are government and industrial publications. The Standard Industrial Classification is a process where such characteristics of manufacturing, financial and service sectors are depicted in a coded format.

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Chapter 7

Marketing Research, MkIS and Demand Forecasting

In this chapter we will discuss:

- Meaning and scope of marketing research
- The marketing research process
- Barriers between marketing researchers and managerial decision-makers
- The importance of ethical marketing research
- Meaning and scope of marketing information systems (MkIS)
- Demand forecast and measurement

The environment for marketing has become dynamic and turbulent. Without adequate preparation, it is difficult for organizations to survive in such an environment. Companies need to collect information about customers' likes and dislikes and the reasons for them. Once the information is collected, they need to analyze it and devise new strategies to outperform their competitors. Consumer tastes and preferences change over a period of time, and marketers also need to know how the tastes and preferences of consumers are changing, so that they can either design new products and services accordingly, or develop their promotional and distribution strategies in line with consumer preferences.

Marketing research provides information about consumers and markets, and their reactions to various products, prices, distribution, and promotion strategies. Marketers who can collect accurate and relevant information quickly and can design their strategies quicker than their competitors will be the winners of tomorrow. Efficient and effective information management can provide organizations with significant competitive advantage.

A marketing information system is a process which helps marketers manage their marketing efforts, effectively and efficiently. It helps in planning, analyzing and presenting the information necessary for marketing decisions. The meaning and scope of a marketing information system is discussed in this chapter. The application of marketing research as a decision making tool for business units and the process of marketing research are also covered. The chapter also covers various types of demand forecasting and measurement. Finally, the different kinds of barriers to marketing research and the ethical issues concerned are discussed.

MEANING AND SCOPE OF MARKETING RESEARCH

Research is the process of finding a solution to a problem or a question through the use of scientific tools and techniques. Marketing research is a methodical and purposeful study conducted to obtain solutions for specific marketing problems. According to the American Marketing Association, marketing research refers to the systematic gathering, recording and analyzing of data about problems relating to the marketing of goods and services. Thus, marketing research is the process of collection of data in an organized manner, with subsequent recording and analyzing of such data that will help the business manager in an effective decision making process.

Marketing research encompasses all the spheres of marketing, right from the idea for a new product to after sales service. The information gathered and analyzed through marketing research can be used for internal purposes or for making important strategic decisions. The research process provides a scientific platform, contrary to the traditional intuitive approach of decision making by managers, which used to put large amounts of resources of the organization at risk. Marketers need to analyze the various paradigms of the market with precision to serve their customers and survive. Marketing research operates precisely in this area by helping marketers to analyze the market correctly and take effective decisions from time-to-time. A classic example is P&G, which relies heavily on marketing research for various decision making purposes (Refer Exhibit 7.1).

Companies in areas such as IT, pharmaceuticals, telecom, manufacturing, transportation, advertising agencies, banks, legal firms, universities and even governments utilize marketing research to find solutions to different kinds of decision making problems.

Exhibit 7.1

Marketing Research at P&G

In March 2003, Fortune magazine ranked Procter & Gamble (P&G), the world's leading fast moving consumer goods (FMCG) company, as #7 in the list of the 'World's Most Admired Companies.' P&G was one of the very few companies to have figured in this list for 17 consecutive years (1985-2002). P&G was ranked high on the parameter of 'ability to develop superior quality and highly innovative products on a consistent basis.' Analysts attributed this 'ability' to the company's understanding of consumers' needs and preferences that had evolved out of its continuous focus on marketing research (MR) from the very beginning.

With the setting up of its MR department in 1924, P&G became one of the first companies in the world to conduct formal research on consumer needs and preferences. Over the next eight decades, the company developed several innovative MR techniques. Its researchers were trained to get the information from consumers. P&G employed advanced technology to analyze the feedback it obtained and arrive at the right conclusions.

P&G used qualitative research tools, such as focus groups, in-house visits, in-context visits and in-store interviews, and quantitative research tools like blind tests, concept tests, and so on. The company also hired external agencies to conduct MR. In recent years, P&G has used the Internet as a medium for research and has, in the process, achieved significant savings of cost and time. Commenting on the benefits of the Internet, Barbara B. Lindsey, director of P&G's consumer research services and new-technologies group, said, "It can save you a whole lot of time and a whole lot of money." It has also helped P&G reduce its reliance on external research agencies.

Commenting on the importance the company attached to MR, an employee in its market research department said, "They really believe in (research). They do not just do it as a routine thing; they do it with genuine interest in finding out. …. They're really curious. They believe in the results; then they act on (that belief)."

It is believed that P&G's foray into MR was more a coincidence than a pre-planned initiative. In 1923, D. Paul Smelser (Smelser) was appointed to form an economic research department to predict fluctuations in the commodities market. However, Smelser was more interested in research concerning P&G's consumers. He was curious to know why they bought the P&G brand and their perceptions of the products. Impressed by Smelser's enthusiasm, the management asked him to head the MR operation.

In 1924, P&G set up its MR department to study consumers' buying habits and their tastes and preferences. Over the decades, P&G developed several research methodologies. Its researchers practiced the polite way of asking questions and extracting the required information. Feedback from consumers, and observations made by P&G researchers contributed to the development of new products.

Source: "Marketing Research at P&G," ICMR Center for Management Research.

THE MARKETING RESEARCH PROCESS

As marketing research is a systematic and formalized process, it follows a certain sequence of research actions. The marketing research process has the following steps:

1. Formulating the problem
2. Developing objectives of the research
3. Designing an effective research plan
4. Data collection techniques
5. Evaluating the data and preparing a research report

Formulating the problem

The purpose of conducting marketing research is to find a suitable solution for a specific and immediate problem confronted by a business manager. The problem formulation is the first and the most important step of the marketing research process. The problem has to be defined clearly and specifically, as an ill-defined problem may result in an ineffective solution. The problem faced by the manager has to be properly translated into a research problem and the reason why the research is required should also be spelt out.

Though errors and biases can creep into marketing research at any stage of the process, if the decision makers and researchers do not agree completely on the definition of the problems, the entire research effort will be wasted. At this stage, the precise information requirements to make the marketing decision should be defined.

Developing the objectives of the research

The objectives of the research should clear and specific. The objectives should cover questions regarding the purpose of the study, how the study should be conducted, the information needs and the sources of information.

Designing an effective research plan

The design of the research plan determines the tools and techniques that are employed for conducting marketing research. Normally the research design is broadly classified into exploratory research, descriptive research and causal research.

Exploratory research helps the management identify the presence of potential opportunities and threats for the company. It is generally conducted with minimum expenditure of time and cost during the initial stages of decision making process. The data is obtained from books, journals, magazines, reports, case studies, etc. Other approaches for acquiring background information include interviewing knowledgeable persons, and analyzing case histories. For example, Intel conducted an exploratory research in Baramati village of Maharashtra where an annual conference on ICTs (Information and Communication Technologies) was held. Several government, non-governmental organizations, private enterprises and social entrepreneurs participated. The outcome of this exploratory research was a classification of the uses of ICTs in the economic development of the country into four segments:

- Utilization of ICTs as a tool by village entrepreneurs for earning money.
- ICTs as tools for leveraging efficiency in economic development projects.
- ICTs as tools of education used both by the government and non-government agencies.

Descriptive research is generally conducted after the exploratory research. As the problem is clearly defined in exploratory research, the quantum or intensity of the problem is identified in descriptive research. Descriptive studies usually involve a small number of subjects. For example, studying the traffic movement at a particular junction to install traffic signals is an example of descriptive research.

In causal research, the cause and effect relationships between two variables are analyzed. This research helps managers select a particular strategy. It is carried out with a detailed questionnaire and with clearly defined objectives. For example, if HLL is trying to find out whether the increase in sales of Surf detergent powder over the previous year is due to the reduction in its price, it will be an example of causal research.

Research Instruments

The research instruments generally used to collect primary data are questionnaires and mechanical instruments.

Questionnaires

Questionnaires are formal sets of questions prepared to collect the required information. This is one of the most effective and popular techniques used in surveys. However, one has to be careful when drawing up questionnaires. Before deciding on the questions, it is important to understand the exact nature of the information required and who should be interviewed. The contents, phrasing and the sequence of the questionnaire should also be clear and unambiguous. The knowledge levels of target respondents should be kept in mind while drawing up the questions.

Mechanical instruments

Mechanical instruments such as galvanometers measure the responses on various parameters such as emotions, interest in an advertisement or a picture, etc.

The tachistoscope is another instrument where a message is flashed for about one hundredth of a second several times and the subjects' behavior is observed. For example, Coca-Cola flashed its logo in a drive-in theatre several times on the screen for a split second while the movie was going on. None of the viewers remembered having seen the message but Coca-Cola sales went up during the interval.

Sampling

Before discussing sampling, let us first determine what a sample is. A sample is a subset of a unit or a population, collected as a representation of it. For instance, if we select about a hundred telephone numbers of a particular area from a telephone directory to study a particular research problem, it is called a sample. (Sample should be the representative of the population. It should be tested. The testing procedure is beyond the scope of the book.) In such a case, the telephone directory would be considered as the population. A sample is used to discover one or more properties of the population. Collection of samples is called sampling. Proper sampling design is essential in marketing research. The sample has to be collected in such a way that it represents the population.

Sampling units

In sampling, researchers decide who will be surveyed. Most often, it is not possible to collect information about the entire population. Therefore, researchers need to define the portion of the population that they are going to target.

The portion of the population that researchers need to target and that represents the entire population is known as the sampling unit. The target population is defined on the basis of research objectives defined earlier. The target population should be selected in such a way that everyone in the population has equal chances of being included in the sample.

Sample size

The size of the sample is an important element in the research process. As the size of the sample has a direct affect on the result of a research, it is essential for researchers to select an appropriate sample size. As the size of a sample increases, accuracy and reliability of research results also increase. However, the cost of the research also increases. Therefore, researchers need to make a trade-off between the accuracy and cost of research.

Sampling procedure

Sampling procedure is the way in which we select a sample. The methods for selecting samples include stratified and unstratified sampling, probability and nonprobability sampling, single stage sampling and multistage sampling, equal unit probability sampling and unequal unit probability sampling, and single unit sampling and cluster of units sampling. Probability sampling and the nonprobability sampling are procedures, which are widely used. Probability sampling is a sampling technique where each unit has a known chance of being selected in the sample. In nonprobability sampling, there is no known chance of being selected in the sample. Simple random sampling, stratified sampling and cluster sampling are methods that come under probability sampling. Nonprobability sampling methods include convenience sampling, quota sampling, judgment sampling, etc.

Data Collection Techniques

The information requirements for solving a business problem are identified in the problem formulation stage. In this stage, the sources from which information can be found are identified. Data for a research can be collected from two sources - primary and secondary. Primary data is direct or first-hand data collected from respondents. It is collected using research instruments like questionnaires, mailers, telephonic interviews, etc. Secondary data is collected from already available sources such as published papers, journals, magazines, reports, company literature, etc. Researchers need to evaluate the cost effectiveness of the sources before selection.

Primary data collection

Primary data is collected by surveying the sampling units or the elements of the sampling units. Primary data is the first-hand information gathered to solve the research need. For example, if a marketer collects opinions regarding customer service from his customers, then the data thus obtained will be primary data. The collection of primary information is expensive and time consuming.

Mail interviews

Mail interviews are widely used for the collection of information, since the cost is relatively low. Project Management Institute (PMI), USA, interviews its members by mail annually to get to know what its members expect and how its services can be improved. Similarly, the ICFAI University Press, India conducts mail interviews of its customers by sending a questionnaire to them. This is done in order to understand its customer requirements better, assess the level of customer service and improve its customer relationships. Respondents in a mail interview can remain anonymous if they wish to. In such cases, they can express their opinions openly, criticize products and services, and provide confidential and accurate information. The advantage of the mail interview is that the respondent can respond to the questionnaire at his convenience. One of the biggest problems in mail interviews is the low response rate. It is believed that only about 20 to 40 percent of the respondents reply to mail interviews. If some monetary incentive is added for the response, the response rate increases significantly. However, the amount of incentive to be given to respondents is always a major concern for researchers. Researchers also need to decide whether it makes economic sense to provide incentives to respondents. The length of the questionnaire, deadline given to respondents, anonymity, confidentiality, etc. are other areas, which the designers of questionnaires need to decide on.

Telephonic interviews

Telephonic interviews are often conducted when the information required is not great and needs to be collected quickly. The cost of conducting telephonic interviews is also low compared to the cost of personal interviews. Research regarding non-confidential and general information can be easily elicited through telephonic interviews. People can be easily reached on telephones and the reluctance level of respondents is usually low. But the response rate in telephonic interviews is also low, since on average only one call per six calls is picked up. For example, if the researcher wants to know about the viewership of a program, a call can be made to viewers at the time when the program is being aired and questions like, “Which program are you watching?”, “How often do you watch this program?”, etc. can be asked.

Though it is possible to hold either structured or unstructured interviews on the telephone, normally structured interviews are used. This is because the amount of information collected from the respondents is very limited. The information is also well defined and not confidential in nature. Therefore, structured interviews are more suitable for telephonic interviews.

Personal interviews

Personal interviews are conducted when an interviewer and interviewee are physically present at one place. They can be one-to-one or one-to-many. In other words, an interviewer can interview one interviewee at a time or many interviewees at a time. The interviewer asks questions and records the responses from the respondents. He can record the responses during the interview or at the end of the interview. However, he needs to ensure that the information is recorded in an unambiguous manner.

This method, however, is costlier than most other methods like mail and telephone interviews. It also has inherent drawbacks such as bias on the part of researchers as well as respondents. Respondents may be reluctant to share the confidential information which may be essential for the research process. But with a properly selected sample and well-trained interviewers, important information can be gathered from respondents.

Observation

This method of collecting the information from respondents is effective only when the interviewer is highly trained and intelligent enough to draw the appropriate conclusions through active observation of the respondents.

Secondary data collection

Secondary data is collected from the company's internal and external resources. While the internal sources include the company's literature, annual reports, sales reports, etc., the external sources could be independent magazines, journals, legal documents, government gazettes, etc. Compared to primary data, the collection of secondary data is cheaper and less time consuming. As information in the secondary sources is readily available, it can be compiled quickly by researchers. However, the reliability of secondary sources is an aspect that the researchers should always look into before selecting them. Researchers also need to ensure that the sources are free from biases.

Evaluating the Data and Preparing a Research Report

Once the information is collected, it is edited and coded. The data after coding is tabulated and evaluated using statistical applications. After data analysis, a detailed research report indicating the extent to which the objectives set for the research process have been fulfilled, is made. This report is submitted to the management to contribute to effective decision making. Exhibit 7.2 explains how the data is presented after the survey to indicate potential business opportunities.

Exhibit 7.2

Branding Potential in the Unbranded Food Market

AC Nielsen ORG MARG conducted a study to analyze the potential of branding the foods market as 90 percent of the market has been left untapped. The branded FMCG retail market is valued at around Rs. 44,000 crore, according to retail stores audit data. But the untapped potential for branded food in the retail FMCG is Rs. 1,74,000 crore according to AC Nielsen India. The study also lists 50 categories, which contribute in excess of 83 percent in value terms to the total FMCG market. The study also gathered secondary data from government web sites and other published documents. It found that 90 percent of the food market is unbranded.

The food segment is classified into two sets, one where the branding is very limited as for sugar, rice, wheat flour and spices. On the other hand, a significant amount of branding has been done for products like edible oils, ghee, coffee, salt and namkeen. There are about 87 brands of wheat flour in local markets with just about 5 percent of market penetration. Branded wheat flour distribution has increased by 41 percent with regional players contributing 34 percent to the distribution rise. But, there has been a good growth in the branded salt market. The two salt brands Dandi and Nirma increased their retailer base to over 2 lakhs in about one and a half year's time. The growth in the edible oil segment was over 20 percent with the entry of new players and also because of the market expansion. The Soya and cottonseed brands have grown by 30 percent and are priced less than sunflower oil brands.

The reach of namkeen segment in the market has increased to 45 percent, with the brands Frito Lay and Haldiram at the forefront. The media spending for these brands has also increased by 35 percent over a period of three years. Regional brands have so far been successful in branding with the strengths of price and local distribution. However, namkeens have become successful across the country. In the future, there are good prospects for branded wheat flour and spices. Branded sugar should strike a balance between quality and affordability, since this balance is a crucial factor, for the success of these brands.

Adapted from Ashok Nair, "The Real Food Fight," The Economic Times, 17 September 2003.

BARRIERS BETWEEN MARKETING RESEARCHERS AND MANAGERIAL DECISION-MAKERS

Market research is conducted using either an internal team or external consultants. No matter who conducts the research, the job is not an easy one. Decisions made on the basis of research usually find low level of acceptance within a company. Which factors impede the acceptance of research decisions? Let us discuss some factors which act as barriers between research and marketing decisions:

Often, managers are not clear about the objectives of the organization and therefore, cannot set the objectives of the research clearly. As a result, the survey begins with unclear and vague objectives, which jeopardizes the entire research.

Sometimes, managers do not clearly define the problem for which the research to be conducted. The definition of the problem is the most critical aspect of marketing research, and this has to take place right at the start. Poor or ill-defined problems result in solutions, which are not effective.

Some managers consider marketing research as a threat to their jobs, as they feel that the findings of the research may conflict with the knowledge and experience they have gained over the years.

Managers may not coordinate their activities with research staff, as they may be unaware of the tools and techniques used in the research. This may act as a barrier to effective communication between the manager and the research staff.

Often, there is a lack of continuous interaction and proper coordination between the research staff and the managers. As a result, the way the manager perceives the research report and the actual findings do not match.

THE IMPORTANCE OF ETHICAL MARKETING RESEARCH

The significance of ethics in marketing research has increased significantly in the recent past because the scope of marketing activities has also increased tremendously. Earlier, marketing activities were carried out only by private companies. But, of late, municipal governments, educational institutes, and non-government organizations have also started marketing their activities. With the expansion of marketing activities, the volume of marketing research has also been increasing continuously. And therefore, companies have to deal with a larger number of ethical issues. Greater awareness of rights among respondents has also increased the prominence of ethical issues.

Companies today use marketing research as an effective tool for decision-making. Marketing research gives valuable information about customers, which is otherwise difficult to obtain. Classified and confidential information obtained through marketing research demands the maintenance of ethical standards. Research firms have been accused of using unethical practices in conducting research and surveys. This has been a threat to the field of marketing research as a whole. To overcome the suspicions of the public with regard to marketing research, certain codes of conducts have been developed. The American Marketing Association had set up guidelines for ethical standards in marketing research. It states that, as society is becoming more complex by the day and since marketing research requires information to be collected from the public, respondents must be protected from misrepresentation and exploitation of information obtained under the guise of research.

It also states that no individual or organization should sell a product or service to respondents under the guise of research, and that the anonymity of the respondent should be protected. There should be no deliberate intention on the part of the researchers to exploit or misrepresent research results. Research for a competitor of the existing clients should not be carried out as it may conflict with the interests of the client, and all the information received from the respondents must be held in strict confidence and should be revealed to no one except to the research agency conducting the research. The information obtained from the respondents must not be used for the personal gain of the interviewer. Interviews must be held strictly in accordance with the specifications and instructions issued.

Consumers have rights and they must not be violated to collect information. These rights include the right to choose, the right to safety, the right to be informed and the right to be heard. The right to choose is violated if any of the following three conditions exist: subjects are unaware of their right to refuse, or they lack sufficient knowledge to make an informed choice, or they are not given an opportunity to choose.

The right to safety is violated if promised anonymity is not protected, if respondents are put through stressful situations or are deceived in some way. The research procedure may induce stress and anxiety in respondents. For example if questions, which a respondent cannot answer, are asked, he may feel stressed. Deception is an issue that is most talked about in marketing research. Deception can lead to bias in the collected data, contaminate the subject pool and result in public outcry. The use or absence of deception can affect research results. Deception may raise suspicion in the mind of respondents, which may affect their experimental performance. The absence of deception may, however, afford the respondent the opportunity to select the role he will employ and confound results.

MEANING & SCOPE OF MARKETING INFORMATION SYSTEM (MkIS)

An MkIS consists of a set of efficient procedures and techniques utilized by the employees of the organization to collect, evaluate, analyze, tabulate, sort and generate proper reports for marketing managers to assist them in effective decision making.

Many companies have a separate MkIS department that works according to the requirements of marketing managers for their various decision-making processes. The MkIS department gathers information regarding marketing mix allocations, consumer behavior, product acceptance in the market, sales analysis, industry and competitor analysis and all kinds of information which may be relevant for marketing. The MkIS supplies three types of information to the marketing department – recurrent, monitoring and requested information. Recurrent information is the information that is supplied on a periodic basis and includes information on market share, customer satisfaction, customer purchase intentions, etc. Monitoring information is the information that is obtained by scanning of information sources on a continuous basis and includes information on the industry, competitors, etc obtained from newspaper articles, magazines, trade journals, government reports and annual reports. Requested information is the information that is generated in response to an explicit request by the marketing department and includes information pertaining to market share, competitors, level of customer satisfaction, etc.

MkIS Components

The components of MkIS are: the internal record system, marketing research system, marketing intelligence system and marketing decision support system.

Internal record system

It provides information about the demand and supply, price factors, stock status, etc. Internal record system consists of two parts:

- Order to payment cycle
- Sales reporting system

Order to payment cycle

The order to payment cycle is the most crucial element of the internal record system. Companies use this method to deal effectively with supply and logistics problems by getting the latest information from sales representatives, dealers and distributors. Using this information, companies can serve their customers and supply them products in the right quantity at the right place.

Sales reporting systems

The sales reporting system enables a company to keep in contact with its marketing team by disseminating and receiving the latest information. Sales representatives use computer technology to feed in the latest information about the market, customers and the product to their head office. Exhibit 7.3 explains how a hand held device can help salespeople provide real time information to dealers, wholesalers, etc. In the opposite direction, the central office sends in the latest information about the prices, product specifications and relevant marketing information to its sales people through the Internet or other available networks.

Exhibit 7.3

Data Instruments Assisting Sales People

Salespeople interact continuously with stockists, distributors, etc., collect information about stock levels, update their day-to-day transactions in the office, and keep track of different schemes and promotional activities launched by the company from time to time.

Uberall Solutions (I) Ltd, a Pune-based company, has developed software to meet these types of information needs. The software works on a hand-held device. It automates the day-to-day tasks and the reporting activities of the sales people, updates the latest information regarding price lists, dealer lists, schemes and promotions, sales register and outstanding? .

Salespersons in turn feed in the details of retailers' needs. The information from the salespersons' palm-top is sent to the central computer through the infrared point and this transaction takes less than a minute. The information can be alternately transferred via Internet or through mobile phones.

According to Mr Parimal Chanchani, director of Uberall, this technology is the first of its kind in the country and has been successfully used by Pidilite Industries, which provides these devices to about 100 salespeople. Mr.R.N.Mohanty, Vice-President, IT services, Pidilite Industries, said that this technology helped the company in automating the manual process with little effort and empowered their sales people with a strong mobile solution. He also said that it improved the company's sales and reduced its inventory holding costs. The product only requires about 2 percent of customization for implementation.

The palmtop device is available in the market for a price of Rs.5000; it has 4 MB memory with the application occupying 96 KB space. Training to use this instrument takes just about 3 hours, and salespersons are then ready to use their new gadget for better sales in the market.

Adapted from R. Savitha, "Keep Pace with Data," The Hindu Business Line, 11 June 2003.

Marketing intelligence system

A marketing intelligence system helps a marketing manager analyze the marketing environment by providing relevant information. The marketing intelligence system is developed through constant interaction with customers, dealers, and suppliers, and information fed in from trade related articles, journals, and various other such publications and also through constant monitoring of the competition and their strategies.

Marketing decision support system

The marketing decision support system collects and processes information using computer software programs, advanced statistical tools and other such techniques to obtain a scientific solution for marketing problems.

The marketing decision support system should be able to store and retrieve data easily, and generate reports at short notice. It should have the flexibility to represent data using advanced graphic tools and be able to provide possible solutions to different inputs. The marketing decision support system uses techniques such as conjoint analysis that analyzes the different ranks given by the respondents for each of the product attributes shown to them. Cluster analysis analyzes objects on the basis of their exclusivity. Factor analysis, multidimensional scaling, discriminant analysis, and multiple regression are some of the other statistical tools used.

DEMAND FORECAST AND MEASUREMENT

A company conducts marketing research to find out the credibility of the product in the market, its sales patterns, buyer acceptance levels and, most importantly, to forecast future sales. Proper sales forecast results give the company an idea of various resource requirements such as finance to be acquired, the plant capacity, the human resource base, inventory levels, etc., which can then be planned for. Most of the time, sales forecasts are estimated on the basis of the market demand. Market demand may mean different things to different marketers, but the marketer needs to have a clear idea what it means to his company, and estimate it accordingly.

Market Classification

The number of customers who are likely to become customers and buy a product represents the size of the market for a product. The concept of the market is understood in differing senses such as the potential market, the available market, the qualified available market, the target market and the penetrated market.

A market, which represents the set of buyers interested in buying a product, constitutes a potential market. For example, all men aged above 18 years who shave regularly are potential customers for razors and other shaving accessories. The available market refers to the number of buyers who have an interest in the product as well as purchasing capacity and access to the market.

When access to a product or a service is restricted to a certain group of customers, even though others have an interest in the product, purchasing capacity and access to the market, this restricted market is referred to as the qualified available market. For example, the government does not permit people below 21 years of age to enter pubs and bars. So, for bars or pubs, people above 21 constitute the qualified available market.

The target market is the part of the available qualified market that a company is focusing its sales and promotional activities on. For example, if an educational institute starts a postgraduate program in Civil Engineering in Andhra Pradesh, all civil engineering graduates are the qualified available market. If the institute targets only civil engineers from Andhra Pradesh, they are its target customers. Similarly, when NIIT launched a computer course for housewives, all educated housewives became the target market for NIIT.

The penetrated market is the market that comprises of customers who have already purchased the product.

The Concept of Market Demand for Marketing

The market demand for a product under a specified marketing activity is the sales volume of the product in the target market for a specified time period in a particular region.

Market Potential

The market potential refers to the optimum sales volume that can be reached where any further increase in marketing efforts will not have any significant impact in further increasing the sales in the given environment. A manager can assess the worldwide and countrywide market potential for pagers, for example, by using secondary and historical data on wireless telephone and paging service diffusion. To get an idea of the market potential for both paging and a related new service, he can use information such as the number of current subscribers, telephone infrastructure, population, gross national product, income distribution, travel patterns, occupations, and so forth.

Company Demand

Company demand is measured on the basis of its marketing efforts with respect to its competitors. The company's efforts such as effective promotional and advertising strategies, pricing patterns, distribution of the product and effective after sales service determine the company's market share of the product. If other factors remain constant, the market share of a company's product depends on the amount of expenditure spent on marketing relative to the competitors.

Company Sales Forecast

After determining the company demand, the firm must determine the level of marketing effort that is needed to generate an expected sales volume. The sales forecast refers to the amount of sales a firm expects to generate with a chosen marketing plan, in a given marketing environment.

Here it is important to understand the interdependence between a company's sales forecast and the marketing effort. It is often cited that a firm should develop its marketing plan on the basis of its sales forecast. However, this approach is effective only when company demand is non expansible i.e. market demand is not very much affected by the level of marketing expenditure. This method of developing a marketing plan should not be followed when the market demand is expansible or when the term "forecast" implies company sales. A company sales forecast as we have seen does not form a basis for determining the marketing expenditure. On the other hand, the company sales forecast is the result of a marketing plan.

Sales Quota and Sales Budget

The sales quota is the target that has been set for a particular marketing parameter; e.g. the parameter could be the marketing manager's sales in a region and/or the sales of a product range. The sales quota is normally defined in order to encourage efforts to push sales to the maximum possible limit. The sales budget is prepared on the basis of the estimations of sales forecasts and in general, a conservative estimate is used so that the expenditure involved in processing, sales and other related activities does not go out of control.

Current Demand Estimation

The current market demand can be estimated using environmental factors such as total market potential, area market potential, total industry sales, etc. The total market potential is the maximum market available to an industry under a given set of conditions. For example, the total market potential for a premium automobile product such as Mercedes Benz is the number of people in the highest income group not yet possessing the same car or any other equivalent car. We will look at examples of estimation of the current demand in consumer and industrial markets in the following paragraphs.

For estimating the industrial market demand, let us take an example where we have to estimate the market potential of a product called SKO (Superior Kerosene Oil), which can be used as a substitute in large scale industrial generators. We have to first find out the list of all the industries, which are currently using diesel generators, then find out the potential customers who are willing to shift to a low cost substitute, then estimate the monthly or weekly requirement of the SKO in liters, and then finally analyze the capacity of the company to supply that quantity.

Consumer markets are difficult to analyze, since the size of the market is huge compared to the industrial markets. Therefore, usually a marketer estimates the sales of a particular product in a specific region and then extrapolates it in proportion to the population of that area. For example, a laptop manufacturer wants to estimate the sales potential of laptops in India. He has the data for the sales potential of laptops in

Karnataka. If this figure is 4% of the total population of Karnataka, he can extrapolate that the total market for laptops in India is around 4% of the total population of India. But unfortunately, we cannot estimate sales in this manner, as there are lots of other factors, which influence the sales of laptops. For instance, the maximum sales of laptops in India are in Bangalore, the capital city of Karnataka. Therefore, factors like computer literacy, number of technology savvy persons, etc. are some of the factors that affect the sales of such products.

Future Demand Estimation

Estimation of future demand is an essential part of any business activity. A good estimation gives a fair idea of the sales in the near future and helps in taking effective steps to realize the sales. Estimation for products which have fairly consistent sales, or which are frequently used products, is relatively easy compared to estimation for products whose sales keep fluctuating. The demand estimation techniques used for products with fluctuating sales should be highly effective and accurate, as estimating the future demand for such products carries immense significance to the marketer.

The demand estimation process is generally carried out by research agencies, which observe environmental factors such as the effects of government regulations, population trends, etc. and then estimate the demand depending on the industry patterns for sales in the particular product range. Following this, the estimation depends on the firm’s performance on various parameters. These forecasts are made with the help of techniques such as the composite sales force opinion, survey of buyer intentions, expert opinions, etc.

Composite sales force opinion

Using the composite sales force opinion, the sales team is involved in estimating future demand patterns. The company asks its salespeople to estimate sales patterns in the near future depending upon their experience in the market. This method is reliable and advantageous, but does have certain inherent fallacies. A sales representative might underestimate demand, perhaps relying on some bad experiences he may have had in the immediate past. On the other hand, he/she might project the sales excessively high on the basis of positive experiences in the recent past. Different sales people project sales very differently on the basis of their intuition.

However, the company must take measures to deal with this possibility by providing all the relevant and essential data about the market, competition and customers to the sales people. Providing incentives for proper projections also help motivate sales people, and make them more responsible. They will realize the importance of accurate estimation since the sales projections and targets that they have to achieve are being determined on this basis.

Survey of buyer intentions

Consumer behavior patterns are generally the most critical part of demand estimation. Consumers behave differently at different times, and therefore to forecast sales, it is essential to conduct consumer research surveys. These surveys are aimed at eliciting the factors, which will give an idea of the consumers’ demand patterns in the near future. For the launch of “New Coke” in 1985, Coca Cola conducted a customer survey as detailed in Exhibit 7.4. Though buyers reacted negatively to the new product it, Coca Cola went ahead with the launch, but it later had to withdraw the product from the market.

Expert opinion

The companies also sometimes seek the help of experts in the field to estimate sales on the basis of their experience and knowledge. These experts may be dealers, suppliers and consultants who can share their expertise in the projection of the future sales.

Exhibit 7.4

Launch of New Coke and Its Aftermath

In the 1970s, Coca-Cola faced tough competition from rival cola Pepsi. Coca-Cola's sales continued to decline steadily during the late 1970s. As a result, Roberto Goizueta (the then CEO of Coke) was struck by the idea of reformulating the 99-year-old Coke formula. The purpose was to increase Coca-Cola's market share as well as to defend its position as the market leader.

A thorough market research was conducted which included interviews with about 2,00,000 consumers. This involved an expenditure of $4 million over two years. The results indicated that consumers who were very fond of Coke constituted 10-12% of the total number of soft drink consumers. When asked for their reactions to the change in Coke's taste, half of 10-12% loyal Coke consumers said that they might oppose the change initially, but would eventually accept it, while the other half said that they would never accept any change.

In some cases, the response was contrary to actual behavior. For instance, some of the consumers, who had said that they preferred Coke to Pepsi, were found to actually drink Pepsi most of the time. Others said Coke was their favorite drink but they drank Pepsi or any other available drink. It was found that many people preferred Pepsi to Coke because Pepsi was sweeter. On the basis of these findings, Coca-Cola felt that the sweeter taste would appeal more to teenagers and youth. Hence, it decided to launch a sweeter version of Coke.

Coca-Cola also conducted a focus group research, which revealed that many people were willing to try New Coke. However, some consumers felt that Coca-Cola should not alter the taste of the drink. Although both the surveys (focus group and survey research) indicated consumer dissatisfaction, their results were contradictory to each other. While the survey result indicated that such dissatisfaction was limited only to a small segment of the market, the focus group research observed a wider dissatisfaction.

In September 1984, Coca-Cola introduced a new drink (New Coke) that tasted different from Pepsi and scored 6 to 8 points over the original Coke in blind taste tests. The original Coke already exceeded Pepsi's popularity by 10 points. The launch of a sweeter version of Coke was expected to make Coke more popular than Pepsi by approximately 16 to 18 points. Though the market research had shown customer dissatisfaction with New Coke, Coca-Cola ignored it and decided to go ahead with the launch of New Coke based on the results of the blind taste tests.

On April 23 1985, Coca-Cola, the largest aerated beverage manufacturer of the world, launched a sweeter version of the soft drink named 'New Coke,' withdrawing its traditional 99-year-old formula. New Coke was launched with a lot of fanfare and was widely publicized on television and in newspapers. Coca-Cola's decision to change the formula for Coke was one of the most significant developments in the soft drink industry at the time.

Though the initial market response to New Coke was satisfactory, things soon went against Coca-Cola. Most people who liked the original Coke criticized Coca-Cola's decision to change its formula. They realized that the taste of New Coke was similar to that of Pepsi, Coca-Cola's closest competitor, and felt they had been given a raw deal. Analysts felt that Coca-Cola had failed to understand the emotional attachment of consumers with Coke - the brand. They felt that Coca-Cola had lost customer goodwill by replacing a popular product by a new one that disappointed consumers.

As a result of consumer resistance to New Coke and a significant decline in its sales, Coca-Cola was forced to withdraw New Coke from the market and revert to its original formula ten weeks later by launching 'Coke Classic' on July 11, 1985.

Source: "Launch of New Coke and its Aftermath," ICFAI Center for Management Research.

Past sales analysis

Companies also use past sales information for projecting future sales patterns. There are several techniques for this like time series projections.

Exponential smoothing: This method looks at the weighted average of past sales giving a higher weightage to more recent sales.

Statistical demand analysis: This method determines the effect of factors such as marketing expenditure and the price of the product on its sales.

Econometric analysis: This type of analysis determines the sales system using statistical tools by developing sets of equations.

Test marketing method

Test marketing is nothing but testing the sales of the product in the market for a few days. Test marketing is employed for products where effective estimation is not possible, or where forecasting is not suitable for the products. For such products, directly testing the product in the market is preferred.

SUMMARY

Marketing research is the careful analysis of a business situation by scientifically analyzing it and using various statistical applications to the subject of study. The marketing research process consists of five steps: defining the problem and formulating the objectives of the research, effective research plan development, collection of data, evaluation of the information collected, and formulation of the research report. The data is collected by applying different methods like mailers, personal interviews, and telephonic interviews.

A marketing information system helps companies provide crucial marketing information to managers using internal record systems, marketing intelligence systems, marketing decision support systems, etc.

Companies need to forecast their sales, in order to function smoothly and to achieve their objectives. To estimate current and future demand for the product, they use estimates of market demand like total market potential, area market potential, composite sales force opinion, survey of buyer intentions, expert opinion, past sales analysis and test marketing method.

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Chapter 8

Market Segmentation and Market Targeting

In this chapter we will discuss:

- Need for segmenting markets
- Market segmentation levels
- The selection of segmentation variables
- Effective segmentation
- Target market selection process

Ever wondered why Maruti Udyog Limited is providing different models such as 800, Alto, Zen, Wagon R, Versa, Esteem, Baleno, etc., to customers? Usually, people say that it is to provide variety. Though that is true, it throws light on the importance of segmentation in marketing. Segmentation is all about dividing the market to serve it better. If you ask your classmates about their favorite outfit, you might get different answers, some might say jeans; some might say *kurta pyjama*; others might prefer formal wear; you can see that all of them differ in their tastes and preferences and they might change as they grow up. Just as the tastes of your classmates differ, the market is also filled up people with different tastes and preferences.

Dividing the market by grouping the customers with similar tastes and preferences into one segment is called segmentation. Market segmentation is becoming increasingly important for marketers. Different product ranges target different customers. Segmentation helps marketers understand the needs of different customers better and serve them with better value propositions. If marketers know which segment of the market they are targeting, they can design their marketing mix to suit the customer in the segment. For example, Intel, the chip giant, launched a cheaper mobile processor, Celeron M, which is targeted at the 'value market' segment. Segmentation also helps the marketers increase customer loyalty, as the marketers focus on these smaller markets with enhanced service and quality features. To remain competitive, companies need to develop and refine their products and services to meet the needs and preferences of various segments.

NEED FOR SEGMENTING MARKETS

Organizations used to think that if they targeted only a segment of a market, the economics would not work. Therefore, Bajaj earned huge profits and became the most successful scooter manufacturer by offering a single mass product "Chetak" for many years.

But over the years, many companies have realized the importance of segmentation as the consumers are becoming increasingly aware of their needs and are demanding products that match their needs exactly. For example, customers earlier used to just look for a mode of transportation. And Ford exploited it. Therefore, Henry Ford once said, "One could have any color, he/she wanted, as long as it is black." But later, many companies made inroads into the transportation sector and started looking at different segments of the market and at satisfying their needs. The companies started providing a vehicle or mode of transportation with higher fuel-efficiency, power, style, color, and such many other attributes. The increased preferences of customers paved the way for flooding the market with many different varieties and brands of vehicles catering to the needs of different segments.

Market segmentation looks at markets consisting of customers who differ in their wants and needs. Some firms adopt market segmentation because they lack the ability and competitiveness to cater to the mass market. But of late, market segmentation is being suggested as the best strategy for targeting the markets. However, to effectively and efficiently target the markets, certain questions have to be first answered such as are the customers so different that segmentation is the only option? Research has shown that most products have high sales after segmentation rather than prior to it. By introducing different products of the same product line, would a firm not reduce its own market share? Research shows that it is not the case; in fact, the market share has risen for the carefully launched products. For instance, Surf, Rin, and Wheel are brands in the same product line of HLL, but they are leaders in different segments.

MARKET SEGMENTATION LEVELS

A market comprises of different consumers possessing innumerable tastes and preferences. Depending on their marketing approach and the nature of the products, marketers can adopt different levels of segmentation. The levels of market segmentation are:

- Segment Marketing
- Individual Marketing
- Niche Marketing
- Local Marketing

Segment Marketing

Marketers divide the target market into different segments on the basis of homogeneous needs. Although it is evident that no two customers are alike, these customers are segmented on the basis of a broad similarity with regard to some attributes such as tastes, preferences, etc. The marketer then has to provide flexible solutions to the segment. Sometimes, marketers target more than one segment when it is not economically feasible to design products and services for individual segments. However, the focus of segmenting the market will be on providing enhanced service to the customers by offering customized products that will satisfy the needs and wants of customers in that particular segment to a large extent. Segmentation is also sometimes identifying, capturing and retaining potential new markets. For example, Tata entered the jewelry market with the brand name Tanishq. It segmented the market on the basis of the level of purity required by people and targeted people who wanted 24 carat gold unlike the gold being sold by other conventional jewelry stores. Another very good example is Oyzterbay. It segmented the market on the basis of the usage of jewelry and targeted the segment, which no other jeweler had targeted, with its daily wear jewelry priced between Rs.500 and Rs.5000. Thus, it secured a distinctive advantage by targeting the segment, which no other branded jeweler had targeted.

Individual Marketing

Individual marketing is the extreme level of segmentation in which marketers focus on individual customers. In fact, almost all the business-to-business marketing is individual marketing. These days, most companies are approaching individuals through e-mails to promote their products and services. These companies usually have a tie-up with popular websites like yahoo and rediff and send their promotional mails to the large customer base of these sites. Amazon.com keeps track of individual tastes & preferences of customers and sends mail alerts whenever a book is introduced in the market that suits their preferences.

Niche Marketing

Niche marketing can be defined as the marketers' effort to position their product or service in smaller markets that have similar attributes and have been neglected by other marketers. These smaller market segments should also be profitable. The market segment when further divided into sub-segments to identify and cater to the unsatisfied needs of a small group is called a niche. Generally, a niche is a small segment of the market that has some specific unsatisfied needs. The fundamental difference between a segment and a niche is that a segment is usually a broader marketplace where many competitors operate.

Exhibit 8.1

The Benetton Makeover

DCM Benetton India started retail segmentation with an outlet exclusively meant for mother-and-child with a wide variety of products and accessories, and also an adults-only store. The company is trying to target a niche market with its new retailing strategy and its newly reformatted stores as per international standards with around 85 exclusive stores around the country.

The company brought into the market a wide variety of products including maternity wear, infant wear, educational toys, car seats, strollers, etc. targeting upper class young parents living in cities. It has launched 'Baby-on-Board' store, which is aimed at pregnant women, children below the age of 12, and also the 'Accessories' and 'Adults-Only' outlet in Gurgaon, Haryana. The accessories store has products like luggage, bags, sunglasses and vanity cases, while the Adults-Only store showcases Benetton's apparel collection for men and women.

According to the company, the Indian customer is looking for international quality products and therefore, it is trying to follow a distribution strategy that covers the entire product line and provides an international UCB (United Colors of Benetton) experience for these market segments.

According to Mr. Arvind Singhal, Chairman of KSA Technopak, the company's strategy of retail segmentation is effective, as there is enough opportunity in the market to segregate. He says that parents today are earning decently and are not backing out of buying specialized goods for their children. In such a proposition, the Baby-on-Board outlet targeted at mothers-to-be and kids will indeed be successful. However, he is not sure whether an exclusive accessories store makes business sense.

Ms. Richa Puranesh, Head, Marketing Services, DCM Benetton India, says the Benetton accessories and specialized baby products will be available only through exclusive concept stores as they are targeted at a niche market. According to her, these products will not be marketed through multi-brand outlets (MBO) unless it becomes absolutely necessary to do so as in the case of smaller towns where it is not possible to afford an exclusive outlet.

Adapted from Ajita Shashidhar, "The Benetton Makeover," The Hindu Business Line – Catalyst, August 7, 2003, p3.

For example in the mid-size car segment, we have Maruti Zen, Alto, Wagon-R, Tata Indica, and Fiat Palio, to name a few. A niche is a comparatively smaller segment like the DCM Benetton which will have a limited customer base because of its specialized product offerings. Exhibit 8.1 discusses DCM's strategy in which it targeted niche markets of adults only, and also opened mother and child stores. Saint Gobain, a French glass company, has effectively carved out a niche for itself by entering the fragmented glass market, where branded glass makers have made a fairly recent entry. Certain other products can also be classified into niches such as wristwatches like Cartier, Gucci, Omega, TAG Heuer, etc. For niche marketing to be successful, a company should understand its strengths and weaknesses, its customers and its competitors. The firm should also clearly differentiate itself from its competitors. The company should not introduce products that compete with its own products in the market. The company should try to enhance its product and service offerings and develop good relations with all those concerned, so that it becomes difficult for others to enter the industry. The company should develop suitable marketing strategies and be alert to new product and market opportunities.

Local Marketing

Most marketers who have a global presence tend to offer customized products to suit the local markets. 'Think global act local' has long been a buzzword. The prominence of local marketing has become so dominant that even if a product proves to be successful at the national or global level, it may fail utterly at the local level because of unmatched local tastes and preferences.

Exhibit 8.2

Fast Food Fables

In the mid-1990s, a spate of global fast food chains entered India hoping to capture a part of the Indian fast foods segment. But they found it difficult to establish themselves. Gaining acceptance locally and blending in with the Indian culture proved difficult.

In 1997, McDonald's faced several problems. Most Indians thought McDonald's was expensive, and many didn't like the fact that it served only non-vegetarian meals. The 'bland' taste of its preparations didn't suit the Indian palate. In 1998, the company faced intense competition from domestic food chains. Globally, McDonald's success had been built on its commitment to the QSCV (quality, service, cleanliness and value) principle. Moreover, Indian customers viewed the product sold by McDonald's not as burgers per se but as fast service in a clean setting. This notion of value was something that could not remain unique. Other fast food chains began to adopt the same 'fast and clean service' formula, and soon it was no longer a distinguishing feature of McDonald's.

To gain acceptance locally, McDonald's had to modify its menu – substitute mutton for beef in the burgers, (something it had never done in any other market), choose names like McAloo and Maharaja Mac, and introduce variations and dishes that were not available at McDonald's outlets anywhere in the world.

From the meticulous sourcing of raw materials and the elimination of beef and pork from its 'desi' menus to even segregating the vegetarian and non-vegetarian workers, McDonald's seemed to be extremely orthodox in its approach. India was the first country to use the complete vegetable burger, creating the eggless mayonnaise vegetable burger, so was the case with 'mutton' burgers. To emphasize vegetarianism, McDonald's opened the Delhi outlet on the first day of the Navrathras. The cooking area for vegetarian products was segregated from the space where meats were handled, and separate equipment and utensils were used for the two types of products, to avoid any possibility of contamination. The use of tamarind (imli) was another attempt to give its product an Indian touch.

Source: "Fast Food Fables" ICMR Center for Management Research.

McDonald's entered the Indian market in 1996. Initially, it had burgers and other related items on the menu which were mostly foreign to the Indian palate. Therefore, to suit the local needs of the Indian customer McDonald's introduced Indianized products such as Aloo Tikka, Chicken Patties, Paneer Salsa, Chicken Mexican, etc. (see Exhibit 8.2).

Market segmentation patterns

Due to the saturation of the existing markets in developed countries, many firms have increasingly started looking at global markets, especially developing countries. Many researchers have proposed that country segmentation be adopted to successfully serve these markets with their products and services. Countries falling in similar macro level factors are grouped together as homogenous markets so that they can be served more efficiently. Multinational segmentation is also done on the basis of the new product diffusion process. To study the new product diffusion process, a wide range of socioeconomic, cultural and political factors are taken into consideration. However, these factors may not be sufficient for studying the markets for segmentation, so employing marketing mix variables in studying these patterns is a better option. When international markets show similar tastes and preferences in smaller groups, they are segmented with the help of comparative cluster analysis.

THE SELECTION OF SEGMENTATION VARIABLES

Criteria for Segmenting Consumer Market

Prior to the segmentation process, a company needs to evaluate certain factors such as whether adopting a segmentation strategy will be profitable for the company, and whether it will help increase its sales and market share.

Exhibit 8.3

Reinventing Cadbury

In March 2002, India's number one chocolate company, Cadbury India Ltd. (CIL), launched a new advertisement campaign for its flagship chocolate brand, Cadbury's Dairy Milk (CDM). The campaign featured a television (TV) commercial that was significantly different from the company's earlier commercials for the brand. It featured Cyrus Broacha interviewing college students and asking them why they liked CDM. This was followed by college students giving different excuses in song-form, for eating CDM.

Just as the commercial seemed all set to end with the students and Cyrus singing the famous CDM theme, *'Khane Walon Ko Khane Ka Bahaana Chaahiye'* (those who want to eat, will find excuses), a student comes up and questions Cyrus, *'Kyon Chaahiye?'* (Why does one need an excuse to eat CDM)? The advertisement aimed at conveying the idea that no specific occasion is required to have a CDM. This strategy of appealing to adults in India, who sought a rational justification for indulging in chocolate consumption, marked a significant departure from CIL's earlier strategy.

Source: "Reinventing Cadbury," ICMR Center for Management Research.

A company should segment its market only if it is a profitable proposition. The second criterion is – will the company be able to serve the segmented market economically? The size of the market segment should be optimal. Too large or a too small a segment would not be economical. Companies should be able to measure the market segments i.e., the number of segments it is planning to target and also the size of each segment. The accessibility of the segments is also very important for the marketers. Segments that are inaccessible due to various environmental issues such as government regulations, legal issues, etc. will be of no use to a company. Consumer markets are mostly segmented based on the geographic, demographic and psychographic features of the customer.

Geographic segmentation

In geographic segmentation, the market is divided according to geographical areas such as localities, regions, cities, states, countries, etc. In such segmentation, a marketer needs to have a clear idea about which markets to serve. It can be like offering a single product for the entire market but making some minor adjustments to suit the local needs. For example, The Times of India publishes local editions for different regions such as The Hyderabad Times for its Hyderabad edition.

Demographic segmentation

In this type of segmentation, the market is divided into groups based on demographic attributes such as age, gender, income, occupation, religion, race, nationality, social class, family size, family life cycle, etc. It is highly effective to segment the market on the basis of demographic variables because most customers' tastes and preferences are based on these attributes and they are also easy to measure. Marketers are even focusing on a new segment called geodemographic segmentation. When consumers are influenced by the socio-economic and lifestyle factors of their surrounding geographical area, they are segmented under geodemographic segmentation. The following are some of the demographic variables used to segment the market:

Age and life cycle stage

The tastes and preferences of a customer are not constant. They keep changing with time. For example, a 12-year-old boy might like chocolates very much but may slowly start disliking it after he attains the age of 30. This is the reason behind Cadbury's focusing on youth and old age people in its chocolate advertisements to boost up its product sales in the 14 years and above segment (see Exhibit 8.3)

Exhibit 8.4

Wrist Action

Titan industries, which previously targeted the upper class or higher income people of the society, is now trying to target the middle and lower class segments in the wristwatch market, knowing the volumes are high and that new niches can also be created. Titan is the country's largest watchmaker and the world's sixth largest brand manufacturer of watches.

Titan found out that it was facing competition from the Chinese unbranded watches in the lower segment, Japanese in the mid-segment along with Allwyn and Timex, and Swiss watches in the premium segment. It also faced a new unforeseen competition from cellular phones as timekeepers. It allocated a budget of Rs 25 crore to bring out watches that would help it regain its lost market and also fight against the increased competition.

The company management felt that to cater to the lower income segment, pricing and design would play a major role in providing an edge in the market. Titan introduced Sonata, targeting the lower end, Regalia at the upper end, and Fast Track aimed at the younger generation.

Titan has an effective and strong after sales service network with a distribution chain of 120 watch stores and 56 jewelry boutiques and 65 distributors handling 6,000 dealers countrywide. Through its strong network, the company is continuously interacting with customers all the time and is able to obtain better inputs as to what the customers expect, allowing the company to manufacture customer-centric products suited to Indian conditions such as smaller wrist size, higher perspiration levels, and higher wear and tear on gold plated watches.

The company has identified two broad segments, one segment interested in buying the latest and trendiest watches and the other buying for occasions or for personal collection. These segments are targeted with specific offers.

According to Mr. Desai, first Vice-Chairman and MD of Titan, there is a 2,000 crore watch market, but mobile phones as timekeepers are gradually eating away into the watch market. To tackle the competition from such an unexpected quarter, the watches have to work in tune with the mobile phones, like giving alerts when there is a call. Another option is to completely enter the jewelry market, where a watch works as a piece of decorative jewelry.

In the international market, this phenomenon has already started, as several international watchmakers have gone into jewelry, while Casio and Swatch have started to function along with the mobile phones entering the communications segment, acting as information storages, monitoring blood sugar, etc.

Adapted from Teresa Tharakan, "Wrist Action," Business India, October 28-November 10, 2002, Pg 56-58.

Gender

Many products like garments, jewelry, wristwatches, magazines, etc., are segmented according to gender. There are certain brands, which are positioned exclusively for a specific sex. For instance, Raymond is a brand exclusively for men. Gillette targets men with its range of shaving accessories, though it also produces some products exclusively for women. There are also cases where products were manufactured to suit one sex but were later on being used by both the sexes.

Income

Marketers tend to segment products and services such as apparels, automobiles, travel, etc., on the basis of income groups. This segmentation may not completely reflect the buyer behavior of the customer. Now even most middle income group customers have easy access to luxuries such as cars because of the soft loans and installment facilities extended by financial institutions. Companies like Titan have recognized the potential of the lower end income groups and have started targeting them. Exhibit 8.4 discusses the strategies of Titan.

Exhibit 8.5

Allen Solly – Entering the Indian Women's Western Wear Market

In September 2002, leading Indian apparel company, Madura Garments, launched a line of readymade women's western wear under the brand name 'Allen Solly Women's Wear.' The launch was backed by advertisements in the national print and outdoor media. The move attracted attention for two reasons. First, this was the first-ever nationwide exercise by any company to offer readymade Western wear for women in India on this large a scale. Second, Madura seemed to have taken a risk by trying to extend its hitherto 'exclusively for men' brand, Allen Solly, to the women's segment.

The nationwide launch was undertaken following the brand's impressive performance during the test-marketing phase in Bangalore (Karnataka) in December 2001. Through Allen Solly Women's Wear, Madura formally extended the concept of Friday Dressing to women all over the country.

As society became more liberal and the number of working women increased, there was a growing need for attire that was more 'work-friendly' than sarees. Consequently, salwar-suits, which were convenient and easy to wear, became popular among women. This trend brought in a marked change in the way women bought clothes. While sarees were almost always bought readymade, women preferred getting their salwar suits tailored. This was because while sarees were a 'one-size-fits-all' kind of garment, salwar-suits needed to be tailored according to the individual's requirements.

Gradually, ethnic wear (Ghagra Choli and Lehangas) became a niche segment as ethnic clothes were worn only on special occasions such as festivals and marriages. However, the category's growth was higher than that of salwar suits. With many designer boutiques and exclusive showrooms entering the business, the salwar suit segment saw some efforts towards branding, though primarily on a local scale (in 2001, around 103 million customers bought 145 million ethnic wear sets, out of which 48 million were ready-to-wear and 97 million were tailormade).

By the late 1990s, the Indian economy (and Indian society) showed clear trends of becoming increasingly westernized in terms of lifestyle, education and vocation, especially in the urban areas. The growing number of career-oriented women resulted in a major shift in the way certain products and services were marketed in India. The emergence of products such as ready-to-eat/serve food, fast food joints, take-away meals, branded jewelry and branded sarees/salwar suits was a direct result of these developments. The introduction of corporate, formal, western wear for women was another step in this direction.

Source: "Allen Solly – Entering the Indian Women's Western Wear Market," ICMR Center for Management Research.

Generation

Generation also plays a major role in segmenting markets. Every generation is deeply influenced by various activities of its time, like movies, politics, society, music, etc. Such influences deeply impact their product purchase patterns. Generation X has grown up, knowing its own mind. They are able to analyze the products better and are a demanding segment where services are concerned.

Social class

Social class segmentation is influenced by customer choices of automobiles, interior decorations, reading habits, clothing preferences, etc. The tastes and preferences of the social classes also change according to time. Men's formal dressmaker, Allen Solly, focusing on female western wear, highlights the changing social habits in Exhibit 8.5.

Psychographic segmentation

Though the markets segmented on the basis of demographic variables have common characteristics such as sex, age, income, etc., their psychographics such as motivation, values, belief, lifestyle, personality, etc., can differ significantly. Demographic segmentation provides information about the people who own a product, say a car. But it does not answer the question why all the people were buying the same car. Nor does it go into what the motivation behind showing the same buying behavior was. People also buy products which reflect their lifestyle. A person moving in a Mercedes, wearing an Omega wristwatch, using Joy perfume and a Mont Blanc pen definitely reflects his lifestyle. Psychographic segmentation helps marketers understand buyer behavior better and design communication programs, which will appeal to the target audience.

Lifestyle

Different people lead different lifestyles depending on their income, social groups, etc. People usually buy products, which suit their lifestyle. For example, sportspersons always like to buy trendy products while top managers usually buy formal wear. As young urbanites lead a different lifestyle from their counterparts in villages and small towns, their needs, wants, tastes and preferences are totally different. Titan introduced Fastrack watches to suit young urbanites. For young executives, going to pubs and bars on the weekends has become a part of their lifestyle. Therefore, in all major cities of India, the number of pubs and bars has increased significantly to cater to the needs of this segment.

Personality

Personality characteristics such as aggression, masculinity, extroversion, etc., also influence the buyer behavior of individuals. However, it is difficult to measure personality traits accurately as clinical tests have not been developed to check these traits. When marketers communicate personality characteristics to customers, they communicate only those characteristics which most customers will view positively. Marketers presume that people who either have a particular characteristic or aspire to have that particular characteristic, will be influenced positively to buy that particular brand.

Values

Values affect customer behavior in the long run and marketers believe that if the values of customers can be influenced, their impact on the customer will be for a longer period. Marketers can use values and beliefs to segment the markets. Therefore, marketers need to develop their communication programs in such a way that they affect customers' long-term choices and desires.

Behavioral segmentation

Organizations can divide markets on the basis of behavior that customers show towards the usage of the products. This type of segmentation shows what customers have purchased in the past. This segmentation can best be used when the marketer has the customer with him. Behavioral segmentation is most suitable for product driven organizations. But its usage is restricted when new customers come to the marketer. He has to wait and see so that their purchase behavior can be clearly defined. Various variables for segmenting market on the basis of the purchase behavior of customers are occasions, benefits, user status, usage rate, loyalty, etc.

Occasions

Markets can also be classified on the basis of various occasions that customers encounter because people need different products for different occasions. For example, Kellogg's promoted its cereals as a breakfast item. Similarly, Archies came out with special cards for Mother's Day, Father's Day, Friendship Day, Valentine Day, etc.

Benefits

In benefit segmentation, market is divided on the basis of the benefits customers seek from the products. Benefit segmentation can be used to position various brands within the same product category.

Usage rate

The usage rate of a particular product/service can be divided into heavy, medium and light. Marketers are usually attracted to heavy users rather than other types of users. Heavy users patronize more of the product/service. For example, Indian Airlines gives the 'frequent flier status' to its heavy users, among other benefits. Under this, a customer who frequently travels by Indian Airlines earns mileage points, which can be exchanged for a host of services ranging from a stay in luxury hotels to free travel to international destinations. Thus, the user is encouraged to use the services of Indian Airlines alone.

Loyalty status

The loyalty status of a particular market can be divided into four groups, according to the intensity of their loyalty to these brands.

Exhibit 8.6

Beetle: The Birth, Growth, Death and Revival of a Cult Brand

In July 2003, Germany's automobile major, Volkswagen, unveiled the final and special version of its car 'Beetle' in Mexico. Volkswagen revealed that the 'retro edition' would be limited (to 3000 cars) and would be offered in two colors, beige and aquatic blue, the only colors in which the car was available in its initial years. The company also announced that it would stop producing the classic old Beetle from July 30th at Puebla (Mexico), the only plant in the world making the original Beetle in the 21st century.

Beetle, lovingly referred to as the 'Bug,' 'Love Bug' and 'Beetle Bug' by customers, industry watchers and analysts over the decades, was undoubtedly one of the most popular cars ever made in the world. By the end of the 1990s, more than 21 million Beetles had been sold. The car had earned the status of a cult brand in the 1960s and 1970s across the world, especially in the US. By the 21st century, the original Beetle had been in production for nearly 70 years. Naturally, Volkswagen's decision to end its production disappointed many Beetle fans. A *Business Week* writer summed up the feelings of millions of such people, "I got a real twinge when I heard that Volkswagen just produced its last Bug."

From the mid-1950s, Beetle's sales in the US began increasing. The biggest factor in the car's favor was its affordability. Gradually, Beetle's 'inexpensive, safe and reliable' image began finding its way to analysts' reviews and consumer reports. Another factor that helped the car gain popularity was that it was rather easy to operate and maintain. The 1960s and 1970s were a period of glory for the Beetle. The car became the choice of the rebellious, freedom loving, post-war (World War II) generation in the US. In Europe, the car became a symbol of freedom from the tough social obligations and restrictions of that period. According to Beetle customers, owning a Beetle also reflected their love for life. In what can be termed as the pinnacle of Beetle's popularity, the car was featured as the lead character in a series of movies produced by the Walt Disney Company (Disney) in the 1960s. These movies revolved around the central character 'Herbie' (a Beetle), which was portrayed as the 'Love Bug.' The Herbie movies were a great hit – 'The Love Bug' was the biggest box-office hit in 1969 – and were rated among Disney's most profitable live-action films.

The New Beetle, launched in March 1998, soon stole the hearts of customers across the world. As Volkswagen had hoped, the New Beetle struck an emotional chord in many Beetle lovers.

Source: "Beetle: The Birth, Growth, Death and Revival of a Cult Brand," ICMR Center for Management Research

Hard Core Loyals: Consumers, who are extremely brand loyal, sometimes attribute a cult status (cult brands refer to those brands that make deep unique emotional bonds with their customers) to a particular brand. For example, the Beetle automobile of Volkswagen achieved that status. This is described in Exhibit 8.6.

Split loyals: Split loyals are those customers who use more than one brand. Their loyalty is divided among two or three brands. For example, a customer may use two or three brands of perfumes.

Shifting loyals: Customers who shift their loyalty from one brand to another can be classified under this segment. For example, a person using Cinthol soap for quite some time, might shift to Dove.

Switchers: Switchers are those customers who are not brand specific. These people might buy any brand on impulse or to seek variety.

A marketer can analyze the market by studying these various types of customer loyalties and adopt suitable marketing strategies to develop products to suit market needs. Thus, a marketer can also develop strategies to retain existing customers, gain access to new and potential markets and try to attract competitor customers.

Buyer-readiness stage

The buyer-readiness stage differs from customer to customer. Let us consider a new agricultural product introduced in the market. Some customers might be aware of the product and some may not, some may just have a desire for the product and others may intend to actually buy it. If a marketer has segmented the product on the basis of buyer readiness and wants to target farmers who are not aware of the product, he has to first create an awareness among the farmers about the product. He has to then try to induce an interest for the product in the customers. Subsequently a desire has to be developed in them, which will lead them to take action or buy the product.

Attitude

Marketers generally find five attitude groups among the customers – enthusiastic, positive, indifferent, negative and hostile. Keeping these attitudes in mind helps them develop effective marketing strategies.

Multi attribute segmentation

The market segmentation is no longer limited to just some of the variables but is focused on several attributes of the segments to identify potential customers.

Criteria for Segmenting Organizational Markets

Segmenting organizational markets is indeed a difficult task for marketers because very little literature is available on the topic and organizational markets are more complex than consumer markets. According to Bonoma and Shapiro[1], organizational markets can be segmented on the basis of demographics, operating variables, purchasing approaches, situational factors, and personal characteristics.

Demographics

Demographics is the simplest method to segment organizational markets. The demographic variables to segment organizational markets include the industry, company size and customer location.

Industry: Knowledge of certain industries can help marketers segment their market, because it will help in assessing the customer purchase patterns and their behavior. The needs of different industries are different. Therefore, their purchasing pattern also differs. For example, the financial services industry is one, single industry. But for marketing computers and related services, it can be further subdivided into smaller segments such as insurance firms, banks, stock brokerage firms and so on.

[1] "How to Segment Industrial Markets," Harvard Business Review, May-June 1984, 104-110.

This subdivision helps marketers understand differences in their needs and wants, because IT services in terms of data storage, data handling and data management needs of these individual firms differ significantly from each other.

Company size: Industrial markets can be segmented on the basis of the size of the company. For instance, a small manufacturer of chemicals can segment his prospective buyers on the basis of their size. He will prefer to target small companies, because he will be able to fulfil their requirements. The requirements of large companies may be more than his installed capacity, which is why he does not target them.

Customer location: Customer location is another variable for segmenting industrial markets. This type of segmentation is suitable for industries in which proximity is critical for carrying out business activities. An example is industries that manufacture low value per unit weight or volume of products, in which personal services are required.

Demographic data such as the industry, company size and company location can be obtained from industrial directories, government publications, reports published by market research agencies and so on.

Operating variables

Organizational markets can be segmented on the basis of operating variables. These include factors like the technology of the company, product and brand use status and the customer capabilities.

Company technology: An organization's purchasing requirements are affected by the technology it uses in its manufacturing process to produce its products. For example, the requirements of a company using the automated process to manufacture and a company using the manual process will differ widely. The production process to manufacture color TVs in Japan is totally automated. Therefore, Japanese manufacturers use few integrated circuits, while the same process in the US once required discrete components, manual assembly, etc.

Product and brand use status: Industrial markets can also be segmented on the basis of product and brand use status. The users of a particular brand or product share certain similar experiences with the product or the brand. For instance, banks computerizing their entire operations from manual transaction processing might share similar experiences of cost reduction and a change in marketing strategy.

Customer capabilities: Having sufficient knowledge about the customer's financial, technical and operational capabilities will substantially help the marketers in segmenting their markets. Customers' requirements depend on their capabilities in various fields. For instance, automobile producers such as Toyota maintain just-in-time inventory (zero inventory storage mechanism) and therefore, they depend on suppliers who have excellent delivery records or on whom they can rely for consistent and reliable supply of raw materials. Some smaller companies that cannot afford to perform quality checks, pay a premium to their suppliers, who can perform such quality checks. Many software firms offer the required technology assistance to firms that lack such technological capabilities. For instance, Infosys offers computer technology assistance to Boeing.

Purchasing approaches

The organization's purchasing approaches and its company philosophy gives an insight to the marketer to segment industrial markets. The factors in the purchasing approach consist of the organization's purchasing activity, its power structure, the relationship among the purchaser and the seller and finally the company's general purchasing policies.

Organization's purchasing function: The purchasing process of an organization might completely differ from that of others. One may follow a centralized purchasing structure, while others may follow a decentralized one. So, a supplier should devise strategies to deal with such differences. Some suppliers maintain national sales accounts to deal with companies following a centralized purchasing method and maintain local sales accounts to deal with companies that follow a decentralized purchasing method.

Power structures: Power structures in different organizations vary widely. For example, the strength of the financial analysis unit of General Motors has made it stronger in getting better deals from its suppliers. Therefore, suppliers can segment their customers on the basis of the level of impact of influential units of organizations. For instance, Sundaram Fasteners effectively supplies and tackles the power structure of General Motors through its advanced technical skills in the field.

Relationships among the buyers and sellers: Organizations can segment their markets on the basis of the level of relationship with different customers. With some, it will be stronger, while with others, it may not be as good. Organizations can clearly demarcate their relationship with different customers. For example, a bank can find companies which have representatives of competitors on their boards, an unattractive segment.

General purchasing policies: Purchasing policies of organizations differ. For example, some buy while others get them on lease. Similarly, some organizations have a policy of buying systems rather than individual components. Government organizations usually buy through bidding. Therefore, suppliers who have a comparative cost advantage may prefer to target such markets.

Situational factors

Segmenting the organizational markets on the basis of situational factors involves order fulfillment urgency, product application and finally the size of the order.

Urgency of order fulfillment: Marketers can differentiate their customers on the basis of products that are to be used on a regular basis, products that are needed for urgent replacement of existing parts, etc. Customers who want quick supplies are usually ready to pay higher prices.

Product application: The application of a product and its usage also helps in segmenting industrial markets. For instance, a computer in a software development firm may be used continuously for 18 hours a day, while it may be used for just two or three hours in the computer lab of a school. Therefore, customers also choose the suppliers on the basis of their product application requirements.

Size of the order: The size of the orders can be a basis for segmenting a market. A supplier with a highly automated manufacturing process may depend on sales volumes, while a non-automated manufacturer may depend on small quantity, short run products. Marketers can divide the market on the basis of the product users and their usage patterns, since customers may order products from different suppliers for the same products for different requirements.

Personal characteristics of the purchasers

Purchase decisions in organizations are made by individuals and not the organizations, although the philosophies and procedures of the organizations provide them with a framework and restrict the purchasing patterns. The risk taking and risk averting nature of a buyer is another criterion that has to be looked into for serving them. Risk avoiders normally do not look for new suppliers. But some buyers look for several suppliers for their requirements and split their orders in such a way that on time delivery is ensured. Some customers depend on their existing suppliers and are loyal to them. Such customer preferences act as a guide for segmenting these markets. However, it is difficult to obtain data on personal characteristics, but the company's sales force can be effectively used for gathering such information.

EFFECTIVE SEGMENTATION

If marketers segment potential markets, the segmentation needs to be such that they can target their customers effectively and develop communication programs to convert potential customers into real customers and maximize their profits. However, it is not always necessary to segment a market. If the needs and wants of all potential customers are homogeneous, the market need not be segmented.

For effective segmentation, segmentation variables need to exhibit certain characteristics. They are discussed below.

Measurable

The variable used for the segmentation of the markets should be measurable to be effective. If it is not measurable, the marketer will not be able to find out whether the segment is worth targeting. For example, a variable like the purchasing power of potential customers is measurable.

Substantial

When dividing the market into segments, a marketer should take enough care to see that each segment consists of an adequate number of customers worth catering to. It should be big enough to make economic sense. If a product is manufactured for them, the company should be able to make a profit by targeting them. For example, traditionally, most manufacturers produced tools and equipment suitable for right handed persons because the manufacturers considered that the market for left handed persons was not substantial. However, this trend is changing now.

Accessible

The segment of the market that a marketer is trying to target should be accessible to him. The appropriate selection of the media, its coverage and other factors like the product distribution facilities play a major role in a marketer becoming accessible to customers. The media should be selected in such a way that the marketer can reach the target segment most effectively and at the minimum cost. Similarly, the distribution facilities should be efficient enough to reach the target customers on time. The product should be available to customers wherever they want it. Therefore, accessibility to the segment is very important to reach and cater to it. There is no point producing products for those markets that the marketers are unable to reach profitably.

Differentiable

Each segment of the market should be different from others in terms of its needs and wants. Each segment requires different marketing strategies because it responds to different strategies differently. A motorcycle manufacturer can segment the market on the basis of usage of the product. People buying motorcycles for fuel efficiency are different from people buying them for style and both need different marketing strategies.

Actionable

A segmentation variable should help marketers develop effective marketing programs to attract and serve potential customers effectively.

TARGET MARKET SELECTION PROCESS

After the process of effective segmentation, marketers must focus their attention on targeting the market segments that are relevant to their products and likely to respond positively to their marketing strategies. See Exhibit 8.7 to understand how businesses have effectively targeted children.

Exhibit 8.7

Targeting the New Generation

Children have become more conscious about their clothing patterns and they like to do their own shopping. Children prefer apparel representing trends, styles and fashion and therefore, they go in for sporty and vibrant clothing. Apparel makers have recognized the attractiveness of this segment and are trying to target it. A senior executive at the Shopper's Stop, a department store in Hyderabad, India, also endorsed the idea and said that there were several children who had specific choices in their clothing and so, most companies were trying to target this segment.

Children today are being increasingly exposed to cable and satellite television and are traveling a lot, including to foreign countries. Moreover, their exposure to technologies like the Internet has changed their perception about fashion and lifestyle. All these factors have led to the growth of a Rs.2,000 crore niche market targeting them, over the past few years.

The market for the children's wear segment accounts for about 17 percent of the Rs.9,000 crore branded segment in the Rs.43,000 crore market for readymade garments. The children's wear segment has grown in terms of volume in the last four years. An official at Shopper's Stop said that the last two years witnessed a phenomenal growth in the child wear segment. Children in the age group of eight to fourteen were showing an increasing interest in shopping, marking a bright and prosperous future for the business.

Adapted from Devendra Mohan and Teresa Tharakan, "Dressing Up a New Generation," Business India, March 17-30, 2003, Pg 88-90.

Evaluating the Market Segments

While evaluating the market segments, a firm must first evaluate the potential of the segment and also its own ability to tap it. Marketers need to ensure that the organization objectives are fulfilled while serving a particular segment of the market.

Selecting the Market Segments

After evaluating different market segments, the company or the marketer should decide which segments to target. Targeting the customers in a highly competitive environment is a complex process. Therefore, marketers are searching for new ways of targeting customers. Companies such as Phillips are adopting new ways to target their customers. Phillips formed a committee comprising engineers from R&D and social scientists to interact with children to come out with new product ideas. The result, Phillips came out with a new online product targeted at children. This method of involving the target customers in the process of idea generation for new products is beneficial for the producers, because the target customers then tend to be loyal to the company's product line. This kind of strategy works well because the level of acceptance of the product in the market will be high enough to help the company carve out the maximum market share and stay ahead of the competition.

Single segment concentration

Single segment concentration for a marketer has its own merits and demerits. Focusing on a single segment gives the marketer the advantage of high sales, as he puts all his marketing efforts on that segment and on improving the product to exactly match the tastes and preferences of the customers in the segment. However, if that segment stops patronizing the product for some reason, the marketer will face severe losses as he had been concentrating on only this segment. However, the strategy of targeting a single segment has worked well for some marketers. For example, Mercedes only concentrates on the upper income group customers.

Selective specialization

Selective specialization is a process in which the company focuses its resources on a few market segments and develops its expertise in fulfilling the needs of those segments. Thus, by concentrating on more than one segment, the company can minimize its risk. So even if one segment becomes unattractive, it can concentrate on the other segments and fulfil its organizational objective of earning profits. For example, automobile manufacturers such as Hyundai, manufacture different models like Santro, Accent and Sonata to cater to different segments with different levels of income. In this case, the company specializes in cars but targets a few segments of the markets. There exists a synergy between the various segments. But, it is not essential that synergy exists between them in all cases.

Product specialization

A company specializing in a specific product category supplying to different segments effectively will gain a substantial reputation in manufacturing such products. For example, Gillette is famous worldwide for its series of shaving products. However, there is a risk in product specialization. If a competitor develops a breakthrough technology, the company's product will be totally replaced in the market.

Market specialization

Unlike product specialization, market specialization involves concentrating on the different needs of a customer group. For example, the Ordinance factory caters to the needs of the Indian defense services. It manufactures different types of arms and ammunition for them. However, there is an inherent risk in focusing on the needs of a specific market. If there is any downturn in the market due to an external environmental factor, it affects the performance of the company adversely.

Full market coverage

Here, the company targets the full market rather than any specific segment. For example, Hewlett-Packard targets the full market for its printers. Its printer range starts from Rs 3,000 (approx) for home and small office segments to heavy duty color printers which cost more than Rs 1,00,000. Therefore no segment is left untargeted by it.

Other Considerations

There are certain other considerations, which are examined for the choice of segments for marketers to target.

Ethical choice of market targets

Whenever a marketer tries to target a specific segment, he should not take undue advantage of vulnerable segments, like children. Though children have now become potential influencers in the family decision-making process, they should not be influenced by marketers to consume products, which are not good for them. Encouraging children to consume high fat foods, promoting lotteries and cheap liquor to poor people and trying to cash in on their vulnerabilities is unethical. These groups of individuals are less likely to make informed choices. Therefore, marketers should take adequate care not to promote harmful products by adopting enticing marketing strategies to lure potentially vulnerable customers.

Segment interrelationships and supersegments

A company that is targeting more than one segment needs to examine the interrelationship between the segments so that it can optimize its costs and performances. For example, Giant Hypermarket, a discount store at Hyderabad, targets people who want to buy apparels, kitchenware, electronic goods, vegetables, liquor, groceries, etc. Therefore, it targets the supersegment rather than individual segments. A supersegment is a set of segments that are similar. Marketers can utilize this similarity to increase their sales.

Exhibit 8.8

Ceat Targeting Two-Wheeler Tyres

Ceat, the RPG group's tyre company, has decided to focus on two-wheeler tyres to increase sales volumes. As the two-wheeler market is growing fast, the company wants to target this segment. For the first time, it strategically formed supply alliances with original equipment manufacturers (OEMs) – Hero Honda, TVS Motors and Kinetic Motors.

Ceat has also initiated talks with Honda's wholly owned subsidiary – Honda Motorcycles & Scooters – to supply scooter tyres. However, it has a tough competitor, MRF, which is the country's largest tyre manufacturer, and has a significant presence in the two-wheeler segment.

Traditionally, Ceat concentrated on marketing truck and radial tyres. But it is now also trying to focus on two-wheeler tyres. It sources motorcycle tyres from its captive suppliers, which have manufacturing facilities at Vadodara and Hyderabad. Rado tyres, a Kerala-based tyre manufacturer owned by the RPG group, also manufactures two-wheeler tyres for Ceat.

According to a company official, the significant growth in the two-wheeler tyre segment prompted them to concentrate on this segment, and the agreements with original equipment manufacturers like Hero Honda and TVS Motors were also expected to increase the sales volumes of their two-wheeler tyres.

RPG group's Ceat was earlier a strong player in the two-wheeler segment, and sold off its stake in the joint venture with South Asia Tyres to Goodyear. This resulted in its losing its hold on the two-wheeler tyre segment. Ceat has been focusing on the replacement market with its two-wheeler brand, Secura.

Ceat's strategy is to focus on the OEMs as half of the 20 lakh units of the two-wheeler tyres market per month are sold to them, and the rest caters to the replacement market. Ceat is trying to team up with outsourcing units to cater to this segment.

Adapted from Abhinaba Das and Bodhisatva Ganguli, "Ceat Targets Two-Wheeler Tyres for Volume Push," The Economic Times, 22nd September 2003.

Segment-by-segment invasion plans

Although a marketer needs to concentrate on a supersegment, it is better to go one step at a time (Refer to Exhibit 8.8). Competitors should not get a clear picture of the direction in which the organization is moving.

Intersegment cooperation

A marketer must develop mutual cooperation and information sharing procedures among the segments he is targeting. This will enhance the effectiveness of his marketing programs and he will be able to offer better products with efficient service to the customers of each segment.

SUMMARY

Market segmentation is one of the most important strategic decision-making tools. Segmenting the market helps marketers to effectively cater to the needs of a particular group because their needs and wants will be homogeneous. There are different levels of segmentation. They are segment marketing, niche marketing, individual marketing, and local marketing.

As consumer markets and organizations differ significantly, the method of segmenting these markets also differs significantly. The various variables to segment consumer markets are geographic, demographic, psychographic and behavioral variables.

In geographic segmentation, the market is divided according to geographical areas such as localities, regions, cities, states, countries, etc. In demographic segmentation, the market is divided into groups based on demographic attributes such as age, gender, income, occupation, religion, race, nationality, social class, family size, family life cycle, etc. In psychographic segmentation, variables to segment the consumer markets are lifestyle, personality, values and beliefs. Various variables for segmenting the market on the basis of the purchase behavior of customers are occasions, benefits, user status, usage rate, loyalty, etc.

Organizational markets can be segmented on the basis of demographics, operating variables, purchasing approaches, situational factors, and personal characteristics.

When segmenting markets, organizations need to ensure that the segmentation variables are effective in segmenting the variables. Segmentation variables should be measurable, differentiable, actionable, substantial, accessible, and actionable to make the segmentation effective.

After effective segmentation, a marketer has to focus on targeting that chosen segment with marketing strategies that will be most suitable to the segment. Strategies such as selective specialization, market specialization, and product specialization will help a marketer analyze his capabilities to fulfil the needs of the market.

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Part III

Developing Marketing Strategies

Chapter 9

Strategic Planning Process in Marketing

In this chapter we will discuss:

- Scope and importance of strategic planning
- Defining strategic market planning
- Corporate and divisional strategic planning
- Strategic business planning
- Marketing process
- Marketing plan
- Marketing planning and process in the current market scenario

Strategic planning in marketing involves answering questions such as where should the company be in the next five to ten years? Which are the markets it should serve? What are the products it should offer? Should there be any product line or brand extensions, and if yes, at what intervals? Should the company enter into collaborations in the near future or do business independently? For example, when Hindustan Lever Ltd (HLL) realized that the upper end of its market was saturated and it needed to enter the lower end of the market with a low priced detergent, it launched Wheel washing powder at a low price. Thus an efficient and effective marketing plan is essential to achieve organizational objectives. However, while it is important to formulate marketing strategies, the long-term sustainability of the organization depends on how effectively these strategies are implemented. Many organizations fail because of inefficient marketing planning and implementation. Most of the dot com companies failed in the recent past due to lack of strategic planning.

The strategic planning process not only helps an organization gain a clear picture of its future, but it also helps in maintaining good relationships among its various departments, ensuring a smooth flow of essential information among them. Strategic marketing planning involves devising the brand strategy, the product strategy, the sales strategy, the sales promotion strategy, and the advertising strategy. These strategies have to be carefully formulated and implemented to ensure long-term sustainability of the organization.

SCOPE AND IMPORTANCE OF STRATEGIC PLANNING

Before formulating, executing, and implementing a strategy, an organization has to analyze the changes taking place in the environment and the various options available. The organization should ensure that the strategies help achieve its goals and objectives.

The vision and mission of an organization form the basis for adopting a particular strategy. They help the organization formulate its plans and future goals (Refer Exhibit 9.1). The vision and mission of an organization instill a sense of purpose among employees and the strategies transform them into long-term and short-term achievable objectives.

Companies need to formulate effective strategies to deal with emerging technological breakthroughs, ever-changing customer needs, turbulent market situations, unpredictable competition, and changes in political, legal, social, economic, and technological environments.

DEFINING STRATEGIC MARKET PLANNING

Strategic market planning is the process of communicating and sharing data between different departments of an organization to collectively formulate future strategies and implement them with maximum efficiency. Strategy formulation helps the decision-makers of the organization to proactively respond to the needs of the market and thus stay ahead of the competition. Exhibit 9.2 explains how BSNL strategically responded to the opportunity in the market.

CORPORATE AND DIVISIONAL STRATEGIC PLANNING

Strategic planning involves framing corporate and divisional strategies. However, prior to that the company has to identify its position in the market. Today, firms face global competition. To sustain itself in a global market, a company has to adapt to international standards. The strategic planning process may suffer, if there is an increased resistance to change within the organization. To deal with such a situation, Igor Ansoff suggested a ‘managed-resistance or accordion approach’, in which a firm can employ a coercive strategy when there is a pressing need for change.

Exhibit 9.1

Oxemberg's Down-to-Top Strategy

Oxemberg, a Rs.65 crore menswear brand belonging to the Rs 400 crore Siyaram Silk Mills company, was launched in 1992. Since 2002, it adopted a top-down-strategy. The brand targeted B and C class cities where few people could afford premium brands. These cities accounted for about 75 percent of the brand's sales. The remaining 25 percent sales come from the A class cities. When the brand was launched initially, A class cities were crowded with major brands like Raymond's Park Avenue, Madura Coats' Louis Philippe, and Bombay Dyeing's Vivaldi among others. According to Vijayalakshmi Poddar, Executive Director, Siyaram Silk Mills, it was difficult to compete with these established brands in A class cities. Hence, they concentrated on smaller towns in the western and southern parts of the country, as the climatic conditions in these two regions were somewhat similar.

The company increased its distributors in the south to 40 by the beginning of 2003. Of these, only two or three focused on A class cities while the remaining concentrated on B and C class cities. The sales from the southern region accounted for about 35 to 40 percent of the entire sales. One reason for Oxemberg's success in the B and C class cities was that retailers stocked fewer brands as compared to the A class cities. The company priced the brand at Rs.300 onwards and offered various incentive schemes to retailers. Today, the company has a strong presence in the B and C class cities with about 70 percent exclusive distributors, as compared to the 30 percent exclusive distributors in 1995.

Another reason for the brand's success in the B and C class cities was that there was no major player operating in this segment who could offer premium brand menswear at a low price. But recently, Oxemberg has been facing stiff competition as Madura Garments' Peter England (Rs.395 onwards), Arvind Mills' Excalibur (Rs.450 to Rs.850) and Indigo Nation (Rs. 400 to Rs.800) started focusing on the B and C class cities.

Adapted from Gouri Shukla, "Oxemberg's Reverse Stitch," Business Standard, April 1, 2003.

Most of the companies that have different business units undertake corporate planning through a series of meetings. The headquarters provide guidelines for the business units to formulate strategic plans. The managers of these individual business units along with the managers of the corporate headquarters finalize the plans for future operations. The corporate plan has to be developed in such a way that it adds value to the organization. It is better for any organization to develop its own corporate plan rather than copy it from another company. Trying to copy another firm's corporate plan just because it is an excellent one, may lead to disastrous results, since a plan meant for one company may not suit another firm.

While planning corporate strategies, a company should primarily pay attention to three important questions. They are: 'What is the reason behind planning?'; 'Is the human element given appropriate importance?'; 'Is it necessary to develop strategic plans based on market forecasts?'. As far as the first question is concerned, most managers feel that the planning is done to develop long-term and short-term objectives for the organization, or to project the future economic conditions of the firm, or to develop alternative methods and techniques to achieve the goals of the organization. However, while most companies state the purpose of planning, they often forget the importance of the human element in planning. Coming to the third question, companies conventionally plan their activities by focusing on the marketing programs and on the markets they serve. However, this is too narrow an approach. An efficient planning process should have an outside-in approach; that is a firm should first scan the environment and then develop proper strategic plans to operate in that environment.

Exhibit 9.2

BSNL Grabbing the Mobile Services Market

According to a list prepared by the Cellular Operators Association of India (COAI), Bharti Telecom is leading the mobile services market in India with about 30 lakh subscribers and BSNL comes next with about 22.5 lakh subscribers. This is surprising given the fact that BSNL's entry into the mobile service market was late. Hutch and Idea Cellular were operating in the market for a long time, but BSNL strategically overtook them in terms of market share.

BSNL's strategy was to focus on non-metro areas where the potential for the mobile service market was substantial. BSNL with its strong network covering the entire country easily targeted the rural sector and increased its market share tremendously. For instance, in Maharashtra, Bharti Telecom started its operations in August 2002 and garnered about 1.2 lakh subscribers by March 2003, whereas BSNL, in spite of entering the Maharashtra market in October 2002 (two months after Bharti), succeeded in capturing a subscriber base of 2.75 lakhs. BPL and Idea Cellular together could manage only 15,000 subscribers in Maharashtra during the same period. In Tamil Nadu, both BSNL and Bharti entered the market in July 2002. By March 2003, BSNL had a customer base of 1.6 lakhs in the entire state except in Chennai while Bharti had to be content with just 64,000 customers. In March 2003, BSNL added 58,000 customers whereas Bharti lost around 13,000 customers.

The factors which contributed to BSNL's success are primarily its positioning of services at low and affordable prices; its waiving of deposits for landline owners, and its huge nationwide network.

Adapted from "BSNL Mobile Services Snapping at Competition's Heels," The Hindu Business Line, April 27, 2003.

The corporate vision and mission paves the way for the creation of long-term and short-term objectives; the planned strategies are adopted to realize these objectives. The strategies adopted differ from company to company. However, there are five basic activities, which companies undertake. They are, setting the corporate mission, forming strategic business units (SBUs), allocating resources to each SBU, planning new business activities, and downsizing existing businesses.

Corporate Mission

The corporate mission of an organization explains the business of the organization. It also explains the type of customers the company is serving, its products and services, and its business, technological, and functional capabilities. The corporate mission statement should be developed in tune with the core values of the organization. Developing bland mission statements, just for the sake of developing them, will serve no purpose and on the contrary may prove to be harmful for the company. According to Patrick M Lencioni[1], mission statements should be framed in such a way that the employees understand what they mean and what the company is trying to achieve. He proposed that the company's values could be grouped into four types: core values, desired values, approved values, and values by chance. Core values are those that are firmly imbibed into the organization's structure and influence its behavior. They cannot be diluted for any short-term monetary or other benefits. Desired values are those that the organization desires to achieve in the future. When a company sets social and behavioral standards for its employees, they become approved values. Values by chance are those that arise accidentally in the course of time and they gradually become a norm. For example, all the employees in an organization having lunch together could become an accidental value. The mission statement should be as

[1] He is the founder and president of the Table Group, a management consultancy specializing in executive team development, located in Emeryville, California. He is also the author of several books, including The Five Dysfunctions of a Team (Jossey-Bass, 2002).

authentic as possible by excluding common ‘decorative’ words like ‘integrity’, ‘teamwork’, ‘customer satisfaction’ etc. Patrick says that though about 55 percent of the Fortune 100 companies have ‘integrity’ as their core value, about 49 percent have customer satisfaction, and about 40 percent have teamwork, these words rarely give a clear indication of the employee behavior. Therefore, values such as these will not have any significance and will never help an organization stand out from the crowd. He suggests that the mission statement should be authentic and should clearly differentiate the organization from other companies.

Establishment of SBUs

Companies are operating in an ever changing and challenging environment. The spectrum of activities is widening and every company is trying to leverage as many opportunities as possible. The consequence is strategic business units (SBUs). A strategic business unit is a separate and self-sufficient business unit operating in the market. CMC, for example, has different SBUs such as system consultancy, hardware/software maintenance, system integration and re-engineering, countrywide network service, education and training, and offshore project development. A SBU can be successful if it possesses certain characteristics. Each SBU should be an individual business entity with an individual planning process. Each SBU should operate in a market where it has its own customers and competitors. And each SBU should be headed by a person who is responsible for its performance.

Resource Allocation to SBUs

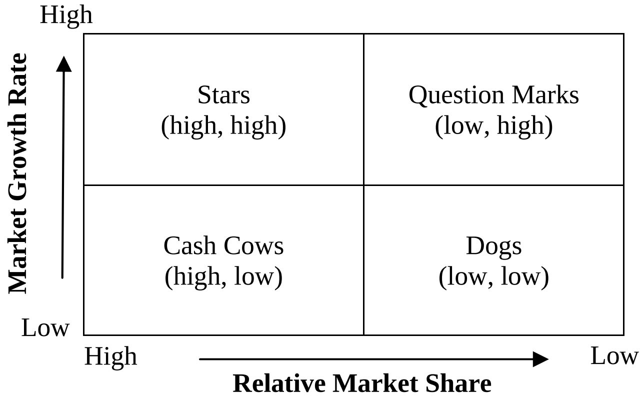
Resource allocation to strategic business units is done by differentiating the company’s businesses according to their potential and identifying whether they are profitable. Two very popular models used for such estimations are the Boston Consulting Group Model and the General Electric Model.

BCG competitive advantage matrix

In business level strategy, market share and product life cycle are important constructs. Both of them have been taken into consideration in a widely known model/framework – BCG Product Portfolio Matrix. This model helps managers analyze and develop business level strategy. Business level strategy deals with how an organization can compete in a given business. This model helps multi-business or single business organizations allocate organizational resources efficiently and effectively. The task of resource allocation is complex in a constantly changing scenario. However, an organization is required to take decisions based on some fundamental criteria. In the early 1970’s, the Boston Consulting Group developed a model for managing a portfolio of different business units (or major product lines). The BCG growth-share matrix displays the positions of business units on a graph of the market growth rate against their market share relative to competitors. It contains four cells – question marks, stars, cash cows and dogs (see Figure 9.1).

Question Marks – These business units are characterized by low market share and high growth rate. They demand significant investment because their cash needs are high – the norm in a growing industry. Potential users are not aware of new products or services of organizations. So these organizations have to make a huge investment in advertising and promotion. With the market growing rapidly, it is easier to gain a market share. However, the growth stage of an industry is characterized by a lot of uncertainty that results from changes in technologies, distribution channels, and the players themselves. So, only a few question marks move to stars.

Figure 9.1: BCG Market Growth/Market Share Matrix



Stars – These business units have a large market share in fast growing markets or industries. Firms need to invest in stars as the industry is still emerging and the market share is also growing. Stars often generate as much revenues as they use. But once the industry reaches the stage of maturity, the stars hardly need any investment and become major sources of revenue for the firms.

Cash Cows – These business units hold a large market share in a mature and slow-growing industry. These businesses have a strong business position and negligible investment requirements and so the returns from these businesses are often more than their investment requirements. Or, they are net cash generators. Organizations often tap their 'cash cows' in order to draw out resources required elsewhere in the organization.

Dogs – These business units have a low market share in an intensely competitive, mature industry characterized by low profits. A dog does not need much of an investment, but it ties up capital that could be invested in industries with better returns. So organizations concentrate on recovering as much as possible from these units in terms of returns on investment and often undertake ruthless cost cutting. Unless there is a larger purpose in keeping such units, an organization should divest itself of dogs at the earliest.

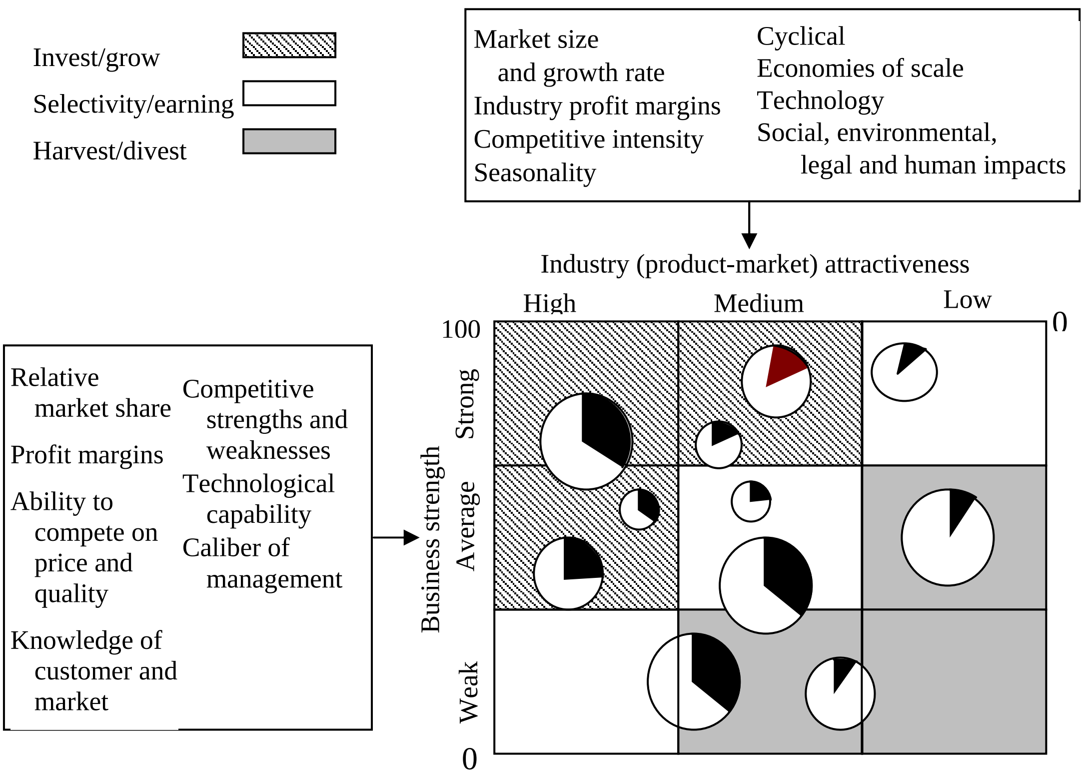
However, recent research suggests that well-managed dogs can have a positive effect on the organization, and be highly reliable revenue generators. Well-managed dogs have a narrow business focus, concentrate on high product quality and moderate prices, have strong control over costs, and advertise only to a limited extent. Though these units can generate surplus returns, there is no possibility of their being transformed into a cash cow.

Though the BCG matrix provides a framework for allocating resources among different business units and allows one to compare many business units, it is criticized for its over-simplification. For example, the relationship between market share and profitability is questionable, and the emphasis on improving market share may lead the organization in a direction which does not meet the objectives of the organization.

General Electric model

In the General Electric model (shown in Figure 9.2) the strategic business units are plotted in the matrix with nine cells. Each SBU is measured using criteria such as industry attractiveness and business unit strength. Each business unit in the model is represented by a circle. The circle size represents the size of the industry and in each circle the shaded portion depicts the market share of the business unit in that industry.

Figure 9.2: General Electric's Nine-Cell Planning Grid



Source: John A. Pearce II and Richard B. Robinson, Jr., Strategic Management Strategy Formulation and Implementation (Delhi: AITBS, Third edition) 287.

The industry attractiveness is based on factors such as market growth, fluctuations in demand, market size, industry potential, competitive environment in the industry, opportunities in the world market, and macro environmental factors. The business unit's strength is based on factors such as its market share and relative growth, its manufacturing capacity, brand value, strength of distribution channels and profits compared to its competitors.

Planning New Businesses and Downsizing Existing Businesses

Companies have to deal with situations where there is a tremendous gap between actual and projected sales. The firm then has to devise strategies to fill this gap or rather increase the sales. The organization can focus on identifying opportunities to increase the market share of existing businesses (intensive growth), or it can focus on identifying business opportunities in the related business areas (integrative growth), or it can identify opportunities that have a vast potential but are unrelated to the present business activity (diversification growth).

Intensive growth

Intensive growth for any business activity is identifying the growth opportunities in the existing area of business. Ansoff has proposed a model to identify such growth patterns, known as Ansoff's product/market expansion grid. In this grid, we can analyze market opportunities through a four quadrant matrix. The first quadrant of the matrix denotes the strategy for growth in the existing market for the existing product known as market penetration strategy. The second quadrant denotes the strategy for growth in the existing market for new products known as product development strategy. The third quadrant denotes the strategy for growth in the new markets for existing products known as market development strategy. The fourth quadrant denotes the strategy for growth in the new market for new products known as diversification strategy.

Integrative growth

Most firms try to adopt integration strategies for growth. These strategies include forward integration, backward integration, or horizontal integration. For instance, if Britannia plans to adopt a forward integration strategy, it will start its own distribution network. And if it plans to adopt a backward integration strategy, then it will produce its own raw materials by starting a dairy farm for milk, and producing wheat etc. If it plans to integrate horizontally, then it may acquire the business of one of its competitors.

Diversification growth

Diversification strategy is adopted by a company when there are vast growth opportunities in a specific industry and the company has the necessary resources to tap that potential. There are three strategies that can be considered for diversification growth. They are concentric diversification strategy, horizontal diversification strategy and conglomerate diversification strategy. In the concentric diversification strategy, a company tries to diversify by serving a new customer base with products that are related to the existing product category. For example, if Britannia is trying to diversify into producing wheat flour, it is concentric diversification strategy. Secondly if the company tries to attract current customers with new products even if the company has to acquire a new manufacturing capability, it is known as horizontal diversification strategy. For example, if Britannia wants to enter the ice-cream industry, it would be adopting a horizontal diversification strategy. In the conglomerate diversification strategy, the company tries to perform unrelated business activities. If Britannia ventures into the manufacturing of bicycles or wristwatches, it is adopting a conglomerate diversification strategy.

In the present competitive business environment, the diversification process normally fails due to two major reasons. The first is that the idea of diversification makes the management think in terms of related areas of business, which are normally saturated and do not offer any business potential. The second reason is that diversification opportunities in an industry become a target for group evaluation. Consequently, everyone in the industry tries to take advantage of a potential opportunity, which will eventually reduce the market share of each player in the industry. In this intense competitive world, conventional diversification strategies are proving to be disastrous for companies. At the same time, diversification is imminent for companies trying to overcome saturated markets and product obsolescence. Therefore, companies should devise customized strategies for diversification. When a company devises a tailor-made strategy and develops effective tools for diversification, it is most likely to overcome the above obstacles and achieve its goals.

However, most companies find it difficult to decide whether to actually go in for diversification or not. Before making any decision in this regard, a company should try to answer certain basic questions. Although this process does not provide a concrete solution to the dilemma, it definitely helps in better decision-making. The firm needs to answer the following questions:

1. *What are the competitive strengths of the company?*

   The company has to identify its competitive advantage and then plan on ways to leverage this advantage in the newly acquired business. For example, if a company has an excellent marketing network, it should evaluate how this can be best utilized, in the new business.

2. *What strategic resources are essential to be successful in the new market?*

   The company should possess all the important strategic resources to succeed in the new market. Trying to succeed in the new market with limited resources will be disastrous. For example, let us suppose HLL is planning to enter the liquor business. Although it has a superior distribution and marketing network, high brand value and financial resources, it is likely to fail because it lacks knowledge of alcohol production. Therefore, even if a company possesses 90 percent of the strategic resources and lacks the crucial 10 percent, it would be difficult for it to diversify.

3. *Can we attain those crucial strategic resources?*

   If companies lack one or two such crucial strategic resources then they should analyze whether they can improve upon or acquire such resources.

4. *Will diversification divide the strategic resources that are to be essentially kept together?*

   Managers undertaking the diversification process should analyze, what strategic resources the new market needs. Once they identify those resources, the managers have to evaluate whether such resources are transferable to the new industry.

5. *Will the company stand out as a winner or will it become just another player in the market?*

   Companies often fail in the new markets, even if they have all the requisite strategic resources and competitive advantage at their disposal. This is because competitors can easily copy the competitive advantage or render it useless by developing a substitute. To overcome such problems, strategists need to identify those resources that cannot be copied and substituted by others.

6. *What can the company learn from diversification and is it prepared to learn this?*

   Managers have to analyze what they can gain from diversification, and whether this diversification will act as a learning process for further diversification moves. Managers should also evaluate the organizational capabilities to transfer the relevant strategic information from one division to another. The flow of information across different divisions of the organization is vital for the diversification moves to be successful.

Downsizing older businesses

Companies need to consider the importance of growth, and similarly the importance of gradually removing old and sick businesses that are not adding any value to the company. The removal of these businesses is vital for the organization as it clears the way for the management to allocate the resources employed in these older businesses to new and lucrative business activities. For example if a university decides that some of its older courses are no longer relevant, then it can gradually remove these courses and allocate all the resources employed in those courses to other courses which have a greater demand. Layoffs is another form of downsizing. Many managers believe that by laying off their employees, they are sending positive signals to shareholders regarding their seriousness about the cost cutting measures. However, according to Darrell Rigby, research conducted at Bain & Company analyzed the layoffs at S&P 500 companies from August 2000 to August 2001 reveals that shareholders feel that repeated layoffs are an indication of poor management of the organization. This kind of shareholder attitude plummets the stock prices. A study showed that companies that had nil or few layoffs outperformed those that had higher layoffs. Rigby also says that stockholders react positively to staff-cutting measures when the company is seriously thinking of boosting their business. Therefore a company has to resort to layoffs and other downsizing activities only when it feels that these measures would aid the growth of the organization.

Companies generally resort to downsizing to enhance their financial performance. When a company realizes that it is facing financial crisis, which is posing a threat to its existence in the market, it downsizes. Due to the impending crisis, firms generally layoff employees equally from all the departments, without giving much consideration to systematic layoffs. Although downsizing drastically reduces costs, it results in inefficiency in the form of decreased loyalty, insecurity and decline in employee morale. It also decreases employee motivation, since the existing employees may feel that they are next in line for downsizing. Often, downsizing may accomplish nothing more than reducing the number of employees in an organization. Downsizing alone, cannot improve the financial performance of an organization. Programs like quality improvement and business process reengineering should be adopted simultaneously.

STRATEGIC BUSINESS PLANNING

The strategic business planning process will be successful when managers understand the existing and future technology requirements of the company. The information systems manager should have an overall understanding of the strategic business plan of the organization which will help him fulfill the technological needs of the company. The strategic business plan must be developed by involving the employees in setting the goals and objectives of the organization. Employees should also be motivated to contribute significantly to the achievement of these objectives. Companies generally manage their resources according to the strategic plan and try to achieve the set objectives. The information systems department should apprise the management about the importance of technology in achieving the organizational goals. It may be difficult for a company to obtain and maintain advanced technology due to the increased complexity of the business environment. However, once a system is in place, the company gains significant competitive advantage. Many firms have outperformed conventional market leaders by leveraging the advantages of advanced technology.

Strategic business planning should be proactive rather than reactive. Certain steps that will help a manager effectively develop a business plan suitable to his organization are laid down below.

- Prepare a statement that describes, which business the firm is in and what are the firm’s products that customers need.
- Develop a mission statement.
- State the premises on which the plan is based.
- Analyze the company’s past performance.
- Evaluate the impact of changes taking place in the market.
- Compare the image of the company with that of the expected image of the customers.
- Search for the critical success factors of the firm and try to add value to them.
- Analyze the opportunities available to the firm along with its innovative capabilities.

- Check the performance of the management.
- Search for ways to enhance performance throughout the organization.

Every member of the organization should contribute to the development of the goals of the organization and should be entrusted with the responsibility of achieving these goals. The strategic plans should be reviewed every three or four months, to ensure that they are being adhered to.

Strategic business planning involves certain stages through which effective business plans are formulated. These stages are, determining the business mission, SWOT analysis, strategies, strategic alliances, implementation, feedback and control.

Business Mission

The strategic business units of a company should have their own mission statements, clearly defining their priorities and the purpose of their existence. Business missions should be developed in such a way that they reflect the requirements of the customers, suppliers, distributors, stockholders, and employees of the organization. The mission statement of a company should convey the fundamental and unique purpose of its existence. For instance, if a company is producing tube lights, it should develop a business mission that reflects their ability to provide lighting to consumers rather than claiming that they are in the business of producing tube lights. For example, Reliance Infocomm foresaw a digital revolution that would sweep the country and introduce a digital way of life for India. Similarly, the mission statement of Infosys Technologies Limited is “Powered by Intellect – Driven by Values.”

SWOT Analysis

SWOT analysis is the process of analyzing the company and the environment in which it is operating. This analysis helps in formulating effective strategies for the company to deal with competition. SWOT stands for strengths, weaknesses, opportunities and threats. Strengths and weaknesses are internal to the organization, whereas opportunities and threats are external to the organization.

The strength of an organization can be its infrastructure, its employees, its marketing team, its latest product innovation, its international quality standards, or even its closeness to the market. The strength can be anything that adds value to its business.

The weakness of the organization can be incompetent management, untrained employees, unevenly trained sales force, poor marketing strategies, low quality products, or lack of proper financial capabilities. These are some of the factors that may cause severe damage to the organization and hamper its growth.

These are the internal factors which have to be analyzed from time to time. An organization should try to improve upon its strengths and reduce its weaknesses, in order to sustain in the market.

Opportunities and threats are factors external to the organization and they are critical for its effective functioning. The opportunities of an organization can be a new potential market with ample scope for growth, opportunities to have a collaborative advantage (advantages through strategic alliances and partnerships), or opportunities to fulfill the demand of a latent market. Any such activity in the environment that helps the organization to grow, is an opportunity for it.

The threats to an organization can be a new competitor in the market, price reduction in the competitor’s product or a new product introduced in the market that will eat into the company’s market share. These are some of the threats to an organization. The organization should constantly keep a watchful eye on the market so that it can analyze the opportunities and threats it is facing. A single brand company such as Hitachi has to be very cautious while formulating strategies, in order to fight the competition posed by multi brand companies such as LG and Samsung. See Exhibit 9.3 to understand how Hitachi tried to face the threats posed by its competitors.

Exhibit 9.3

Hitachi's Off-Season Strategies

Companies are adopting unusual and unique strategies, to attract the attention of their customers. One such strategy was used by Hitachi in a Mumbai suburban theatre when a Hindi horror film was being screened. The viewers suddenly panicked when a man entangled in a long roll of paper rushed into the hall during the interval time. Later they learnt that it was an extension of the Hitachi air conditioner television ad, stating that, you don't have to run away from long electricity bills if you use Hitachi air conditioners.

The advertising agency for Hitachi, Leo Burnett, launched this campaign, during the start of the rainy season. The campaign was extended to shopping malls in Delhi and other places, and according to the agency it generated about 2,500 enquiries at dealerships in Delhi.

The problem for most industries during the off-season is that sales are very low and unless discounts are offered stocks do not move. The inventory holding costs for air-conditioners during off-season go up by 20 percent, since most of the sales for this product are in summer and in September and October. Dealers do not need stock inventory, since, air conditioners unlike television or fridges, have to be installed at the consumer's place. This reduces the dealer's stock holding costs of air-conditioners. However, manufacturers have to bear the costs of holding disassembled parts and they are equivalent to the costs of holding finished goods.

In this industry, companies usually spend around 75 percent of their outlays in these five months and the remaining 25 percent has to be judiciously spent the rest of the year. Hitachi too needs to do the same to fight the competition. Therefore, the company devised other strategies by directly targeting its potential customers instead of advertising in the mass media. It developed teaser ads to target customers who recently constructed their houses. These series of ads were successful and the product was sold to about 50 percent of this target market.

After this, the company focused it attention on architects, builders, and CEOs in 2002. Leo Burnett, its ad agency, tried to attract this segment by leveraging on its previous strategy of conducting product appreciation sessions of Johnnie Walker whiskey. These sessions increased the sales of Johnnie Walker whiskey by about 10 percent. Similarly, the agency invited architects, builders, and CEOs to sessions in Delhi and Mumbai, since these two cities jointly account for about 60 percent of the air conditioner sales in the country. The sessions included presentations on preparation of premium whiskey brands and tasting different blends of Johnnie Walker and also included presentations on Hitachi air conditioners. The strategy was to attach the premiumness of the Johnnie Walker brand to Hitachi. This strategy worked for the company and according to the agency it got a 12 percent market share despite charging a 20 percent premium over the competition.

Adapted from Gouri Shukla and Prasad Sangameshwaran, "Rainy Day Marketing," Business Standard, July 29, 2003.

Strategies

Strategies are the methods and techniques used to achieve the long-term and short-term goals of an organization. There are several strategies that can be adopted based on different business situations. The strategies proposed by Michael Porter as well as a few other strategies will be discussed in detail in the next chapter.

Strategic alliances

The late twentieth and the early twenty-first century have witnessed many strategic alliances. Corporate giants such as Tata, Birla and AT&T (the telecom giant in the US) formed an alliance to form Batata, offering telecom services in India. Birla, Tata and AT&T formed an alliance and are now offering their services throughout the country under the brand name Idea. Though strategic alliances ensure greater market share and other benefits, not all of them are successful. Many alliances fail because of poor leadership. To lead the strategic alliance, a manager should have an in-depth knowledge of the functions of the organization. Managers often fail to gauge and adjust to the new situation. When alliances are formed between companies belonging to different cultures, it is even more important to have a person with unique leadership qualities. For an alliance to be successful, a manager should have a broad vision, and act as an effective interface between the employees of the two companies.

Such managers should concentrate on long-term relationships rather than focusing on immediate benefits. Therefore, for a strategic alliance to be successful, a company needs to have a broad perspective with efficient leadership skills amongst its employees.

Implementation

To implement a strategy, a firm needs commitment, leadership, and superior managerial skills. Strategies must be converted into actions to be achieved on a day-to-day basis. The strategy has to be clearly communicated to all the employees and their responsibilities and duties, clearly defined. However, most organizations lack proper implementation of the strategy. There could be many causes for this. Strategic inertia could be one cause wherein the implementation process is not even started. Not taking everyone in the organization into confidence, sliding away from the actual path of the strategy due to the CEO not giving importance to the implementation process, dilution of the strategy due to preoccupation with other tasks on hand, lack of integration among the departments leading to communication gaps that hamper the implementation process, and lack of proper evaluation methods are some of the other causes for lack of strategy implementation. Without proper evaluation, the management cannot take corrective steps for deviations, if any. Most successful CEOs across the world take sufficient care to avoid these traps. They realize the importance of implementation and the amount of effort that goes into it.

Apart from the commitment of the CEO, there are certain organizational activities that have to be performed if a strategy has to be effectively implemented. The first step is to communicate the strategy as discussed earlier. The next step is to decrease the complexity of the strategy for easy implementation. Subsequently, a system should be developed that will solve the problems and issues that arise in the due course of strategy implementation.

Richard Pascale and Anthony Athos, in their article "The Art of Japanese Management," published in 1981, devised a model for successful implementation of strategy. It later appeared in "In Search of Excellence" by Tom Peters and Robert Waterman. McKinsey proposed this as a 7-S model for effective implementation of strategies by business firms. The model helps in linking the planned strategy to a variety of business activities so that the strategy can be effectively implemented. The 7-S framework perceives culture as a function of seven parameters – structure, systems, style, staff, skills, strategy, and superordinate goals.

Feedback and control

A firm has to continuously monitor its strategy implementation process. The manager has to obtain regular feedback and employ control mechanisms to make sure that the strategic implementation is moving in the right direction. Sometimes, the environment may be so volatile that certain structural adjustments in the strategic process have to be made.

Employees generally resist change due to several reasons. They could be reluctant to change the habituated process of working; there could be a lack of interest in updating the skills; there may be apprehensions about the viability of new technology etc. Therefore, the management has to be very cautious about the changes taking place in the environment and adapt to such changes accordingly.

Exhibit 9.4

Gillette's Strategy for India

Gillette recently closed down Braun, its home appliances division and it also failed to successfully market its acquired battery cell product. However, the company's Managing Director, Zubair Ahmed, is confident of succeeding in the Indian blade market. The company is successful in its premium shaving systems, Mach III and Sensor, and it is soon launching Mach III Turbo. But the company had to face tough competition in the lower end market. In 2001, it recorded losses to the tune of Rs.27.8 crore. However, it recovered with profits of Rs. 6.46 crore in 2002and Rs.18.79 crore in June 2003.

In India, 97 percent of the lower end market uses double-edged safety blades (DESB). Gillette has just about 16.8 percent of the market share in this segment, with its 7 O'clock and Wilkinson brands. The leader in this segment is the House of Malhotras. For the past six years, Gillette has been focusing on upgrading the consumers to disposable shaving systems, where it has 87.5 percent market share respectively. But it completely ignored the DESB segment, which it is now trying to focus on, by sub-segmenting it and targeting the middle and premium segments within it. In India, about 50 percent of the DESB segment caters to barbers, who use the blade just once before disposing it off. Therefore, there is no necessity for high quality long lasting blades and barbers prefer low-priced blades. But SuperMax, which is priced 40 percent higher than its lower-priced counterparts has been able to convince barbers that, it offers a better shave. For Gillette products, however, the price gap is much higher and the gap has further widened over the past few years. Consequently, the sales of 7 O' clock went down by about 10-12 percent. Gillette is not ready to reduce its prices as it imports steel for its premium DESB products. Other Indian manufacturers source steel locally and are able to offer an effective shave to the customer for as little as 40 paise. The question is why would a customer pay a premium price for the same effective service. But Ahmed believes that if the company lowers its price, it will distort the consumer's perception of the brand. When Gillette launched Wilkinson with a 15 percent discount over SuperMax, people rejected it saying that if it was priced too low it could not be a Gillette product. However, Ahmed stated that the recent advertising campaign has been successful and the sales of 7 O' clock are picking up.

The company, however, is concentrating on converting the lower-end DESB market to disposables and shaving systems, in which, Gillette is the global leader. 4.5 percent of the 100 million self-shavers in India use disposables and 0.9 percent use high-end shaving systems like Mach III.

Adapted from Seema Shukla, "Double Edged Sword," The Economic Times, September 17, 2003.

Effective feedback mechanisms about the market situation have to be obtained on a periodic basis. Strategies have to be developed based on the feedback from the market. Refer Exhibit 9.4 to learn how Gillette is responding to the market demand.

MARKETING PROCESS

The marketing process of a company typically involves identifying the viable and potential marketing opportunities in the environment, developing strategies to effectively utilize these opportunities, evolving suitable marketing strategies, and supervising the implementation of these marketing efforts. Traditionally, marketing has been done on the basis of the production concept, where a product is made and pushed into the market without considering the consumer perceptions and attitudes. But over the years, the marketing process has transformed into an integrated marketing approach, which is now largely being employed by most organizations across the globe. The firm must therefore concentrate on formulating strategies to attract customers based on their value perceptions. For instance, Provogue is trying to focus on the premium market by attributing a value perception to its brand. Refer Exhibit 9.5 to learn about Provogue's strategies.

Exhibit 9.5

Provogue's Growth Strategy in India

Nikhil Chaturvedi, Managing Director of the Rs. 41-crore Acme Clothing (makers of the Provogue brand of clothing) envisions building the largest clothing brand in India. Provogue is operating in the premium menswear segment which is valued at around Rs.450 crore of the Rs.5000 crore readymade menswear segment. The company has expanded across the country with its exclusive Provogue studios, and increased its product line. It has experimented with different ways of selling its apparel, inspired by fashion houses like Prada and Armani, which introduced the fashion lounges-by-day-bar-at-night concept. The first Provogue lounge was inaugurated in central Mumbai in July 2003.

The readymade menswear market is growing at a rate of 15 percent per annum and this strategy will help the company to build its brand. Major companies like Raymond and Madura Garments introduced brands to serve the premium, middle and lower segments. However, Provogue caters only to the premium casual wear segment with its shirts priced at Rs.700 to Rs. 1,500 and trousers priced at Rs. 1,000 to Rs.1,800. The reason behind this, according to Chaturvedi, is that the company wants to exploit the full potential of one particular segment before venturing into another segment. As regards the women's wear segment, he feels that the company would concentrate on it in a big way once the market starts developing at a faster rate.

Provogue initially started selling its range of shirts from a multi brand outlet in Mumbai in 1999. Today, the company sells its clothing from 40 exclusive studios across 16 cities and from 40 national chain stores like Shopper's Stop, besides, 30 other multi brand outlets. The product range includes shirts, T-shirts, trousers, sweaters, accessories and a line of women's wear in the premium segment. However, accessories and women's wear account for less than 10 percent of the turnover at present.

The company is trying to sell its products from a larger number of retail outlets in more cities. Apart from the clothing, it is planning to offer shoes, watches, sunglasses through its studios. The company is also trying to open its lounges in more cities. The company has so far spent around Rs.7 crore for exclusive outlets and it is planning to invest Rs.5 crore this year to expand these outlets. The production capacity has also been enhanced and the advertising budget was increased from Rs.4.5 crore in 2002 to Rs.6 crore in 2003. With Fardeen Khan endorsing the brand, the company is trying to obtain a large part of the market share.

Adapted from Arti Sharma, "Growth in Vogue," Business Standard, September 20, 2003.

Value Delivery Sequence

According to Michael J Lanning and Edward G Michaels of McKinsey, there are two types of value delivery sequences, one focusing on the product and the other focusing on the customer. The traditional value delivery activity was concentrated on making the product first, starting with designing the product, getting the raw materials, manufacturing the product, fixing the cost of the product, advertising, selling the product, and providing after sales service. The value delivery sequence concentrating on the customer, focuses on the marketing process, where value is created and delivered to the customer. The foremost process in this sequence is the strategic marketing process. The market is segmented, targeted and positioned, then the product is developed along with the service; the next phase is pricing, distribution, sales promotion, and advertising.

Steps in the Planning Process

The steps in the marketing planning process are, analyzing the marketing opportunities, developing marketing strategies, planning marketing programs, and managing the marketing effort.

Analyzing the Marketing Opportunities

Every company has to analyze its marketing opportunities based on its area of significance, position, and sales in the market. For example, let us say there is a huge market potential for micro mobile phones, where a small chip can be placed inside the ear and one can hear and speak through it. Market research has to be conducted to estimate the market potential for the product, and the segments to be targeted and to search for appropriate channels and distributors. The company has to focus on factors such as the features and benefits that the customers would expect and the advertising and promotional strategies that have to be adopted. With such data, the product may be developed using advanced technology, such as WAP and Bluetooth.

Marketing opportunities have to be identified and developed quickly, even before the competitor senses them. Organizations that quickly transform marketing opportunities into successful products are termed as virtual marketing organizations (VMOs). In such organizations, it is the responsibility of every employee to identify and analyze marketing opportunities.

Developing Marketing Strategies

Marketing strategies have to be designed, subsequent to the product development and the analysis of marketing opportunities. Specific strategies suitable to the target markets have to be developed, even while the product enters the different stages of its life cycle. Strategies developed at these stages should be so effective that a competitive advantage is always sustained.

Planning Marketing Programs

Marketing programs have to be planned in such a way that the strategies formulated are properly implemented and aid in the achievement of organizational goals. Every company, while planning the marketing programs, should consider the marketing mix variables – product, price, place, and promotion. Each marketing mix variable in turn has several factors that have to be focused upon. For instance, the product has factors like features, design, quality, packing, etc. The pricing factors are discounts, credit limits etc. The place includes factors such as distributors, locations, market coverage etc and finally the promotional factors include advertising, offers, public relations etc. The budget allocation for different programs has to be planned by the manager. The budget for different marketing programs is often allocated depending upon the estimated sales of the product.

Managing the Marketing Effort

Managing the marketing effort is a crucial task. After the strategy formulation and the subsequent development of the marketing plan, necessary steps have to be taken to control the activities and put them on track. The budget allocated has to be properly utilized. If any deviations occur at any stage of the marketing process, the manager should efficiently control them. The management of the marketing effort is the responsibility of the entire organization, as any fault at any stage of the product development process, will affect the sales badly. Therefore due care has to be taken while selecting the raw materials, stocking them, processing them and so on.

MARKETING PLAN

Marketing planning involves the development of a logical process to establish marketing goals and plans to achieve these goals. It involves allocating budgets for different marketing activities and evaluating the target market segments. Marketing planning may be informal in small organizations while it may be a formal process in large organizations. Experts have identified ten barriers to the development and implementation of marketing plans. They are, confusion between tactics and strategy, separating the marketing function from the business processes, confusion between the marketing function and the marketing concept, organizational obstacles, lack of a proper evaluation process, confusion between operations and output, absence of adequate knowledge, absence of a structured approach, inappropriate method of sequencing the goals, and an unfavorable corporate environment. Therefore, the management should take necessary steps to overcome these barriers to marketing planning and implementation.

The marketing plan of a business firm involves several functions namely, a chart specifying the contents, opportunity and issue analysis, marketing strategy, action programs, projected profit and loss statements and control measures.

Contents

The contents of a marketing plan include executive summary, opportunity and issue analysis, marketing strategy, action programs, projected profit and loss statements, and control measures.

Executive Summary

The executive summary is a brief description of the entire report, which contains an introduction and a description of the highlights of the marketing plan. It also includes information about the expenditure that will be incurred for implementing the plan. However, the executive summary should merely provide a brief overview of the marketing plan and its implementation process.

Opportunity and Issue Analysis

In opportunity and issue analysis, the marketing manager analyzes the opportunities available to the company in the market and the threats to the company. In the issue analysis, the manager determines the issues related to the strengths and weaknesses of the company and highlights the areas which the marketing plan has to focus upon.

Marketing Strategy

After the opportunity and issue analysis, the marketing manager formulates a strategy to achieve the objectives of the marketing plan. This involves setting strategies to effectively and efficiently deal with the marketing mix, promotions, advertising, distribution, pricing, and research and development activities.

Action Programs

The action programs of the marketing plan must specify the details of the strategies adopted to achieve the objectives of the firm. It should also answer the following questions – What will be the cost of performing the activity? What actions are taken to do the specific activity? When is it going to be done? And who is going to do it?

Projected Profit and Loss Statement

The projected profit and loss statement will have the details regarding the budget to be allocated to each of the activities mentioned in the action programs. The sales estimations will be projected on the revenue side of the statement and the activities such as promotion, distribution, and advertising are projected on the expense side. The difference between the revenue and the expense is the projected profit for the organization. The top management goes through this projected profit and loss statement. It accepts or modifies it and then approves the budget for the implementation of the marketing plan.

Controls

The final stage in the marketing plan is the process of controlling the activities that are deviating from the planned track. The top management, from time to time, reviews the activities to see whether they are being carried out according to the plan. Necessary steps are taken to control those activities which are going off the track.

SUMMARY

Strategic market planning is the process of communicating and sharing data between different departments of an organization to collectively formulate future strategies and implement them with maximum efficiency. Strategies regarding which markets to serve and with what products; which brands to extend and at what intervals are developed. The strategic planning process helps organizations view their future goals clearly. Strategic marketing planning involves planning the brand strategy, the product strategy, the sales strategy, the sales promotion strategy, and the advertising strategy. Before developing any strategy, a firm has to first develop a corporate mission statement which explains the business of the organization, and its customers.

Due to varied business activities, organizations are increasingly setting up strategic business units. A strategic business unit is a separate and self-sufficient business unit operating in the market. Resource allocation is done by differentiating the company’s businesses according to their potential and identifying whether they are profitable. The two very popular models used for such estimations are the Boston Consulting Group Model and the General Electric Model. Boston Consulting Group matrix helps a company to determine its marketing strategy by analyzing a product’s market growth rate with its relative market share. In the General Electric model, the strategic business units are plotted in a matrix with nine cells. Each SBU is measured on the basis of industry attractiveness and business unit strength.

Companies deal with situations where there is a tremendous gap between actual and projected sales. To overcome this gap, firms develop intensive, integrative, or diversification growth strategies. Firms also need to consider the importance of growth, and the importance of gradually removing old and sick businesses that are not adding any value to the company.

SWOT analysis is the process of analyzing the company and the environment in which it is operating. This analysis helps in formulating effective strategies for the company to deal with competition. SWOT analysis takes into consideration the internal and external factors of an organization. Strengths and weaknesses are internal factors, whereas opportunities and threats are external factors.

The marketing process of a company typically involves identifying the viable and potential marketing opportunities in the environment, developing strategies to effectively utilize these opportunities, evolving suitable marketing strategies, and supervising the implementation of these marketing efforts. The steps in the marketing planning process are analyzing the marketing opportunities, developing marketing strategies, planning marketing programs, and managing the marketing effort. Marketing planning involves the development of a logical process for establishing marketing goals and plans to achieve those goals. It involves allocating budgets for different marketing activities and evaluating the target market segments. The marketing plan of a business firm includes executive summary, opportunity and issue analysis, marketing strategy, action programs, projected profit and loss statements and controls.

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Chapter 10

Marketing and Competitive Strategies

In this chapter we will discuss:

- Concept of competitive advantage
- Porter's five forces model
- Analysis of competitors
- Porter's generic competitive strategies
- Designing competitive strategies
- Competitive intelligence system
- Total quality management

"There is no perfect strategic decision. One always has to pay a price. One always has to balance conflicting objectives, conflicting opinions, and conflicting priorities. The best strategic decision is only an approximation and a risk." Peter F Drucker.

The aim of marketers is always to identify and satisfy customer needs and wants profitably. The marketing environment today is dynamic and the changes are discontinuous making it essential for marketers to adapt quickly. The current market scenario requires a competitor focused approach for companies that are vying with each other to achieve a sustainable edge over the competition. Companies need to develop strategies that will help them proactively respond to market opportunities faster than the competitors. For companies to evolve and sustain their competitive advantage in the market, effective control and feedback mechanism of the marketing activities is essential. Analyzing the customer segments, the competitive environment, and internal performance should be a continuous process for an organization. A company that can develop an effective and efficient competitive intelligence system will always succeed in handling the competition to its advantage.

In this chapter, we discuss various aspects of competition and how competitive strategies can be developed keeping these aspects in mind. We also discuss Michael E Porter's five forces model for structural analysis of an industry and the generic competitive strategies proposed by him. Marketing strategies such as market leadership, market challenger, market follower and market nicher are also discussed.

THE CONCEPT OF COMPETITIVE ADVANTAGE

Competitive advantage is the critical advantage that a firm possesses in the market over a competitor in the industry. Almost all the firms in the market try to achieve a sustainable competitive advantage. According to Michael Porter, there are two types of competitive advantages – cost advantage and differentiation advantage.

A firm that offers the consumer the same value as the competitors, but at a lower cost, is said to possess cost advantage, whereas a company that offers superior value to its customers when compared to its competitors, possesses differentiation advantage. These two advantages are called positional advantages as they represent the firm's leading capability in the industry in either of these advantages.

The resources of an organization along with its skills create unique competencies. These competencies in turn help the firm identify its cost or differentiation advantages and ultimately create value for the customers. The resources of the organization include its brand value, technological know-how, patents and trademarks, and the goodwill of the firm in the market. The skills include its service quality, employee skills and efficiency.

PORTER'S FIVE FORCES MODEL

Competition in an industry is determined not only by existing competitors but also by other market forces such as customers, suppliers, potential entrants, and the existence of substitute products. Understanding the level of competition is important because the level of profits depends to a large extent upon this. The position should give the firm enough space to defend itself confidently. Understanding the sources of competition can help a firm gauge its strengths and weaknesses, and analyze the trends in the industry so that it can position itself optimally for the best returns. Michael E. Porter of the Harvard Business School has developed a framework known as the 'Five Forces Model' to help managers analyze the business environment (see Figure 10.1). The five forces included in the model are the threat of new entrants, the bargaining power of buyers, the bargaining power of suppliers, the rivalry among existing players and the threat of substitute products.

Figure 10.1: Michael E. Porter's Five Forces Model for Competitive Advantage

Bargaining Power of Suppliers
- Supplier concentration
- Differentiation of inputs
- Switching cost of firms
- Presence of substitute inputs
- Threat of forward integration
- Impact of inputs on total product costs

Barriers to Entry
- Absolute cost advantages
- Access to inputs
- Economies of scale
- Government policies
- Capital requirements
- Brand value
- Proprietary products
- Learning curve

FIRM

Threat of Substitutes
- Switching costs
- Relative price performance of substitutes
- Buyer propensity to substitute

Bargaining Power of Buyers
- Buyer volume
- Brand value
- Price sensitivity
- Threat of backward integration
- Product differentiation
- Buyer concentration

Intensity of Rivalry among Firms
- Exit barriers
- Concentration ratio
- Industry growth
- Switching costs
- Market share
- Diversity of rivals

Source: Michael E Porter, "Competitive Advantage – Creating and Sustaining Superior Performance," The Free Press, 1985, 6.

Barriers to Entry/Threat of New Entrants

Firms generally face a threat from new entrants in an industry in which the entry and exit of new players are free. Any firm can enter or exit such an industry, at its free will, unless restricted by macro environmental factors. Various entry barriers are: economies of scale, product differentiation, high capital cost, cost disadvantages independent of scale, access to distribution channels and government policy. Some of the other barriers to entry are government restrictions, patents and proprietary knowledge, etc.

An example of an industry creating barriers to new entrants is Reliance Industries that set up a petrochemical plant with the highest capacity in the industry of 27 mtpa capacity in Jamnagar, Gujarat. Due to its higher capacity, it was able to achieve economies of scale. This created entry barriers for new players. If a company wants to enter his industry now, it has to develop a plant of the same or higher capacity. Otherwise, its production cost will be very high and it will not be able to compete in the marketplace. Similarly, Xerox and GE were unable to enter the mainframe computer industry mainly due to their lack of economies of scale in production, marketing, research and service.

Prior to economic liberalization in India, organizations needed to get a license or permit from the government to produce certain items such as cement, etc. Even the quantity that they could produce was also fixed by the government. Similarly, there were certain product categories that were reserved only for public sector undertakings.

Intensity of Rivalry among Firms

Any firm tries to gain an advantage over its competitors. The industry concentration or the number of business units operating within a particular industry indicates the amount of rivalry. When a few firms enjoy a large market share, rivalry among them will be less. On the other hand, if significant market share is enjoyed by a large number of small players, the rivalry among them will be high mainly because of equality in size. When rivalry among firms is high, it leads to price wars, advertising battles, launches of new products and increased customer services and warranties. A lack of differentiation among the products of the players in the industry also leads to intense competition. Similarly, when the switching costs for customers are low, rivalry among firms is high.

The industry is said to be disciplined when the rivalry among firms is low. Such a relatively calm and peaceful environment is sometimes disturbed by a firm trying to gain a competitive advantage in the industry. The strategies it can adopt to gain an advantage can be any of the following:

- Differentiating its products by improving their features, benefits, etc.
- Keeping the prices of its products different from that of the competitors.
- Utilizing distribution channels innovatively.

The rivalry among the firms in an industry is influenced by several factors. If the number of firms in the industry is high with almost the same market shares, then the intensity of rivalry to gain an advantageous position in the market is bound to be high.

Threat of Substitutes

Substitutes affect the level of competition in an industry. Sometimes, the price that a company can charge from its customers is restricted by the prices of substitutes. For example, tea, soft drinks, juices, etc. are substitutes for coffee. Because of the existence of these substitutes, the prices charged by companies in the coffee industry are restricted. If coffee prices are hiked, customers have the option of switching over to tea or soft drinks, which are its substitutes. At the same time, the switching costs are negligible.

Bargaining Power of Buyers

The bargaining power of buyers is determined by the industry in which the firm is operating. If the firm is operating in a market where there are many suppliers and a few buyers, then the buyers have the capacity to significantly influence the price. For example, there are only a few automobile companies in India but there are numerous suppliers of auto components. For auto components, automobile companies are the buyers. Therefore, automobile companies command prices because they have higher bargaining power. Buyers can sometimes integrate backward and become competitors. Porter specified the following circumstances in which the bargaining power of buyers will be higher:

- When there are many suppliers and a few large buyers.
- When the buyers purchase in large quantities.

- When the supplier's industry depends on the buyers for a large percentage of its total orders.
- When the buyers can switch orders between supply companies at a low cost, thereby playing companies off against each other to force down prices.
- When it is economically feasible for the buyers to purchase the input from several companies at a time.
- When the buyers can use the threat to provide for their own needs through vertical integration as a device for forcing down prices.

Bargaining Power of Suppliers

Similar to buyer power, suppliers too exert power. When there are only a few suppliers in the market and many buyers, the suppliers can get together and decide on the price which is most profitable to them. An example of a powerful supplier is Intel, the world's largest manufacturer of microprocessors. Though there are other players, they are very small in size and their credibility in the market is not as high as that of Intel. Therefore, most manufacturers of personal computers are dependent on this single powerful supplier of computer chips. Most standard personal computers run on Intel's microprocessors. So, PC manufacturers have little choice but to use an Intel microprocessor. As a result, Intel has become the most powerful supplier in the industry. Suppliers are powerful under the following circumstances:

- When the product they sell has few substitutes and is important to the purchasing company or buyer.
- When no single industry is a major customer for the suppliers.
- When products in the industry are differentiated to such an extent that they are not easily substitutable and it is costly for a buyer to switch from one supplier to another.
- To raise prices, the supplier can use the threat of vertically integrating forward into the industry and competing directly with the buying company.
- The buying companies cannot use the threat of vertically integrating backward and supplying their own needs as a means to reduce input prices.

ANALYSIS OF COMPETITORS

The analysis of competitors deals with collection of information about competitors. It helps organizations develop effective strategies to market their products and services. They need to understand competitors' strategies regarding prices, distribution, products, advertising and promotion. Competitor analysis is very important for organizations of any size. A company needs to identify its competitors, their long-term and short-term objectives, their strengths and weaknesses, their reaction patterns, etc. Competitor analysis helps organizations recognize the opportunities and threats in the market and develop strategies to counter or defend against their attacks effectively. Such analysis helps organizations identify their actual competitors, know why customers shift loyalties, etc. However, organizations need to analyze the external environment before analyzing the competition.

Organizations need to analyze competition in a systematic and structured manner. The first step in analyzing the competitors is to know who the existing competitors are and who the competitors will be in the near future, say, five years down the line.

To understand the current competition, it is essential to understand what the customers are buying because a need or a want can be satisfied in a number of ways. Therefore, organizations need to evaluate the different ways in which the needs and wants of customers can be satisfied. All those who fulfill the same needs and wants in different ways are the competitors. If you are in the communication business, you need to consider what the different ways of communication are. Internet service providers, mobile phone operators, fixed line operators, postal services providers, etc. provide services to customers so that they can communicate. A customer can spend his money on any of these. Pager companies failed to realize that mobiles were their competitors. As a result, they were wiped out of the market. Similarly, if you are in the entertainment business, you may need to consider all forms of entertainment like radio, television, theaters, games, stereos, indoor sports, etc. Radio manufacturers also made the same mistake as the pager companies, when television entered the market.

The role of buyers and suppliers can also change in the future. Your suppliers can integrate forward and become your competitors. Similarly, your buyers, say, distributors or wholesalers, can integrate backward in the future and become your competitors. For example, Ford and General Motors acquired component manufacturers and became competitors in the component field.

Once competitors are identified, they need to be ranked. A few major competitors are then identified. After that, the information about their financial position, how balanced their portfolios are, the serious problems they are facing and opportunities that they are planning to exploit needs to be collected. The level of difficulty in collecting information depends on the type of company. There can be three types of companies – single industry, multi-industry and multinational companies. It is easier to collect information about single industry companies because they focus on niche market segments and their strengths are usually quality, innovation and dependability.

Multi-industry companies are involved in a wide range of businesses. Each business in the portfolio has its own investment objectives and these must be understood. It must also be understood how competitors describe their businesses, balance their portfolio of businesses and how viable the portfolio is.

Knowing the relative strengths and weaknesses of competitors is essential if they are to be analyzed. Managers need to know the resources of competitors that have been allocated to pursue specific strategies. Major resources of an organization are management, innovation, financing, production and marketing. Table 10.1 provides a checklist for competitor resource analysis.

Table 10.1: Checklist for Competitor Resource Analysis

Management	Innovation	Financing	Production	Marketing
Key people • Objectives and priorities • Values • Reward systems	**Technical resources** • Concepts • Patents and copyrights • Technological sophistication • Technical integration	**Long-term** • Debt/equity ratio • Cost of debt	**Physical resources** • Capacity • Plant - Size - Location - Age	**Sales force** • Skills • Size • Type • Location

<table>
<tr>
<td>Decision making
• Location
• Type
• Speed</td>
<td>Human resources
• Key people and skills
• Use of external technical groups</td>
<td>Short-term
• Line of credit
• Type of debt
• Cost of debt</td>
<td rowspan="2">• Equipment
- Automation
- Maintenance
- Flexibility
• Processes
- Uniqueness
- Flexibility
• Degree of integration</td>
<td>Distribution network
Research
• Skills
• Type</td>
</tr>
<tr>
<td>Planning
• Type
• Emphasis
• Time span</td>
<td rowspan="2">Funding
• Total
• Percentage of sales
• Consistency over time
• Internally generated
• Government supplied</td>
<td>Liquidity
Cash flow
- Days of receivables
- Inventory turnover
- Accounting practices</td>
<td>Service and sales policies
Advertising
• Skills
• Type</td>
</tr>
<tr>
<td>Staffing
• Longevity and turnover
• Experience
• Replacement</td>
<td>Human resources
- Key people and skills
- Turnover</td>
<td rowspan="2">Human resources
• Key people and skills
• Workforces
- Skills mix
- Unions
- Turnover</td>
<td>Human resources
• Key people and skills
• Turnover</td>
</tr>
<tr>
<td>Organization
• Centralization
• Functions
• Use of staff</td>
<td></td>
<td>Systems
- Budgeting
- Forecasting
Controlling</td>
<td>Funding
• Total
• Consistency
• Percentage of sales
• Reward systems</td>
</tr>
</table>

Source: Rothschild, William E, "Competitor Analysis: The Missing Link in the Strategy," McKinsey Quarterly, Autumn79, Issue 3, 42 – 53.

To understand the management resources, it is essential to know who the key leaders and decision-makers are, the decision-making process, experience and the level of expertise in the industry, risk taking capabilities, etc. These aspects will help in analyzing the resources the competitor is going to use and identifying the mismatch between the strategy and resource allocation, if any.

Identification of the driving forces behind the innovations of competitors helps in analyzing them better. If a few key individuals had been responsible for the previous innovations of the competitors or if the competitor had come out with only a few patents in the past, it reflects their limitations. The study of funding sources for innovations and the possibility of using the same sources in the future can give further insights about a competitor.

Understanding the sources from which a competitor has to raise finances whether internally or externally can provide an insight into his financial soundness. If a strategy requires a cyclical flow of cash and the competitor is not able to raise the money at regular intervals, he will not be successful in implementing the strategy.

Production resources include human and material resources. Understanding the efficiency of the production system and equipment, capabilities in maintaining quality, capacity to produce and flexibility to meet market demand can also provide insights about the competitor.

Classes of Competitors

Competitors can be classified into different categories. They are generic competition, form competition, industry competition, and brand competition.

Generic competition is a form of competition where all the companies compete for the same disposable income of the customers. As customers have limited disposable income, they can buy only a limited number of things with it. Therefore, all marketers try to ensure that their products are included in the list of immediate purchases of every potential customer. For example, Hero Honda and LG are not competing directly but both of them are vying for the same disposable income of the customers.

Form competition is the one in which a company sees itself competing with all the other companies offering similar benefits. For example, Hero Honda competes with all other companies offering similar benefits of transportation which could be companies producing cars, buses, autos, scooters and so on.

Industry competition is the one in which a company competes with the same kind of products manufactured by other firms, for example, Hero Honda competing with TVS, Bajaj, Kinetic and all other companies producing motorcycles.

Brand competition is one in which a company competes with the companies offering similar products to the same consumer segments. For example, Hero Honda competes with only those companies manufacturing fuel-efficient bikes and not other types of motorcycles.

Identifying Competition

An organization can easily identify its competitors because the competition is dependent on the products and services it offers. While identifying competition, it is important for companies to find out about new entrants to the industry and the latest technology used in the production. For example, mobile phones are increasingly being used by the public as timekeepers, so the watch industry could well face more competition.

The most important reason for the success of the online bookseller, Amazon.com was that existing players failed to recognize the kind of market opportunity that Amazon was exploiting. Large booksellers like Barnes and Noble did not offer any competition to Amazon when it emerged as the world’s largest bookstore without the expense of stocking inventory. Similarly, websites offering jobs, real estate listings and automobiles are perceived to be a threat to existing media like newspapers that generate a substantial portion of their revenues from the advertisement of classified items.

Analyzing Competition

The environment in which firms operate is highly competitive and turbulent. For example, there is such an intensive competition in the cola market between Pepsi and Coca-Cola that it is almost impossible for a new entrant to survive. The competition in the industry for a firm has to be analyzed on the basis of different criteria. Different technological breakthroughs might severely affect a firm.

Exhibit 10.1

Pepsi Vs Coke

In the early 1970s, the US soft-drinks market was on the verge of maturity, and as the major players, Coke and Pepsi offered products that 'looked the same and tasted the same,' a substantial market share growth seemed unlikely. However, Coke and Pepsi kept rejuvenating the market through product modifications and pricing/promotion/distribution tactics. As the competition was intense, the companies had to frequently implement strategic changes to gain a competitive advantage. The only way to do this, apart from introducing cosmetic product innovations, was to fight it out in the marketplace.

Making billions from selling carbonated/colored/sweetened water for over 100 years, Coke and Pepsi had emerged as truly global brands. Coke was born 11 years before Pepsi in 1887 and, a century later, it still maintained its lead in the global cola market. Pepsi, having always been number two, kept trying harder and harder to beat Coke at its own game. In this never-ending duel, there was always a new battlefront opening up somewhere. In India, the battle was more intense, as India was one of the very few markets in which Pepsi was the leader in the cola segment. Coke re-entered India in 1993 and soon entered into a deal with Parle, which had a 60% market share in the soft drinks segment with its brands Limca, Thums Up and Gold Spot. Following this, Coke turned into the absolute market leader overnight. The company also acquired Cadbury Schweppes' soft drink brands Crush, Canada Dry and Sport Cola in early 1999.

Coke is mainly a franchisee-driven operation, with the company supplying its soft drink concentrate to its bottlers around the world. Pepsi took the more capital-intensive route of owning and running its own bottling factories alongside those of its franchisees. Over half of Pepsi's sales were made by its own bottling units.

Bottling was the biggest area of conflict between Pepsi and Coke. This was because bottling operations held the key to distribution, an extremely important feature for soft-drink marketing. As the wars intensified, both companies took the pains to maintain good relationships with bottlers, in order to avoid defections to the other camp.

A major stumbling block for Coke was the conflict with its strategic bottling partner, Ramesh Chauhan of the Parle group of companies. While all this was going on, Pepsi wasted no time in moving in for the kill. It made huge inroads in the north, particularly in Delhi where Chauhan had the franchise and also snapped up the opportunity to buy up Coke's bottler, Pinakin Shah, in Gujarat. Ironically, the Gujarat Bottling Company owned by Shah, also belonged in part to Chauhan for whom the sell-out was a strategic counter-move in his battle with Coke. Coke moved court and obtained an order enforcing its bottler's agreement with the Gujarat company, effectively freezing Pepsi's right to use the acquired capacity for a year. Later, Coke made a settlement of $10 million in exchange for Chauhan foregoing bottling rights in Pune and Bangalore

When Coke re-entered India, it found Pepsi had already established itself in the soft drinks market. The global advertisement wars between the cola giants quickly spread to India as well. While Pepsi always relied on advertisements featuring films stars, pop stars and cricket players, Coke initially decided to focus on Indian culture and jingles based on Indian classical music. These were also supported by Coke advertisements that were popular in the West. Somehow, Coke's advertisements missed the Indian pulse by a wide margin. Pepsi soon came to be seen as a 'defender' who had humiliated the 'invader' with its superior creative strengths.

Pepsi beat Coke in the Diet-Cola segment, as it managed to launch Diet Pepsi much before Coke could launch Diet Coke. After the Government gave clearance for the use of Aspartame and Acesulfame-K (potassium) in combination (ASK), for use in low-calorie soft drinks, Pepsi officials lost no time in rolling out Diet Pepsi and sending it to retail outlets in Mumbai. Advertisements and press releases followed in quick succession. It was a major victory for Pepsi, as in certain parts of the world, Coke's Diet Coke sold more than Pepsi Cola itself. Brand visibility and taste being extremely important in the soft drink market, Pepsi was glad to have become the first-mover once again.

Coke claimed that Pepsi's one-upmanship was nothing to worry about as Coke already had a brand advantage. Diet Coke was readily available in the market through import channels, while Diet Pepsi was rarely seen. So, Diet Coke had a brand advantage. Coke came up later with a high-profile launch of Diet Coke. However, as expected, diet drinks, as a percentage of the total cola demand, did not emerge as a major area of focus for several years.

Pepsi and Coke fought the war on a new turf in the late 1990s. In May 1998, Pepsi filed a petition against Coke alleging that Coke had 'entered into a conspiracy' to disrupt its business operations. Coke was accused of luring away three of Pepsi's key sales personnel from Kanpur, going so far as to offer Rs 10 lakh a year in pay and perks to one of them, almost five times what Pepsi was paying him. Sales personnel who were earning Rs 48,000 per annum were offered Rs 1.86 lakh a year. Many truck drivers in the Goa bottling plant who were getting Rs 2,500, a month moved to Coke who gave them Rs 10,000 a month.

In May 1999, the companies were involved in a 'freebies war' – promotional schemes designed to help the overall cola market grow besides the usual market share enhancement. Coke was running as many as 12 volume-building, national-level consumer promotions, while Pepsi had eight schemes for its brands. Coke's schemes ranged from crown exchanges to under the crown prizes, which included toys, cars, free travel, consumer durables etc. Pepsi had crown exchanges and under the crown prizes as well. It also offered free gifts like cards and tattoos. A huge outlay was involved in promoting these schemes, with frequent media splashes.

Source A. Mukund, "The Coke and Pepsi Rivalry," ICFAI Center for Management Research.

For example, the innovation of compact disc technology severely affected the VCP and VCR markets. The sales of VCPs and VCRs also went down due to environmental factors such as the entry of cable and satellite television. Therefore, it is very important for a firm to analyze the competition and respond proactively rather than reactively to sustain itself in the market. For instance, when the Indian automotive industry opened up in the 1980s, Honda planned to enter the Indian scooter market. Bajaj, which was already a market leader in the scooter manufacturing industry, had seriously thought of having a strategic alliance with Honda but decided after a closer look that Honda's technology and product design would not suit Indian conditions. Bajaj, on the other hand, was manufacturing low cost scooters suited to the rough Indian conditions with a vast distribution and service network. Bajaj felt that Honda's high technology scooters with a limited distribution network would not make inroads in the Indian market. Bajaj thought that it could easily face the competition from Honda and, therefore, did not have a tie-up. The company tried to strengthen its distribution system and focused on research and development. However, the company strategy did not work well because Hero Honda became the market leader in the motorcycle segment in the Indian market.

Strategies

Companies devise several strategies to sustain themselves in the market, earn profit and gain a competitive advantage over competitors. Firms functioning in the market with the same product and serving the same customer segments face immense competition from each other (Refer Exhibit 10.1). Each company has to constantly monitor the moves and strategies of its competitor and formulate counter strategies to effectively deal with the competition. Companies need to monitor the changes in the environment carefully and convert them into opportunities.

Objectives

Objectives state the end results to be achieved by an organization. They form the basis of all good planning processes. Objectives can be of two types – short-term and long-term. Organizational objectives are dependent on the environmental factors and the organization preparedness to face the environmental changes. Organizations can adopt either the top-down approach or the bottom-up approach for setting objectives. In the top-down approach, the organizational objectives are first determined and then, on that basis, the objectives of various individuals in the organization from the top management to the lowest level are determined. In the bottom-up approach, on the other hand, individuals develop their objectives. These are consolidated and they become organizational objectives. When developing objectives, managers also need to consider competitors' objectives. The objectives will also depend on the state of industry.

Strengths and weaknesses

Strengths are the resources, skills or other advantages a firm enjoys relative to its competitors. They are the distinctive competencies that give the firm a comparative advantage in the marketplace. Some of the strengths that an organization may possess are distinct technical superiority with the best technical know-how, financial resources, skills of the people in the organization, brand value and image in the market, access to the best distribution network, supplier relationship with buyers and suppliers, etc.

A weakness is a limitation or deficiency in resources, skills and capabilities that seriously impedes effective performance. It refers to a constraint that checks movement towards a distinct competitive advantage for the firm. Some sources of weakness could be limitations of:

- Facilities
- Financial resources
- Management capabilities
- Marketing skills
- Brand image

Corporate strengths and weaknesses are a matter of interpretation. Understanding the key strengths and weaknesses of a firm helps in narrowing down the choice of alternative strategies. The study of internal strengths and weaknesses provides a useful framework for making the best strategic choice.

Reaction Patterns

The competitors' reaction patterns to a firm's competitive strategies should be observed continuously, because it is necessary to attack the competitors in their vulnerable areas. Normally, there are four types of competitors based on their reaction patterns. The first type is the *slow reactor*. This type of competitor reacts very slowly to the competition. For example, Iodex launched its green colored pain reliever to fight the competition from Moov. This was actually a very late move. The second type of competitor is the *selective competitor*, who reacts only to certain types of strategies, perhaps to added product features or line extensions. The *tough competitor*, the third type, strongly retaliates to the slightest move of his competitors. This type of competition is clearly evident in the cola wars between Pepsi and Coca-Cola. The fourth type is the *unpredictable competitor* who may or may not respond to the strategies of his competitors. This is usually the case with small firms, which attack the competitors if they are strong enough to persist in the attack or else refrain from attacking.

An analysis of competitors, including their marketing strategies, cost structures and positioning strategies are very important, but the reaction patterns have to be analyzed at a deeper level. Most companies resort to price reductions by neglecting the reaction patterns of the competitors. Companies need to know the way in which different competitors will react. Managers have to analyze the past data about how the competitors have reacted to different strategies of the firm. Identifying the exact competition is very essential for the sustenance of the firm. For example, Coca-Cola realized that it had major competition from substitute products such as tea, coffee and fruit juices, which were available at cheaper prices. Therefore, it came out with smaller bottles so that the price of its products became competitive. While it is important to assess the reaction patterns of direct competitors, it is as important to judge the moves of indirect competitors.

PORTER'S GENERIC COMPETITIVE STRATEGIES

To analyze a firm's success in an industry in which it is operating, its position in the industry and its attractiveness should be evaluated. A firm can perform profitably, even though the industry is not lucrative, if it can employ its resources optimally. A firm is dependent on its areas of strength for its business in the market. Michael E Porter suggested that all strategies are the derived strategies from three generic strategies (see Figure 10.3). They are cost leadership, differentiation, and focus.

Figure 10.3: Three Generic Strategies

Strategic target	Strategic Advantage: Uniqueness perceived by the customers	Strategic Advantage: Low cost position
Industry wide	Differentiation	Overall Cost Leadership
Particular segment only	Focus	

Source: Michael E Porter, "Competitive Strategy – Techniques for Analyzing Industries and Competitors," The Free Press, New York, 1998, 39.

Cost Leadership Strategy

A firm gains cost leadership in an industry when its cost of production is lower than that of its competitors. It can gain cost leadership by managing its processes and resources efficiently and effectively. This strategy involves attempting to minimize costs in every aspect of the business. Costs can be controlled by developing efficient methods of production, curbing overhead and administrative costs, procuring materials at low prices and monitoring costs of promotion, distribution and service. By bringing down its operational costs, an organization can offer its products and services at lower prices. It can also earn higher profits because either the profit margins are greater or the sales volume has increased. Thus, an organization which follows an overall cost leadership strategy can gain an edge over its competitors. A cost leadership strategy works well for the company in the event of a price war in the industry. Since the firm is already working on a low price strategy, it can reap profits while the competitors are bound to make losses. Firms gain this cost leadership position by employing certain measures like increased production efficiency, Six Sigma techniques, economies of scale, etc. If the competitors cannot follow suit, the firm will have a competitive advantage over them. However, the firm that has a cost leadership may lose its position if new technology is introduced or if marketers focusing on niche markets further reduce the prices. Aravind Eye Hospital, headquartered at Madurai, Tamil Nadu, India, follows a cost leadership strategy. If a hospital in the United States incurs an expenditure of $1650 to perform a cataract surgery, the same surgery costs only $10 at Aravind. The procedures at Aravind hospital are so efficient that the hospital has a gross margin of 40 percent, despite the fact that 70 percent of the patients pay nothing or close to nothing. This has become possible by constantly cutting costs and by improving the efficiency of operations.

Differentiation Strategy

The differentiation strategy adopted by the firms needs to possess sufficient skills and abilities to differentiate the product from that of the competitors based on some attributes that allow the consumers to perceive the product as different from that of the competition. Firms that adopt the differentiation strategy successfully have access to advanced scientific research, a highly skilled labor force, effective customer communication strategies, etc. A firm may differentiate its products and services in various ways. It may differentiate itself from others in terms of design or brand image (e.g. Coca-Cola), features (e.g. Cadillac), technology (e.g. Intel microprocessors), customer service (e.g. Hilton hotels), or quality (e.g. Sony). By using the differentiation strategy, a firm is able to influence the perception of customers that a product or service is unique, rather than having to reduce its costs to attract customers. Hindustan Lever Limited has recently extended its Modern brand to biscuits. It has differentiated its product by its ingredients. It has used soya as an ingredient and hopes to attract the attention of mothers who are conscious about the health of their kids and are generally the decision makers in this market. There are, however, certain risks involved in the differentiation strategy like competitors trying to lure the market with the same kind of differentiation strategies.

Focus Strategy

A firm pursuing a focus strategy tends to serve a specific segment instead of catering to the entire market. This segment may be a special group of customers, a specific geographic area, or a particular product or service line. The customers will also be loyal to the company and therefore, the entry of a new competitor into that area becomes difficult. A firm following a focus strategy and also a differentiated strategy will have the advantage of pricing their products higher. The risks involved in focus strategy are easy replication of the firms' strategies by other players.

Generic Strategy Mix

These generic strategies are not necessarily compatible with one another. If a firm attempts to achieve an advantage on all fronts, it may achieve no advantage at all. For example, if a firm differentiates itself by supplying very high quality products, it risks undermining that quality if it seeks to become a cost leader. Even if the quality did not suffer, the firm would risk projecting a confusing image. For this reason, Porter argues that, to be successful over the long-term, a firm must select only one of these three generic strategies. Otherwise, with more than one single generic strategy the firm will be left nowhere and will not achieve a competitive advantage.

Porter argued that firms that are able to succeed at multiple strategies often do so by creating separate business units for each strategy. By separating the strategies into different units having different policies and even different cultures, a firm is less likely to be left in the dark.

However, a single generic strategy is not always best strategy, because within the same product customers often seek multi-dimensional satisfactions such as a combination of quality, style, convenience, and price. There have been cases in which high quality producers faithfully followed a single strategy and then suffered greatly when another firm entered the market with a lower-quality product that better met the overall needs of the customer Refer Exhibit 10.2).

Exhibit 10.2

Sustaining the Pioneered Effort

If you watch any program on TV, you will be exposed to a large number of advertisements. Through their advertisements, companies try to persuade consumers buy products on the basis of their value perception. To fight competition, firms highlight the value that they offer to the customers through their products. And firms, which cannot do that, lose the battle of sustenance in the market. Companies can be divided into three categories on the basis of their value-based communication.

i. Companies that have innovated the product in the country but have not developed it over a period of time.

ii. Companies that were unsuccessful because of unclear value positioning.

iii. Companies that have innovated value and were successful in sustaining it over a period of time.

Companies like HMT, Bajaj (scooters), Fiat, Hindustan Motors, and Escorts are examples of the first category. They pioneered the products in the country but failed to sustain their advantage over a period of time. HMT threw its market share to Timex, as Timex adopted better competitive strategies by introducing several models to reach all the segments of the market. HMT was associated with Indianness and had almost become a generic brand in the country. But the company could not cope with changing customer preferences and technological advancement. Timex entered the market with new technology (at that time) – quartz – and introduced watches for all segments of the market. Whenever changes in technology and preferences occur in a market, a trusted brand name is extremely valuable to a company. Otherwise, a follower brand adapting to these changes might overtake the market leader, as was the case with HMT.

Brands like Videocon come in the second category. They pioneered the picture in picture technology but could not sustain their efforts because they were unsuccessful in communicating a clear value proposition to the customers. Customers too were not clear about what value they could derive from the picture in picture technology. Similarly, Bajaj introduced 4-stroke scooters like the Legend and Spectra, but did not clearly communicate to the customers what value they were offering.

If firms are innovating value, they have to efficiently communicate it to the customers. Maggi noodles is a perfect example of a brand that created value and communicated it effectively to the consumers. Maggi noodles ads effectively communicate the attributes of taste to children and convenience to mothers (as it just takes two minutes to cook). This type of communication is necessary as both children and mothers influence the purchase decision of such products.

The third type of companies not only pioneers value but also sustains their advantage over a period of time. For example, Hero Honda created value in the form of better mileage and has been adapting to the latest technology as well as the preferences of the customers. It initially introduced Hero Honda 100 CC, then the SS, Splendor, Passion, CBZ and Splendor plus. It is continuously innovating, making it very difficult for a competitor to beat it.

Innovating, sustaining and communicating value to be favorably perceived by the customers involves certain important factors like identifying consumer perceptions, developing values with a good product line and timing new products by constantly adapting to the changing technology.

Adapted from S. Ramesh Kumar, "What a Pioneer Must Continue Doing," The Hindu Business Line, May 01, 2003.

Exhibit10.3

Market Expansion

Normally, it is the market leader who expands the market. As the leader already possesses the highest market share, the only way for its growth is market expansion. Once the leader expands the market, the rest of the competitors follow. However, the author of the article does not agree with it. He quotes several examples to prove his point, Reckitt Benckiser was the market leader in the blue liquid detergent market, but Jyothi Laboratories expanded the market with its 'Ujala.' In the mosquito coil market, Tortoise was the market leader but Reckitt expanded the market. Nirma expanded the detergent market but Surf and Rin were the market leaders. Hindustan Lever was the market leader in the shampoo market but CavinKare expanded the market. Again Hindustan Lever was the market leader in the ice cream market but Amul expanded the market.

He adds that not only in such FMCG markets but also in other areas of the market, the same trend is evident. For example, Hindustan Motors' Ambassador was the market leader but Maruti expanded the market. BPL, Videocon and Philips were the market leaders in the TV and audio sectors but Akai, Samsung and LG expanded the market. New financial institutions like ICICI and HDFC expanded the financial market. It was also not expanded by the existing share broker firms. UTI should have expanded the mutual fund market but this was not the case. In the telecom sector, Reliance has expanded the market but not VSNL or BSNL.

The author observes that when this occurs not in one or two but across 15 sectors of the market, it can be concluded that the market is expanded by everybody else but the market leader. Another observation is that when a company challenges the market leader and expands its market and eventually becomes a market leader, it stops expanding the market. Another example here is that of Titan. Titan expanded the market by challenging the market leader, HMT, and became a market leader, but later on, Maxima expanded the market and not Titan. Until a business model of a market leader is observed, we tend to have a feeling that gaining market leadership hampers its ability to expand. Typically, companies start their businesses by concentrating on the premium segment of the market and produce only one type of products suitable to the segment by focusing on their production, marketing and distribution strategies towards them. An example is Sony. Sony, which is the market leader, sells its products to the premium segment, whereas Oscar sells its products to the lower end price sensitive buyers. It would be difficult for Sony to sell its products to Oscar buyers.

Thus, when a market leader faces market saturation, he either has to look to new markets, new customers and a new strategy or remain in that position. In such a scenario, the strategy for the number two or number three company is to expand the market without looking for the market leader to do that and without a head-on fight with the market leader. The strategy should be to serve those segments ignored by the leader.

Adapted from Parmit Chadha, "Expanding the Market," Business Line, September 18, 2003.

The firm will not be able to achieve any competitive advantage at all. However,

DESIGNING COMPETITIVE STRATEGIES

The competitive strategies for market leaders, market challenger, market followers, and market nicher are given below.

Market Leader Strategies

A market leader has a considerable market share, a significant presence in the industry and is acknowledged as the leader by other firms in the industry. Al Ries and Jack Trout in their successful book 'Marketing Warfare' have said that marketing has to be considered as a war and firms have to focus on competition rather than customers to sustain themselves in the market. To strengthen their argument, they compared marketing to a football match. If a team just identifies the goalpost and moves towards it without considering the other team, they will easily be blocked by the rival team in their pursuit of hitting a goal. The team must focus its efforts on gaining an advantage over the rivals, if it wants to win the game. Therefore, evaluating the competitors' strategies is very important for the firm.

A market leader has to constantly guard itself from other competing firms as they will always try to attack the leader at its weak spot or challenge it in its strong area. The market leader can adopt certain strategies to remain in that position by expanding the market (Refer Exhibit 10.3) area with new products or by extending the current products in the new markets. It can also show its customers the benefits of increasing the usage the product. For example, Colgate asked its customers to brush twice a day for good health and therefore, tried to increase the usage of the product. The market leader, while expanding the market, should defend his current position from competitor attacks.

Hero Honda Motors has almost half the market-share of the entire motorcycle segment in India. However, it is having a tough time retaining its top spot. In fact, it is trying harder than anyone else to retain its position. It innovates continuously to improve product features, and emerges with new ranges of bikes at regular intervals. It uses market intelligence systems to learn about the promotional campaigns, product innovations, etc of its closest rivals. For example, Hero Honda is exploring more tie-ups with Honda Motorcycles, Japan and looking for greater collaboration with Chinese manufacturers, Quigqui, Jialing who have announced their entry into Indian market.

Market Challenger Strategies

Market challengers are those firms which occupy the second, third or fourth positions in the market. The firm which is in the second position can best adopt the strategy of offensive attack against the market leader to grab a market share. This is especially the case when it does not pay off to snatch the market share from the company in the third position, which usually has much lower market share. The challenger can attack firms of its own capacity; it can also attack vulnerable areas of the leader, but it should have sufficient resources to sustain the attack, or it can attack the leader in its weak spots and try to leverage the maximum market share by such an attack. There is another strategy whereby the challenger can attack its competitors by offering the market all the benefits and features and all other facilities provided by its competitors. This strategy works when the firm has superior resources to sustain such an attack. The challenger can indirectly attack its competitors by entering into those markets where the competitors do not have a presence.

If there is a market leader who has a very powerful brand image, competitive price but a poor distribution chain, a challenger can quickly seizes the opportunity and topple the leader from its position. An example is the deep penetration of the Nirma brand as a low cost washing powder, into rural India, into which giants like HLL, etc. could not make sufficient inroads. The dimension of the segment is concerned with serving the needs of the uncovered market. Such attacks make good sense for a challenger, which has fewer resources at its disposal.

Market Follower Strategies

Market followers prefer to follow the leader rather than attack it. Most follower firms manufacture products leveraging on the product innovations of the market leaders. If the follower attacks a market leader with the same quality offerings and at the same price, it might have to face severe attacks from the market leader. So, unless the follower firm has some strong point in its armor, it will not dare attack the market leader.

Market Nicher Strategies

Companies following niche strategies do not like to attack the market leader and therefore, operate in a small segment of the market in which the leader is not interested. A niche marketer usually focuses all his resources to efficiently serve a small market segment and thus gains the loyalty of customers in this segment. The niche marketer then tries to ensure that customers in the segment remain loyal to it. It increases its efforts with increased focus and attention.

COMPETITIVE INTELLIGENCE SYSTEM

Normally, companies collect information on competition and the business environment in which they are operating. Most companies do not have a structured process for gathering this type of information. Collection of competitive information has become easier over the years with the availability of the latest information technology tools. However, a significant number of small businesses are unaware of the advantages of having a proper competitive intelligence system. Research conducted to evaluate the extent to which small firms utilize the competitor intelligence processes found that most small firms collect the intelligence information in an informal manner. But they have also begun to realize the importance of such a process. Some of these firms, whose profits were growing, were satisfied with their existing competitive intelligence systems, while those firms, which showed a decrease in their growth rates, were dissatisfied with their competitive intelligence system. It was also observed that companies, irrespective of size, have to focus on evaluating the competition through proper competitive intelligence systems. Such evaluations would substantially help the organization in the strategic decision-making processes.

There are four stages of the competitive intelligence system.

Setting up the System

Setting up a competitive intelligence system helps an organization in many ways. In most organizations, information for various decision-making processes is usually collected from two broad sources – the employees' knowledge and the corporate information. The corporate information such as the various policies and procedures, the objectives of the company, etc., is collected and documented separately in company documents. Management Information System helps organizations manage corporate information effectively.

For developing a competitive intelligence system, it is necessary to assess which of the individual information and which of the corporate information have to be used. However, a competitive intelligence system can be developed by converting individual information into corporate information. The personal knowledge of the employees can significantly help an organization develop an effective competitive intelligence system. Personal knowledge has to be easily accessible for effective decision-making processes. The most important aspect of the competitive intelligence system is to distribute the right information at the right place and at the right time. The process of improving the competitive intelligence of a firm will become easier if the employees in the organization understand their role in the competitive intelligence system. If they understand their roles, they will contribute to the system with relevant personal information.

The intelligence system has to be initially set up by searching for the areas where the information regarding the competition is required and then identifying the sources of such information. Finally, an employee should collect and maintain the information.

Data Collection

There are certain ways of collecting competitive information and using it effectively. For instance, information about competitors can be collected from their annual sales reports and other published materials, material published for public information, from various media, by involving oneself in the community development programs, through customer advisory councils and from loyal customers. Organizations need to ensure that the information is not collected from any unethical and through illegal means.

Analysis and Evaluation of Data

The data collected from various sources is analyzed according to the relevance it holds for the firm. It is then interpreted and presented according to the requirement of the organization. Collected information should be shared with all the departments of the organization. Finally, such information can be utilized to improve product development ideas, select target markets and in the strategic planning process.

Information Communication and Response

The information evaluated and interpreted is provided to the decision-makers whenever they require such crucial information regarding the competition.

TOTAL QUALITY MANAGEMENT

Total quality management is a well-defined process for satisfying customers and suppliers by aligning the different business models for organizational effectiveness, constant focus on development and innovativeness with dynamic organizational culture.

The teams incharge of maintaining quality in organizations, usually undertake three steps when something goes wrong in the production process. The team members try to identify the problem, rectify it and communicate the process to the entire organization so that care can be taken to avoid such problems in the future. But for better quality management, this is just not sufficient. The team responsible should also interact with scientists and other staff members of the research and development department to get to know why such problems occurred and how they can be avoided in the future. The joint efforts of the experts from the R&D and the quality management team provide better results for the organization.

Total quality management is essentially the constant striving to produce what the customer wants, by carefully eliminating defects prior to and after the products have been delivered to the customers. Most companies these days are employing techniques such as Six Sigma to eliminate defects in the production process. A very good example of total quality management is Sundram Fasteners of TVS group, which is the supplier to General Motors, USA, and was awarded the Supplier of the Year award from 1996-99 from General Motors. It was the first Indian company to receive the ISO 9000 certification in 1990.

Most companies across the globe are increasingly leveraging the benefits of the Six Sigma program. These companies feel that Six Sigma program will enhance the total quality management skills of an organization. In 1997, Jack Welch sent an individual mail to every employee of GE across the world to undergo a black or a green belt training of the Six Sigma program, if they wanted to be promoted to a higher position in the company. GE presently trains its employees within the company in the Six Sigma methodology. The Six Sigma program helps the companies reduce costs and improve the delivery process and production efficiency.

In Wipro, there are about 3,500 employees working under 292 Six Sigma projects under the guidance of 74 black belts. These teams have contributed to a savings of Rs.315 million. However, it is difficult to identify the right candidates for the back belt training programs. However, once a suitable candidate is found, he can contribute immensely to the organization. The standard syllabus for professional certification for Six Sigma black belt is given by the American Society for Quality. The training consumes 16 mandays spread over a period of 16 weeks. Each candidate in this period is expected to accomplish two projects. According to Azim Premji, CEO of Wipro Technolgoies, each candidate will be able to save Rs 20 lakh in this period. And subsequently, after becoming a black belt, he would contribute to a savings of above Rs. 60 lakh per annum. This conservative estimate gives a return of 5,000 percent on the fee. Normally, for a manufacturing unit, the ideal is one black belt per hundred employees and in the service sector, one black belt for fifty employees. Exhibit 10.4 explains how TVS Suzuki successfully employed the techniques of TQM.

Exhibit10.4

TVS Suzuki's Total Quality Management

Total Quality Management (TQM) has helped TVS Suzuki improve its profitability and enhance the employee motivational levels. The adoption of TQM has improved the organizational growth rate from 12 percent in 1994 to 23 percent in 2001. This growth, according to the Company's president, C. P. Raman, is attributed to the implementation of total quality measures. He said that the joint venture between Indian Motorcycles Private Limited and Suzuki Motor Corporation of Japan saw some initial problems. They were ironed out after the company consulted the Warwick University of Britain for putting the firm on the right path.

The university helped the company reduce its fixed costs. The workforce was reduced by nearly half the initial size in 1989-90. The stock holding costs were also reduced significantly. The company posted losses of Rs. 5.20 crore in 1990-91. But the turnaround steps suggested by the university showed results and the company's losses came down to Rs. 2.48 crore in the subsequent year. Gradually, the firm started growing profitably and it had improved to Rs. 3.78 crore by 1992-93. To keep the company in this constant growth path, the management decided to pursue total quality to a further level by involving the employees. The constant enhancement of the business processes, along with that of the product and services by involving employees heightened customer loyalty besides improving the business performance.

The company increased the number of moped models from two in 1990 to four by 2000. As a result, the market share rose from 33 percent to 65 percent. It also increased its market share from 14 percent to 18 percent in the motorcycle segment with the addition of three models, making a total of four models. The introduction of TVS Scooty proved to be very successful for the company as it gained a market share of 35 percent in its segment. The company refurbished its showrooms and service points to project a sophisticated corporate image to the customers. As a result, the walk-ins to these showrooms increased substantially. Employee participation in total quality management was encouraged by the company. Suggestion schemes were introduced, in which every employee was asked to suggest measures to improve the performance of the organization. The employee who gave the best suggestion was sent to Japan for visiting the plants over there. Within an year, more than half a lakh suggestions were implemented. The company also formed quality circles comprising employees from different departments. These teams met regularly and found solutions to various types of problems faced by the company. These measures have helped the company immensely by way of cutting costs and improving performance significantly.

Adapted from “When Quality Cuts Costs,” Business India, May 14 2001.

To be able to sustain themselves in the market, companies not only have to maintain quality standards but also be keen observers of the market because customer needs and preferences are continuously changing. Therefore, the quality standards should also be dynamic enough to suit the market environment.

SUMMARY

In order to sustain itself in the market, it is imperative for an organization to develop and sustain an effective competitive advantage. According to Michael Porter, there are two types of competitive advantages – cost advantage and differentiation advantage. A company obtains a cost advantage when it offers the same value as the competitor but at a lower cost. When a company offers value that is superior to that of the competitor, it is said to have differentiation advantage.

Porter suggested the five forces model to analyze an industry. They are rivalry among firms, threat of substitutes, bargaining power of buyers, bargaining power of suppliers, and barriers to entry/threat of new entrants. A company faces competition at various levels – are generic competition, form competition, industry competition and brand competition.

Porter suggested that there are three generic strategies through which organizations can gain competitive advantages. They are cost leadership strategy, differentiation strategy, focus strategy. It is possible to implement the mix or combination of these strategies. Competitive strategies should be developed on a basis of positions a company holds in the market. These could be a market leader, market challenger, market follower or a market nicher. Marketing intelligence systems help organizations understand and analyze competitors' strategies better. Total quality management emphasizes the importance of satisfying the customers by providing the highest quality standards at all times.

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Chapter 11

Product and Product Lines

In this chapter we will discuss:

- Product personality
- Product classification
- Product policy
- Product life cycle

Marketing begins with the identification of consumer needs and wants, and culminates with successfully fulfilling those needs through the 4Ps of marketing. The concept of 4Ps of a marketing mix (product, price, place and promotion) was introduced by Jerome McCarthy and developed by Philip Kotler. A marketer can satisfy the needs and wants of his customers by 'offering something' in exchange for money. And this 'offering' is basically a product. The product is one of the important elements of the 4Ps of the marketing mix. It consists of a bundle of tangible and intangible attributes that satisfies consumers. A product can be a good, a service, an idea or a combination of all these. Goods are tangible in nature; a customer can touch and feel them. Depending upon the nature of goods, they can be used either once or several times. Services are intangible, yet they provide utility/benefits to the customer, for example, postal services, legal services, health care services, etc. Services are perishable in nature and cannot be stored. For example, an airline ticket, a haircut, etc. An idea can be a concept, or a philosophy. It helps customers to solve their problems and adjust to the environment.

Product planning is the systematic decision-making related to all aspects of the development and management of a firm’s products including branding and packaging.

PRODUCT PERSONALITY

The components of a product convey different meanings to different customers and project a distinctive image of the product in the eyes of the customers. These meanings and images contribute to the formation of product personality. The following constitute the components of a product.

- **Core Features**: A core feature is a basic component of a product. A marketer needs to define the core benefits offered by the product to the customers. All other components are superimposed on the core product to form the personality of the product. For example in the case of a car, the core feature is the core benefits (as a private means of transport) that the car offers. In designing any product, a company has to first define the core benefits that the product offers. All the marketing activities can be built upon the core benefits of the product.
- **Associated Features**: Every product contains a set of associated features. Taking the example of car again, the shape of the car, its size and capacity, power steering, suspension system, the auto locking system, color, automatic glass pane rolling, brand name, etc. constitute the associated features. Firms selling the similar product compete on the basis of the associated features as the core feature is the same for all. Marketers try to innovate around the associated features to make the product distinct from their competitors’ products. The brand name of the product is one of the most important of its associated features. It helps in identifying the product offered by one seller from that of the other. A brand includes a name, symbol, design or a combination of these. It acts as a major selling tool. For example, customers no longer ask for the product alone, they ask for a specific brand (Colgate toothpaste, Gillette shaving foam, Luxor pen, Revlon lipstick, etc.). A brand is an invaluable asset that is built over a long time. Companies invest a lot of money and effort in building a brand. Some of the other associated features are packaging and labeling. The main purpose of packaging is to protect the product from damage and to facilitate smooth handling during the distribution stage. Packaging also plays a vital role in promoting a product. The size, color, design, and labeling of the package helps in attracting customers’ attention. The unique design of the packaging also attracts customers. For example, the Calcium Sandoz tablets of Novartis India Ltd., are packed in a plastic container shaped like a puppy, thus attracting children who are the ultimate consumers, and their parents who play the role of customers in buying the product.

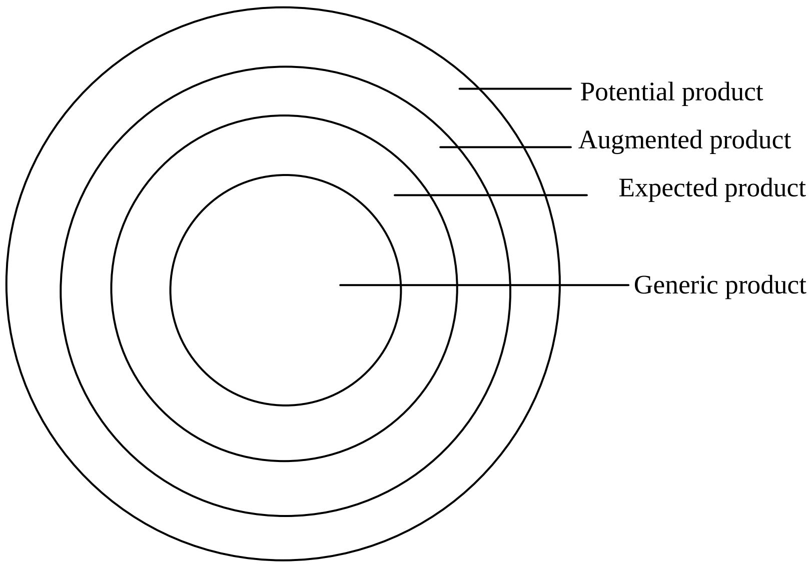
Every product has its unique label. A label contains written information about the attributes of the product. It helps the buyer in understanding the features and composition of the product. It also gives other information like the date of manufacture, date of expiry, barcodes, batch number, etc.

In the above discussion, we have only talked about the basic components that affect the personality of the product. It is important to note that other Ps of marketing (price, place and promotion) and the corporate image also plays an important role in determining the personality of the product. We will study this in detail in other chapters of this book.

Nature of the Product

Prof. Theodore Levitt differentiated the products based on the value they provide to customers. He argued that 'competition is not between what companies produce in their factories but between what they add to their factory output in the form of packaging, services, advertising, customer advice, financing, delivery arrangements, warehousing and other things that people value'. In 1980, Levitt conceptualized the 'generic', 'expected', 'augmented' and 'potential' product model. Figure 11.1 gives a graphical representation of this.

Figure 11.1: Nature of Product



Generic product: Generic products are unbranded, plainly packaged products and are less expensive than branded products. But there are bound to be slight differences in generic products. For example, steel sheets produced by TISCO are not exactly the same as the steel sheets produced by SAIL. After developing the basic product, the marketers add attributes to transform the product into the expected product. Then they add more features to convert the expected product into an augmented product. They add more augmentations and transformation to change the product into a potential product that will delight customers.

Expected product: This represents the basic requirements a customer finds essential to buy a product. Marketers try to identify attributes and conditions required by customers and try to build these into their products. For instance, customers might be on the look-out for negotiable terms and conditions of sale, the right time and place of product delivery, advice and support for using the product, etc. apart from the actual / generic product. Failure to identify and fulfill these expectations may reflect badly on the generic product and sales may suffer.

Augmented product: Companies do not limit the attributes of a product to what the customer expects in the product. They try to put in additional attributes in the product to differentiate it from their competitors' products. The end result of such efforts is an augmented product. Companies conduct market research to gather more information on how to enhance the value of their products. They try to add more attributes and services to improve the product and exceed the normal expectations of buyers. The aim here is to go beyond the expectations of the customers and to delight them, for example, by giving a warranty with the product, training the customers on how to use the product or giving a toll free number to reach the customer care services. Augmented products usually exist in mature markets or where the customers are reasonably sophisticated and experienced. Exhibit 11.1 explains how Intel Corporation customizes its products to suit its target markets.

Exhibit 11.1

Customize for India!

Due to cutthroat competition in mature markets, companies find it extremely difficult to survive. Organizations develop new promotional and distribution strategies, and the bigger players often try and seek new markets. Companies seek potential markets for their products and try to skim the market before the competition picks up.

In their attempts to reduce competition or put a barrier to market entry, marketers often try to customize the products of the company. One such organization that is seeking newer markets, like India, is Intel Corporation. Intel believes that markets in Europe and America have matured and countries like India and China will drive the future growth of the company. Intel has been conducting market research in these countries. It is making an effort to study the product attributes potential customers look out for in the product. Intel has plans to launch new technologies and chips in the future.

To cater to the Indian and Chinese markets Intel is in the process of developing:

(a) A new technology called 'Vanderpool' that allows the user to run multiple software programmes on one or more computers.

(b) Two new chips – a 32 bit Xeon processor and a 64 bit Itanium processor.

(c) A technology called 'La Grande' for which Intel is currently working with Microsoft. La Grande is believed to enhance computer security based on hardware.

Adapted from Vipin V Nair, "Intel to Customize Products for India, China," The Hindu Business Line, September 18, 2000, 7.

Potential product: Potential products are products which include all the improvements that are possible under given technological, economic and competitive conditions. The potential product helps in attracting and retaining customers. Marketers conduct customer research to identify customers' problems, and their attitudes towards the company's product. They come up with new ideas, methods and technologies to improve the performance of the product and test the products for ease of use, durability, etc. Lack of innovation and financial resources (budget) in a company often limits the opportunity for making improvements in the product. Hence it is often seen that big companies with huge resources make significant investments in producing potential products.

Product Hierarchy

Product hierarchy can be defined as an organizational chart that depicts the array of products offered in a given market. To explain the concept of product hierarchy, let's take the example of the automobile sector. The levels of product hierarchy are (a) product class: In our example, the product class can be divided into cars, trucks, bikes etc. (b) product form: The cars can be divided into sports utility vehicles, family cars etc., similarly trucks can be classified as heavy duty and semi heavy duty trucks. (c) The next level is the variations in the form: i.e. cars with two doors, cars with four doors etc., and (d) The next level breaks these groups into brands: For example, in the car segment we have Fiat, Chevrolet, Skoda Octavia, etc.

PRODUCT CLASSIFICATION

Products have been traditionally classified on the basis of their characteristics like usage, durability and tangibility. Marketers use various marketing mix strategies for each product type.

Durability and Tangibility

Based on durability and tangibility, products can be classified into three groups (i) non durables, (ii) durables and (iii) services.

Non durables: Non durable goods are tangible in nature. They are consumed over a short period of time, either in a single use or a couple of uses. For example, all FMCG (fast moving consumer goods) like soaps, toothpaste, petrol, etc. These goods are consumed at a fast rate, and hence are purchased frequently by customers.

Durables: Durable goods are tangible in nature. They are consumed over a relatively longer period of time, usually two to three years or more. They include products like video cameras, building material, home appliances, etc.

Services: Services are intangible and perishable in nature. Services can be either an independent product, e.g. a haircut, or an inseparable part of the product, e.g. repair and home delivery service offered with the main product.

A marketer must devise different strategies to market durables and non durables because the customers’ needs and perceptions differ on the basis of durability of the product. In the case of non-durable goods, marketers adopt strategies like providing the goods at a larger number of locations, advertising heavily and charging a smaller markup to induce customers to buy the goods. Durables are perceived as an investment by customers. Hence customers think in terms of operating cost, resale value, etc. of the product when making a purchase decision. Marketers try to highlight the value factor, and to provide after sales services, guarantees and warranties, etc. with durable goods in order to attract customers.

Usage

Products can be classified depending on who the final purchaser is and how he uses them. Based on the usage of the products, they are divided into (i) consumer products and (ii) industrial products.

Consumer products

Consumer products are products that are used by the consumer for personal, family or household use. They are bought with the intention of satisfying individual or personal needs. Consumer products can be further divided into (a) convenience products, (b) shopping products, (c) specialty products and (d) unsought products, based on the purchasing habits of the consumer. However, no two consumers behave in the same way while purchasing a particular product because every consumer thinks differently in terms of time, money and risks (social, functional, financial and physical) involved in buying the product. Hence a single product can fit into several categories at the same time.

Convenience products: Convenience products are products that are relatively inexpensive and are bought frequently. These products are usually bought with a minimum of thought and effort. Consumer goods are typically less bulky, are sold at a lower price and are not easily affected by fashion and fad. Convenience products can be categorized into staple goods (milk, bread, newspapers, etc.) and impulse goods (not intended to be purchased before the shopping trip e.g. magazines, chewing gum, lead–batteries, etc.). The buyer spends minimal time in planning the purchase or selecting the brands. Customers who prefer a specific brand might switch easily to any other brand when the preferred brand is not easily available. Marketers sell convenience products through retail stores and try to restock the products as frequently as possible. Packaging plays an equally important role in the promotion of these products as most of the retail stores stock them in self-service shelves. Marketers use various strategies, like options for better positioning and shelf space for their product. For example, products like Wrigley's chewing gum, Femina magazine, Gillette Sensor, Chips magazine, Computers Today, etc. are placed at counters and shelves near the check-out points at Food World outlets, so that a customer is bound to look at them while waiting for his turn at the checkout counter. Marketers also try to use screen displays at the entrance of the store e.g. Ponds beauty care displaying its products on the display screens at Food World outlets.

Shopping products: Shopping products are products for which a buyer is willing to spend time and effort in planning and making purchase decisions. These products are expected to have a longer life and are purchased less frequently. Shopping products are relatively more expensive and are sold at fewer retail outlets in comparison with convenience products. Buyers are not particularly loyal to any brand but often take considerable time to compare and evaluate the brands. They evaluate features like price, product features, warranties, quality, after sales services, etc. in a brand. Examples of shopping products are home appliances, stereos, cameras, etc.

Marketers use personal selling and advertising for promoting these products. They try to highlight the product's attributes because customers compare and evaluate the brands. In case the product has almost the same attributes, then marketers focus on promotion based on price. Manufacturers and intermediaries cooperate mutually to provide servicing and repairs for these products.

Specialty products: Specialty products are products that have one or more unique characteristic features. These products are available through a few select outlets or only through a single outlet. Customers are aware of what they want and will not accept a substitute for these products even though they might have to wait for a considerable time to get the product. Customers do not compare alternative products but plan the purchase carefully as the product is relatively more expensive. They are extremely brand-, store- or person- loyal and are willing to pay a premium for the product, e.g. an original painting, an antique car, a Mercedes-Benz car, a Mont Blanc pen, etc.

Unsought products: Unsought products are products that a customer purchases when he is faced with a sudden problem. Customers are not greatly aware of the need and they do not think it vitally necessary to purchase the product, e.g. umbrellas, repair services, etc. Marketers use personal selling and advertising to market these products. They indulge in aggressive selling tactics for promoting these products e.g. insurance policies.

Industrial products

Industrial products are products that are purchased to produce other products or facilitate the smooth functioning of an organization. They are purchased to satisfy the organization's needs. The functional aspect of these products is perceived to be more important when compared to the psychological rewards associated with them. Based on their characteristics and intended usage, organizational products can be classified as (i) production goods and (ii) support goods. Production goods are goods that are used solely for the production of a manufacturer's products. They are further divided into (a) raw material, (b) component parts and (c) process materials.

Raw material: Raw material is the basic material used in producing a product. These products are fairly perishable in nature. They are bought in large quantities according to their grade and specifications. These products are fairly simple but they are required in bulk and hence their total purchase price can run into millions of rupees, for example, pig iron, crude oil, fabric, chemicals, farm products, etc.

Component parts: A component is a finished product or a product that needs a little processing before becoming a part of the main product. A component can be easily distinguished from the main product though it acts as a part of that product. Industrial customers use components to assemble their products. They purchase the components according to their own specifications or the industry standards. They expect the component parts to be a quality product and to be delivered on time so as to avoid any delay in the manufacturing process. For example, the engine, carburetor, wheels, seats, glass panes, etc. are components of a car and the car manufacturer depends heavily on these components in order to manufacture a car.

Process material: Process materials are also used directly in the production of the final product. But these products are not easily identified as part of the production of final products. For example, a company producing perfumes uses alcohol as a base for its product, though this cannot be directly identified in the main product. Just like the components these products are also purchased based on the user's specifications or the industry standards.

Support products are products that facilitate the process of production. They do not become a part of the final product. They are further divided into (a) capital equipment, (b) accessory equipment, (c) consumable supplies and (d) business services.

Capital equipment: Capital equipment comprises of the large tools and machines that are used for the production of goods or for providing services. Such equipment is usually expensive. Companies purchase capital equipment with the intention of using them for a long period of time. Some of this equipment is customized to suit the individual needs of the firm in producing its products. Purchase decisions for capital products are often made by the high-level management as they call for a long-term investment. Companies usually negotiate and bargain on the price of capital goods. Marketers of these products usually provide services like installations, training, repair and maintenance and financial assistance to the buyers.

Accessory equipment: Accessories are those products that help in production or office activities. They do not become a part of the final product. For example, mechanical tools, computers, calculators, furniture, etc. Accessories are relatively less expensive, demand less services and maintenance and are purchased more frequently when compared to capital equipment.

Consumable supplies: Consumable supplies are products that are consumed during production and delivery of the product but they do not become part of the final product, e.g. paper, pencil, oils, paints, etc. They are often referred to as MRO items i.e. maintenance items (brooms and other equipment), repair items (replacement parts, handy tools) and operating items (office stationary, electricity, water, etc.). Industrial customers buy consumable supplies for the smooth functioning of their operations. Consumables are usually bought routinely and are available through various outlets. Buyers often prefer purchasing consumables from more than one seller to ensure supplies are available as and when required.

Business services: Business services are intangible in nature. Organizations require services for smooth functioning of their operations. Such services include financial services, legal services, marketing research, temporary workers, janitor services, etc. For instance a firm can hire the services of McKinsey Consultants for management consultancy problems, UPS for package delivery, various auditors for accounting, etc. A firm decides on whether to hire the services of outside service consultants or maintain its own service staff depending on the frequency of service needs and cost to the company.

Limitations of product classification models

- A single product can be a consumer product as well as an industrial product. For example, when the Eureka Forbes' fire extinguisher is used in homes it is deemed as a consumer product whereas when it is used in offices and hotels it becomes an industrial product. Therefore products cannot be classified exclusively as consumer products or industrial products.
- The perception of every customer is different from the other and so they do not categorize the products in the same manner, e.g. an umbrella might be perceived as a shopping product by one customer and an unsought product by another.
- Customers do not behave rationally all the time, for instance a person who takes a lot of time in evaluating brands might sometimes end up buying impulsively.

Though there are a certain limitations to product classification models, classifying products helps marketers in devising marketing mix strategies.

PRODUCT POLICY

Product Mix

The product mix is the set of all the products that an organization offers to its customers. For instance HLL offers detergents, shampoos, hair care products, cosmetics, beverages, health care products, ice creams, etc. A product mix consists of all the product mix lines and categories. It has a certain characteristic features like product width, length, depth and consistency.

- Width: This is the total number of product lines a company carries. In Table 11.1 we see that HLL's product mix width consists of 10 lines.
- Length: The length of the product mix is the total number of items in that mix. In our example of HLL (Table 11.1), it is 46. The average length of a line is obtained by dividing the total length by the number of lines i.e. 46/10 = 4.6
- Depth: The depth of a product mix is the assortment of sizes, colors and variations offered for each product in the product line, for example, Lifebuoy Active Red comes in three sizes: 125gm, 100gm and 60gm cakes.
- Consistency: Consistency refers to the closeness exhibited by the products lines in production requirements, distribution, end usage, etc. For instance, most of the HLL product lines are consistent as they are consumer goods, distributed by the same channels of distribution and are produced in similar manufacturing facilities.

Product Mix Strategies

Manufacturers and middlemen use several strategies to manage their product mix effectively. We will discuss a few of these strategies here.

- Expansion of product mix: An organization may opt to expand its existing product mix by increasing its product lines and/or the depth within the line. New product lines may be either related or unrelated to the existing product lines.

Table 11.1: Product Mix of HLL

Product line depth

Confectionaries	Color cosmetics	Hair care	Skin care	Oral care	Deodorants	Soaps and detergent	Toilet soaps	Beverages	Food
Max	Lakme Aviance	Sunsilk Clinic	Fair & Lovely Pond's	Pepsodent toothpaste and toothbrush Close-up	Axe Pond's Rexona Denim	Surf Rin Wheel OK 501 Sunlight Ala Vim	Liril Lifebuoy Lux Breeze Pears Hamam Rexona Dove Savlon	3 Roses Lipton Yellow Label Lipton Green Label Lipton Ice Tea Red Label Taj Mahal Brooke Bond Taaza Bru	Knorr Annapurna Atta Knorr Annapurna Salt Modern Foods Range Kwality Wall's Feast Kwality Wall's Max Kwality Wall's Cornetto Kwality Wall's Balack Currant Sundae Kissan

Product mix width

- Contraction of product mix: It has been noted that companies contract their product mix during economic slumps, and when the competition is intense. Organizations contract their product mix either by eliminating the entire product line or by simplifying the assortments within the lines. The product mix is contracted to eliminate low profit yielding products and to get a better profit margin from fewer products.
- Altering existing products: Companies should consider altering the existing products instead of adding new products to their product mix. Redesigning or adding new features to the existing product can prove to be less risky and more lucrative. Packaging is an equally important tool in altering the look and the usage of the product. Creative packaging has been found to increase the attractiveness of even mundane products like cheese, paper napkins, eggs, etc. For example, the tetra pack of milk/juices increases the ease of handling and storage. Colgate toothpaste's plastic packaging makes it easy to use and dispense the product.
- Positioning the product: Product positioning is the image projected by the product against the competitor's products and other products of the same firm. Marketers use various strategies to position the product in the market. Some of these strategies are

  (a) Positioning the product in relation to the competitor’s product. This strategy is useful for some products like Coke and Pepsi which position themselves directly against each other. Marketers must avoid using this strategy when the competitor is the market leader or when the competitor has a strong market position.

  (b) Positioning the product in relation to the target market. When Johnson & Johnson realized that the market for its mild baby shampoo was shrinking, it repositioned the product to target a wider range of adults who, J&J stated, would benefit from using a mild shampoo if they washed their hair frequently. Similarly Coke targeted its Diet Coke at calorie conscious consumers.

  (c) Positioning in relation to product class. Marketers may also try to position a product by associating or disassociating it from a common class of products. E.g. Tropicana fruit juices, available in 7 flavors, positions all of its products as containing no preservatives, and no added sugars or coloring.

  (d) Positioning by price and quality. Some retail outlets (like Balaji Super Store) are known for their high quality merchandise and high prices, while others (like Giant Hyper market) offer the same products at a lower price to retain their image of low price and 'value for money'.
- Trading Up: Companies offer higher priced, prestige products to their existing product line in an effort to increase the sales of their low priced products and enhance the company's image. For example, 'Lifestyle' offers imported artificial flowers, pots and pans and cutlery and other crystal-ware to attract high-income shoppers and improve its store image. Marketers who use the ‘trading up’ strategy may (a) continue to depend on the old, low priced products for the bulk of their sales and promote the old product heavily or (b) gradually shift their promotion emphasis onto the new products, wait till the new product increased its sales volume to a reasonable level, and then drop the low priced product totally, after a fairly long period of time.
- Trading Down: Marketers who adopt the trading down strategy add low priced items to their existing line of specialty products. Trading down is used in order to provide a new product to customers who cannot afford the original product, for example, Marriott Corporation (in the hospitality industry) introduced a new

chain of hotels called 'Holiday Inn' to cater to the needs of not-so-affluent customers. Both trading up and trading down have to be used carefully – they can prove to be suicidal strategies if the new product confuses customers.

Managing Product Lines

A product mix consists of a number of product lines as seen in Table 11.1. Marketers normally develop a basic platform for the product around which additional features and modules can be built. This offers variety in the product and at the same time reduces the production cost. For example, Bata had a range of 1138 product lines in 1999. Bata offered a wide line of products under the men’s range which accounted for 62%, children’s range accounting for 20% and women’s segment accounting for 18% of its total footwear range.

After analyzing the product line, managers need to take decisions about the length of the product line, its modernization and its pruning.

Product line analysis

Product line managers should study the sales, profits generated by the products and the market profile of each product in the product line. This helps in building, maintaining, extending and pruning the product lines. When a marketer concentrates more on generating sales volume from a few products in the product line, the line become vulnerable to competition. Therefore the marketer has to continually monitor the products and the competitor's reactions. Sometimes, marketers drop products that yield less profits or incur losses. They need to have a clear understanding of how the product line is positioned against the competitor's product lines.

Product line length

According to Kotler, a product line is too short if profits can be increased by adding new products to the existing line. And the product line is to too long if profits can be increased (or losses if any, can be decreased) by removing a few of the existing products. But increase in manufacturing capacity and pressure exerted by the sales and distribution people compel marketers to increase product lines. Hence product lines tend to grow over time. A company's objectives are also believed to influence product line-length decisions. For instance, a company aiming for higher market share and market growth will carry longer product lines. And those companies which are concerned with high profitability will selectively choose the items in the line and try to keep them short.

Product lines can be increased in two ways: (a) line stretching and (b) line filling.

Line stretching: A company indulges in line stretching when it stretches its product line beyond the current range of products. It can stretch its product line in either the down market, the up market or in both.

- A company stretches its product line downwards when it is positioned in the middle market and it wants to introduce the products at a lower price. Reasons for stretching downwards can be (i) the company finds the middle market stagnating or declining, (ii) it may notice potential growth in the down-market, and (iii) it may aim to tie up with the lower end competitors who might otherwise try to move up market.
- A company stretches its product line upwards when it wishes to enter the high end of the market. The objective of the firm may be to have higher growth, increase its margins or to simply project itself as a full-line manufacturing firm.
- A company serving the middle market might indulge in stretching its product line both ways to capture both the upper market and the down market.

Line filling: Line filling is carried out by adding more products to the existing range of the product line. Manufacturers opt for line filling (a) to reach incremental profits, (b) to satisfy sales and distribution people who complain about the missing items in the line, (c) to utilize the excess production capacity of the manufacturing unit and (d) to keep the competitors at bay.

Product-line modernization

A company using old machine tools, and producing the same old model of the product, may find its customers shifting to competitors. Therefore companies try to modernize their existing products in order to compete better in the market. They work continually to make improvements in the products and encourage customers to buy the new products that are priced higher and yield better value. One of the major issues in line modernization is the time of the product launch for these improved products. If it is timed too early, it might damage the sales of the existing product. And if it is timed too late, competitors might capture the market with their products. For example, P&G launched its baby diapers - 'Pampers' in France in 1978, but by then Colgate had already launched its product 'Caline' and had captured a major market share. Pampers faced a similar problem of late entry in Italy also.

Line pruning

Product line managers should periodically check and analyze the product lines because the company might be carrying some products in its product line that yield no profits. These products do not add to the company's overall level of profitability, complicate the task of allocating budgets and are a setback to new product development. This in turn eats away the money which can be invested in manufacturing, R&D, logistics and the sales force. Therefore managers must try to prune or remove such unnecessary products from the product line. For example, Kimberly-Clark closed a number of small underperforming businesses like Midwest Express that limited the opportunities for improving its airline business.

Reasons for line extension

It is often found that managers tend to opt for extending/proliferating the product line because

- Marketing managers perceive line extension as a low cost, low risk way to meet the needs of various customer segments. Marketers also believe that line extension helps in reducing the cost of marketing research and direct marketing. It also helps them identify and target customer segments.
- Line extensions provide a wide variety of goods under the umbrella of the same brand. Marketers believe that line extensions help in providing something new and extra to consumers. A study conducted by the US-based Point-of-Purchase Advertising Institute revealed that consumers make most of their buying decisions about grocery and beauty-and-health care products impulsively. Therefore line extensions stocked in a retail outlet can help a brand increase its shelf space and attract customers' attention.
- Marketers can advertise the superior quality of the line extension products and charge a higher price or premium price for these products. They can also consider charging a lower price for the new products when compared to the original product. For example, Marriott Corporation charges lower rates for the services offered by Courtyard by Marriott and Holiday Inns.
- Adding new products to the same product line needs less time and cost as compared to introducing a new product or brand. Also forecasting the demand and sales is much easier for these products.

- Introducing new products to the existing product line helps marketers to boost short term sales.
- Product line extension also helps the marketers in raising the admission price for new brands and new labels. Marketers can reduce the price of their superior products as products are distributed via the same distribution channels, thereby helping to reduce the logistic and storage cost.

Limitations of product line extension

- Weaker lines: Managers sometimes extend the lines to the point of super saturation. Sales personnel will not be able to explain the benefits of all the products in the product line. They lose control of presentation, confusing customers.
- Lowers brand loyalty: When marketers increase the number of products (mindlessly) under the same brand umbrella, it often leads to reduction in brand loyalty. It is often seen that some strong brands have successfully catered to the needs of the customers for two to three generations at a stretch in the same manner, e.g. Levis. Therefore when a company extends its lines, it risks disruption of well-set buying patterns and habits.
- Under exploitation of ideas: While concentrating on line extension, marketers often overlook the fact that the idea may warrant a new brand rather than a new product under the same brand umbrella.
- Stagnant demand: Line extensions rarely increase the demand of the total category. In fact research has shown that there is no positive correlation between category growth and line extensions.
- Profits earned by extending product lines are short lived; competitors can quickly and easily match the company's new products.
- Line extension can fragment the overall marketing efforts of the firm and dilute the brand's image.
- It leads to complexity in logistics, and more errors in forecasting demand, which results in over stocking of products to avoid stock-outs.
- Line proliferation distracts the attention of the R&D department from developing new products and generating new ideas.
- The costs of line extension proliferation remain hidden.

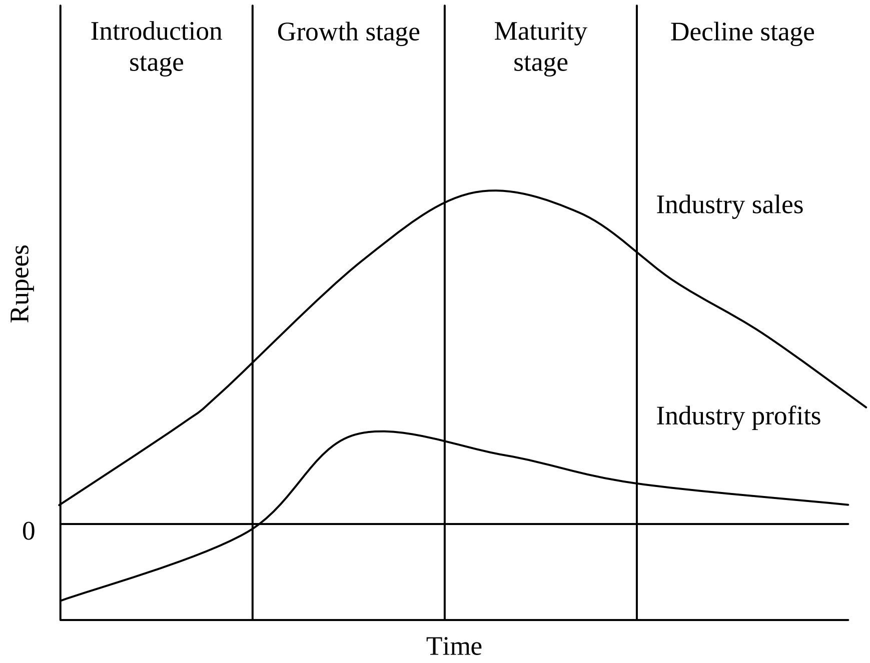
PRODUCT LIFE CYCLE

Product life cycle (PLC) analysis is a very valuable tool in the hands of a marketer. As shown in Figure 11.2, a typical product goes through four stages in its life, i.e. (a) introduction, (b) growth, (c) maturity and (d) decline. And it varies according to the type of product. Studying the patterns of PLC, from time to time, helps the business to prosper. It gives marketers a better understanding in managing their profitable products and eliminating the unprofitable ones. As the product moves from one stage of its life cycle to another, marketers try to evaluate and adjust strategies for promoting, pricing and distributing the product. We will explain the various stages below.

Introduction

In the introduction stage, the product is introduced to the customer. Introducing a new product is difficult because

Figure 11.2: The Four Stages of the Product Life Cycle



(a) only a few sellers can afford the technological know-how, marketing and other costs to launch the product and (b), the risk of new product failure is quite high. The introduction stage is marked by zero profits and negative or negligible sales. This is because initial revenues generated are low. Promotional expenses are at their highest because the company needs to (i) inform the customer about the product (ii) induce product trial and (iii) secure distribution in retail outlets. Advertising is one of the most effective tools at this stage of PLC because marketers must communicate their product's features, usage and advantages to potential customers.

Strategies for introduction stage

Marketers can set the price, promotion, distribution and quality of the product as either high or low, for the introduction of a new product. Keeping only price and promotion in mind, a marketer can adopt strategies like:

Rapid skimming: Using this strategy, marketers launch the product at a higher price and higher promotional level to skim the market rapidly. This strategy is more successful when a large part of the potential market is unaware of the product. Using this strategy, the firm tries to build brand preferences.

Slow skimming: This strategy calls for launching the new product at a higher price and a low promotional level. This strategy is feasible when the market is aware of the product, the market size is limited, competition is not intense and the customers are ready to pay a higher price for the product.

Rapid penetration: Rapid penetration demands the launching of a product at a lower price and with heavy promotion. This strategy is applied when the market is large in size, customers are unaware of the product, they are more price sensitive, there is a strong competition among firms, and the unit manufacturing cost comes down with the company's scale of production.

Slow penetration: Slow penetration calls for launching the new product at a lower price and a low level of promotion. Marketers resort to this strategy when the market is large in size, the customers are highly aware of the product, they are price sensitive, and there exists some potential competition in the market.

Growth

The introduction stage is followed by the growth stage. The growth stage is crucial for the product's survival in the market because the reactions of the competitors to the product's success will affect the product's life expectancy. This stage is characterised by increase in sales, heavy demand for the product and peaking of profits. New firms enter the market in the growth stage, attracted by the promising opportunities in the market. They introduce new product features and a wider distribution network. Companies increase their level of promotional expenditure to meet the competition. The profit of the firm increases initially as (a) promotional costs are spread over a larger volume and (b) the unit manufacturing cost falls. At a later phase in growth stage, the profits begin to decline as competition increases, forcing the lowering of prices and heavy spending on promotion.

Strategies for the growth stage

Firms use various strategies to cash in on the growth in the market, as quickly as possible.

(a) They restore to aggressive pricing, including price cuts to attract price sensitive customers.

(b) They emphasize the product's benefits in order to create a competitive niche in the market.

(c) They try to improve product quality and add new features and models. Other changes brought about to the product include making the product available in different sizes, flavors, etc.

(d) They may introduce new distribution channels.

(e) They enter new markets.

Maturity

The maturity stage is marked by a steady decline in profits. The sales tend to (a) grow, (b) stabilise and (c) then start to decline (refer the sales curve in Figure 11.2). The sales growth rate slows down as the distribution channels get exhausted. Then the sales tend to flatten or stabilize on a per capita basis as the market reaches its saturation. And finally the sales start declining and customers try out new products and substitutes. Competition is fierce at this stage as many brands compete at the same time. Each competitor tries to improve his product and highlight the product benefits. Weaker competitors and smaller firms are squeezed out of the market.

Strategies for the maturity stage

Firms adapt various strategies to stimulate sales in the maturity stage, like:

- Abandon weaker products and concentrate more on profitable products.
- Increase advertising and sales promotion. Marketers resort to introducing fresh advertising campaigns, new packaging and even product re-launches during this stage.
- Invest more in R&D to bring about improvements in the product and product line extensions.

Decline

Eventually the sales and profits of almost all products and brands tend to decline. Some products experience a faster rate of decline while others experience a slower decline rate. The reason for decline in sales could be (a) technological advances, (b) increase in competition and (c) shift in consumer's tastes and preferences, etc.

During the decline stage of PLC, the sales of the product fall rapidly, forcing firms to withdraw from the market. The size of the exit barriers influence the capacity of the firms to withdraw to a great extent. The lower the exit barriers, the easier it is for firms to leave the industry. Those firms that stay on in the market see it (withdrawal by the other firm) as an opportunity to attract the withdrawing firm's customers.

Strategies for the decline stage

To tackle the decline stage, most firms indulge in strategies like

- Reducing the number of products (pruning) in a product line offered to the market - especially those products that are not earning any profits.
- Cutting promotional budgets and prices.
- Cutting down the distribution channels and the distributors with poor sales.
- Ultimately withdrawing totally from the market or withdrawing from the weaker segments and weaker trade channels.

A company can adopt any of the following five strategies when its product is facing the decline stage:

- Increase the firm’s investment to strengthen its competitive position and dominate the market.
- Maintain the firm's investment level until the market uncertainty passes by.
- Selectively decrease the firm's investment level by dropping unprofitable customer groups. And strengthen the firm’s investment in profitable niches.
- Harvest the firm's investment to recover the cash quickly.
- Divest the business through disposal of assets.

Limitations of PLC concept

The PLC concept helps in making marketing decisions but it needs to be implemented with care. Managers need to be aware of the limitations of the PLC so that they are not misled by its prescriptions.

- The sales of some products rise quickly and may decline at the same rate. However, some products may continue at the same stage for long. For example, Cadbury's Dairy Milk chocolate has survived for decades in the mature stage of the PLC.
- Increase in marketing activities like promotion may alter the shape of the PLC's sales curve to a considerable extent. For example, an increase in advertising at the maturity and or decline stages may increase the length of these phases.
- The PLC outlines the phases but does not give any indication as regards to their duration i.e. duration of introduction, growth, maturity stages. This limits its use as a forecasting tool since it is not possible to predict when maturity/decline will begin.

SUMMARY

A product can be a good, a service, an idea, or a combination of all these. It consists of a bundle of tangible and intangible attributes that satisfy consumers and is received in exchange for money. The components of product personality cover its core features and its associated features. Levitt differentiated products on the basis of the value they provide to customers. The categories are generic products, expected products, augmented products and potential products.

Products can be classified on the basis of their characteristics like usage, and durability and tangibility. Based on durability and tangibility they can be classified as (a) durables, (b) non-durables and (c) services. Based on usage, products can be classified as consumer products and industrial products. Consumer products can be further classified as (a) convenience products, (b) shopping products, (c) specialty products and (d) unsought products. Industrial products can be further divided into production goods and support goods. There are various limitations in classifying a product, (a) a single product can be deemed as both a consumer product and an industrial product, (b) the perception of one consumer may be different from that of other consumers and (c) customers do not behave rationally all the time.

The product mix is the set of all the products that an organization offers to its customers. It can be characterised in terms of its features like width, length, depth and consistency. Marketers use various strategies to manage their product mix effectively, like (a) expansion of product mix, (b) contraction of product mix, (c) altering existing products, (d) positioning the product, (e) trading up and (f) trading down.

The product mix consists of a number of product lines. An analysis of product lines helps marketers to make important decisions with regard to product line length, line modernization and pruning. The limitations of product line extension are (a) creation of weaker lines, (b) lowering brand loyalty, (c) under exploitation of ideas, (d) stagnant demand, etc.

A product life cycle usually comprises of four stages i.e., introduction, growth, maturity and decline. An analysis of PLC gives marketers useful information required to manage profitable products and discard the unprofitable ones. The introduction stage is marked by zero profits and negative sales. The growth stage witnesses an increase in sales, and is marked by heavy demand. At a later stage of growth, profits begin to decline. The sales tend to grow, stabilize and then decline in the maturity stage. In the decline stage, sales show a downward drift and profits are usually eroded. Each stage of PLC calls for the application of different marketing strategies.

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Chapter 12

Product Differentiation and Positioning

In this chapter we will discuss:

- Product differentiation
- Service differentiation
- Personnel differentiation
- Channel differentiation
- Image differentiation
- Positioning

In order to acquire a secure market share, companies can either offer their products at a low cost and try to gain cost leadership, or differentiate their products in order to gain a competitive edge. Product differentiation is the process by which companies manufacture and design products in a way that makes customers perceive them as different from those manufactured by other companies. Companies differentiate themselves from their competitors on the basis of the physical attributes of the product, service, type of distribution and positioning. Differences in quality, features, style, price, or image are usually the basis for differentiating products. Marketers try to highlight these aspects so that their products are perceived as distinctly different from their competitors' products. Everybody in the market – manufacturer, seller, broker, agent or retailer – tries to differentiate his product. They all try to differentiate their offerings from others. This applies equally to commodities such as metal, plastics, chemicals, etc. Even services are differentiated. A bank can differentiate itself from others by responding and fixing customer problems quickly, and providing its services 24 hours a day.

Product differentiation forms an integral part of a firm's marketing strategy. Apart from price, product differentiation gives marketers the opportunity to compete on aspects like product form, features, quality, etc. Finding ways to differentiate the company's product is a skill that can be developed and nurtured over time. Firms that compete on the basis of product differentiation can attain a position whereby they can claim a premium in the market. For example, Oral B captured a significant market share in the toothbrush segment by introducing a new tooth brush with a patented blue dye in the center bristles. It added a feature to the toothbrush and differentiated it. With increased usage of the brush, the dye fades out and indicates to the user that the brush needs to be replaced, as it is no longer effective. This innovative way of differentiating its product helped Oral B gain competitive advantage over its competitors.

One of the key important decisions marketers have to make is how to position their products. The decision to position the product influences other elements of the marketing mix such as advertising, pricing, etc. It also has a long-term impact on an organization because it is very difficult to reposition a product due to high repositioning costs.

PRODUCT DIFFERENTIATION

The scope for differentiating products varies significantly. There are some products such as meat, steel, etc., which provide little scope for differentiation, while others such as home appliances, electronic equipment, etc. provide lots of scope for differentiation. Even if a product is highly standardized, variety can be introduced by exercising some creativity. For example, though cement is a standardized product, companies can differentiate it too. For example, Birla Cement Works differentiates its product by highlighting the fact that red oxide is mixed in cement to protect iron rods used in RCC (Reinforced Cement & Concrete) from rust. Marketers face a lot of difficulty in differentiating products for which many options are available. For example, there are various options available for marketers of refrigerators to differentiate their products such as on the basis of their capacity (165, 190, 200, 250, 260, 300, 310 liters, etc.), number of doors (single and double doors), color, design, etc. A product can be differentiated on the basis of form, features, quality, durability, reliability, reparability, style and design.

Product Form

Products can be differentiated based on their form i.e. size, shape and other physical attributes of the product. Product form is the sum total of the physical attributes of a product. For example, a medicine can be in the form of a tablet or a syrup or an injection. Marketers differentiate their products by changing the forms of products. HLL changed the form of its Lux toilet soap from bar form to a liquid form and marketed it as a separate product. Similarly, Godrej's Fair Glow cream, which used to come in the form of a cream, is now offered in the form of a bar.

Design

A good product design takes care of the aspect of functionality or usefulness. Customers usually look for functionality, apart from the design or shape of the product. For example, Sony products are known for their excellent design. They incorporate new features; they are easy to use; and require little or no maintenance. Sony revolutionized the audio equipment market when it designed the Walkman in 1979. The design of a product should be functional and aesthetically pleasing. Apple Computers differentiated its PC line, iMac, on the basis of its aesthetically appealing design.

When companies differentiate their product on the basis of design, they need to innovate continuously to bring out new designs because imitatations soon spring up in the market. Customers are also perceptive of the change in the value of the product when the design is changed. Changes in the design may take the form of functionalities, looks, etc. Designs are especially important for apparel, retail items, packaged goods, etc. When Tata Engineering and Locomotive Company (TELCO) developed the country's first indigenously designed car, Indica, in 1998, the company made a conscious effort to create a competitive advantage by differentiation in terms of design. After its launch too, the company has been continuously making changes in its design. The company added new features to the car such as the 1400 cc engine, easy shift gears, better suspension and wide tread tires and launched a diesel version, the Indica V2, in February 2001. The company launched the petrol version of Indica V2 in September 2001. The product was once again relaunched at the Auto Expo 2004, held in Delhi between 15-20 Jan 2004, with more features like a sporty new look, stylish interiors, chrome-lined grill, clear lens illumination, etc.

Features

Product features are the characteristics that allow a product to perform certain functions. A firm can differentiate its product from that of the competitor by adding or removing certain features. It is generally found that adding new features enhances the value of the product and helps a company gain competitive advantage. For example, when Tata Engineering and Locomotive Company launched Tata Indigo, it added a number of features to the product like independent three-link suspension shock absorbers, new front seats that gave additional lumbar and thigh support, 14-inch wheels, fire preventing inertia switch to minimize fuel leakage and a steel monochrome frame that met the European standards of full frontal and offset frontal crash tests as well as endurance safety tests. A company that offers more features often charges a higher price, which consumers are willing to pay as they perceive the product as being of a superior quality.

Marketers conduct marketing research to determine the design and features a customer is looking for in a product. They try to analyze and identify the features that are worth adding and the feasibility of adding these features to the product. Marketers also calculate the customer's perceived value and the cost to the company of adding these new features. They try to evaluate the time required to introduce the product with new features, and whether or not these features can be easily imitated by competitors. Marketers should develop a process to get continuous feedback from customers and incorporate users' suggestions as far as possible. At the same time, marketers should acknowledge customers' suggestions and the value they add to the product by communicating to them. Customers should be an integral part of the product development and modification process so that the features customers want can be added and their satisfaction level can be increased.

Size of Package

Firms also differentiate their products on the basis of the size and weight of the pack. e.g., Pepsi captured a major part of Cola market in India by bringing about a change in the packaging of its product. Through market research, Pepsi discovered that customers purchase only the amount of the product that they find convenient to carry. So Pepsi introduced a new style of packaging – the plastic bottle. The plastic bottle held more of the beverage, but was light to carry. Though the cost of producing plastic bottles was fairly high at that time, the move worked to Pepsi's advantage and the company captured a sizable market share, as Coke was not able to enter the market immediately with its own version of the product.

Product Quality

Quality of a product refers to the characteristics of the product that enable it to perform according to the expectations of customers and meet customers' needs. According to the findings of 'The Strategic Planning Institute,' there is a positive correlation between product quality and a firm's return on investment. Firms that produce premium quality products, such as Sony Corp, often charge premium prices for their offerings. They also benefit due to repeat purchases, customer loyalty and word-of-mouth publicity for their products. The quality of a product helps customers to use it confidently. Quality, in a nutshell, refers to the conformance of the product to the expectations of customers. If a product meets the expectations of the consumer, it is a quality product for him. However, organizations need to ensure that they maintain the quality of their products consistently. A customer may compare the quality of the firm's brand with rival brands over a period of time. For example, Sony Corporation enjoys a competitive edge over its rival firms because it is reputed for manufacturing products of excellent quality. Companies spend huge amounts of money to maintain the quality of the products. Many of them are trying to achieve the 'six sigma' level in quality so that product defects can be totally eliminated. They are also encouraging their employees to identify problems or defects in the product and rewarding them suitably.

Durability

Products are expected to perform satisfactorily during their useful life. If a product is durable, customers are ready to pay a premium. However, the extra amount customers will pay for the durability of a product is not known with certainty. If the technology used in a product becomes obsolete fast, the advantage derived by the marketer from its durability also gets reduced. In such a case, customers do not pay a premium for the durability of the product.

SERVICE DIFFERENTIATION

Products that rely heavily on their performance and physical, and tangible attributes as differentiators are more susceptible to imitation. Sometimes, it becomes very difficult to differentiate the product of one producer from that of its rival. For example, in the computer industry, all the competing firms provide more or less the same quality, design and features in their products. Thus, in order to achieve a competitive advantage, companies have to look for alternative ways of differentiating their products from those of the competitors. In addition to product differentiation, marketers have also begun to differentiate their products on the basis of the service they offer along with their products. Even a world-renowned company like GE which is reputed for its wide range of products, is displaying a shift in its strategic direction. The company has tried to communicate its focus on the service component by making service a part of its corporate vision. In its corporate vision, the company calls itself a service company that also manufactures products.

In order to differentiate itself from its competitors on the basis of the service related with its product, a company must segment its customers on the basis of how they prefer to make the purchase. In such cases, both the tangible and the intangible attributes of the product form a source of differentiation for the company.

Customer service can include anything from ease of ordering, delivery, installation, ease of payment, financial arrangements, customer training, guarantees, maintenance, repair and disposal. These aspects of customer service are discussed in detail below:

- Ordering ease: Ordering ease refers to the ease with which the customer can place the order for the product. Dell Computers has made the ordering of computers so simple that customers who are not aware of new developments in the field can find various options (which include the latest components) to select from, and the computer system will be delivered at the place they want. Similarly, ordering books has become so simple after Amazon.com introduced the concept of ordering online. Earlier, it was difficult for customers to know which were the latest books on a topic and where they could obtain them. But, now, they can obtain all this information at the click of the mouse and order them as well.
- Delivery: This refers to how well the product has been delivered to the customer. It includes speed and care in delivering the products, e.g., the courier services, Federal Express Corporation (FedEx) and United Parcel Service (UPS) are known worldwide for their speed and efficiency in delivering and handling the products. Domino’s Pizza had been known for the fastest and the most reliable delivery of pizza in the world.
- Installation: Differentiation on the basis of installation plays a vital role in industrial markets in which heavy equipment is purchased. Customers prefer the company to send its personnel to install the equipment. Ease of installation can help a company capture a significant share of the market, especially when the target market is new to the technology. For example, today all software applications come along with step-by-step instructions on how to install the software in the system. In this way, software companies are meeting the needs of the technology novice target market by making the installation of the software easier for them and helping them to handle it on their own. However, for heavy machinery and technically complex products, companies provide free installation of equipment such as transformers and control and relay panels for transmission of electrical power.
- Guarantees: Guarantees can often be used as a differentiator and can be leveraged as a competitive advantage. Guarantees are most often given for products such as household appliances, automobiles, electronic devices, etc. How can a company differentiate itself on the basis of guarantees?

Companies can differentiate their offerings through guarantees by following certain guidelines:

- The service guarantee associated with the product should be unconditional.
- The guarantee should be comprehensible and communicative.

  - The guarantee should be meaningful and reassure the customer on those aspects which matter to him.
  - Customers should be able to invoke the guarantee easily and without any hassles.
- Financial arrangement: Some companies tie up with financial institutions that offer loans to help customers purchase new products through easy installment schemes, e.g. Maruti Udyog Ltd. has tied up with eight financial institutions, Citicorp Maruti, Maruti Countrywide, ICICI, HDFC Bank, Standard Chartered, ABN-AMRO, Kotak Mahindra and Sundaram Finance to help its customers with car finance.
- Customer training: Some companies also train their customers or the customer's employees to use the equipment. For example, HPCL trains its dealers' employees regarding handling of the equipment and in the necessary soft skills to serve customers more efficiently. Some firms also provide a hot line or a toll-free number for customer assistance and for further information about new products and services.
- Maintenance and repair: Companies provide after-sales maintenance and repair services for their products. Subsequent business from the customer depends to a large extent on whether his experience of maintenance and repair services from the company has been good or bad. For example, LG provides free service and replacement of accessories for its hand sets up to one year to customers of Reliance India Mobile.
- Disposal: Companies can also differentiate their products on the basis of disposability of the product after use. For instance, some companies use plastic containers or wrappers to pack their product. They invite the customer to return the empty packs to the company in exchange for another pack of the same product. This strategy helps the firm in increasing its sales as well as establishing itself as an environment-friendly organization. For example, Hewlett Packard asks its customers to send back empty cartridges, which it claims it will reuse.

PERSONNEL DIFFERENTIATION

In a market of cutthroat competition, companies try to identify unique differentiation platforms and strategies to differentiate themselves against their competitors. Companies have realized that technology cannot provide much competitive advantage because the cost of acquiring it has reduced significantly. They need to depend on innovation in products, strategies, processes, etc. People are an integral part of an innovation. Without them, innovation is simply not possible. Therefore, it is the people or employees in an organization alone who can provide sustainable advantage. For example, British Airways differentiates itself from other airways on the basis of its personnel. In a service business, the people are the product, and the people at BA have made a significant contribution to the airline's success. Its customer service has been the backbone of its success. And its people provide high quality services. Its staff knows the job. Its people understand the responsibility for customer satisfaction.

Some companies derive a competitive advantage over their rivals by hiring good human resources and providing better training to their staff. A well-trained employee can serve customers efficiently and effectively. For example, McDonald's is known all over the world for the courteousness of its employees. Singapore Airlines enjoys the reputation of hiring committed and well-trained individuals as flight attendants. Organizations can differentiate themselves on the basis of the following characteristics of their employees: competence (possessing the required knowledge and skill), courteousness (friendly, respectful and considerate), credibility (trustworthy), reliability, responsiveness (ability to respond quickly to customers' queries) and good communication skills (understanding the customer's problem clearly and responding to their grievances fast).

CHANNEL DIFFERENTIATION

Companies can achieve a distinct differentiation for their products on the basis of the distribution channels they use. A firm's choice of distribution channel, its coverage, expertise and performance helps it to differentiate itself from its competitors. A firm can add value to its product on the basis of the channels that carry its product. Differentiating through the channels of distribution involves making the product available to customers in places where competitors have not entered. The availability of the product everywhere makes the customer's search process less complicated, less expensive and more habitual. Thus, by managing its distribution channels, a firm can bring about a significant improvement in its business. Many firms have realized this and are focusing on managing their distribution channels effectively, e.g., India's largest car maker, Maruti Udyog Limited (MUL), makes its cars available to customers through several different distribution channels. The company realized that there is a huge market for second hand cars and that this market has been dominated by unorganized players. To cater to this need, it established a separate distribution channel. MUL opened 'True Value' outlets where the company acts an intermediary to bring sellers and buyers together.

IMAGE DIFFERENTIATION

The brand and image of a company evokes different reactions in different customers. Some customers base their purchase decision on the brand name whereas some base the decision on the image of the company. Over the years, firms have shifted their strategy from overemphasizing cost management to creating and promoting features that foster a unique image or value for their products. Image is an important aspect not only to large companies but to smaller companies too as the latter may eventually grow and even go public or may be sold to another companies later at higher prices. Thus, creating a positive image in market is important for every company.

The image of a company is subject to change and it takes a lot of effort for any company to maintain a consistent image. Customers might perceive a company differently at different times, e.g. over the years, Coca-Cola had developed very good image in the minds of Indian customers, but investigations by the 'Face the Facts' program aired on British Broadcasting Corp Radio 4, which followed allegations made by the villagers in Kerala revealed that the company had a hand in contamination of water near its bottling unit. Further, the Supreme Court's ruling to take action against the company for defacing the rock faces along Manali-Rohtang road in Himachal Pradesh, which had been painted with the company's advertisements, created a negative image of the company. Also, the recent findings of a Delhi-based NGO, Center for Science and Environment (CSE) and the confirmation by the Joint Parliamentary Committee (JPC) that Cola-Cola beverages contained alarming levels of pesticide residue in them damaged the image of the company severely.

A company establishes its product's character and value proposition by creating an effective image. The image also helps the company to convey its product's characteristics in a distinctive way. Companies use every possible means to convey their image to customers. Companies communicate their image through the company's management, symbols, company logo, atmospherics, events, etc.

- Company’s management: The practices followed by the management can enhance or hamper the image of a company. For example, when the management of a company follows ethical management practices, it projects an ethical image of the company. For example, in companies like Infosys and Wipro, best practices such as accurate and transparent company audits, corporate social responsibility, etc. followed by the company’s management help project a positive image of these companies.
- Symbols: A firm can enhance its image or the image of its product by associating it with some symbol. The symbol helps differentiate the company from its competitors on the basis of its image and may be in the form of (a) a physical symbol like the Alsatian dog which represents Syndicate bank, Apple which represents Apple Computers, Gattu (a small kid) for Asian Paints, and the symbol of a sailor for Captain Cook salt. (b) a famous personality like Michael Jordan for Nike, Liz Taylor for Passion brand of perfume, Cindy Crawford for Omega watches, Pierce Brosnan for Reid & Taylor suitings, etc. (c) a color like yellow for Kodak, navy blue for HDFC Bank, or (d) a musical piece which acts as a signature tune, for example, Britannia biscuits, Titan and Airtel tunes.
- Logos: A logo is an emblem, a graphic picture or a sign that represents and conveys an image of a company. By displaying its logo widely on its brochures, annual reports, letterheads, business cards, as well as advertisements in the audio-visual or print media, a company projects a certain public image.
- Atmosphere: A company also creates the desired image by creating the right atmosphere at its premises or headquarters in terms of ambience, color and lighting, material and furnishings, and the building architecture. Companies have come to realize the importance of creating an atmosphere that is consistent with the image they wish to portray to their customers. This has resulted in an emphasis on the use of the physical space or atmosphere in the premises appropriately. The physical space or atmosphere thus acts as an image generator for a company.
- Events: A firm can also build its image based on the type of events it sponsors. For example, the United Breweries group and The Hindu newspaper group sponsor many horse races and motor sports, the ITC Group and the Taj Group usually sponsor tourism and food festivals. Beverage companies such as Pepsi and Coca Cola sponsor cultural programs and other youth-centered events to convey a youthful image. Samsung recently sponsored the cricket series between India and Pakistan in Pakistan.

POSITIONING

The word ‘positioning’ dates back to 1972, and was coined by Al Ries and Jack Trout. According to them, positioning is not what you do to a product; rather it is what you do to the mind of the customer. In other words, product positioning refers to all the activities undertaken by a marketer to create and maintain the concept of value regarding its brand in the minds of customers as against competitors’ brands. This concept soon caught the attention of marketers and advertisers who began developing positioning strategies for their products and services. Exhibit 12.2 describes how positioning effects the sale of products in a retail scenario. Marketers try to position the product in such a manner, that it seems to possess all the desired characteristics.

Exhibit 12.2

Know where your Rivals are!

With the boom in the retail industry, store shelves are becoming more organized and sophisticated by the day, providing a wide range of products to customers. Customers are indeed happy as this gives them wider choices, but marketers are worried. They have to face the challenge of positioning their products effectively because most brands carry almost the same product attributes, which confuse customers. A bigger challenge lies in deciding whether to place the product alongside competing brands or whether to opt for an end-of-aisle display. A study conducted by Prof. Steven M Nowlis of Arizona State University and Prof. Itamar Simonson of Stanford University during 1993-1996 to study the customer preferences in retail outlets revealed that a product's shelf placement in relation to rival brands affects the purchasing behavior of the customer. Customers' buying behavior changes with the change in buying situations. The study also revealed that there is a greater chance that generic product (e.g. a detergent cake) or a lesser known brand will sell more when placed along with other brands because in such a situation, customers give extra weightage to easily observable attributes such as price, unique features, etc. End-of-aisle display is more suited for branded products because customers tend to focus on the product's intrinsic and hard-to-compare attributes. They also go by the brand's reputation, what they have learnt from experience with the brand, or by gut feeling.

Adapted from Landry, John T, "Positioning the Product," Harvard Business Review. Nov/Dec 1996, Vol.76, Issue 6, p13.

Product positioning is the image that a product produces in the minds of customers in comparison to the competitors' products and also in comparison to other products of the same company. Marketing of products and services in the olden days was very easy because there were very few products and services available in the market. Therefore, marketers did not find the necessity to differentiate their products since customers were able to distinguish easily between the products and services available in the market. As competition began to grow rapidly, it became imperative for marketers to differentiate their products and services.

Marketers must analyze the following aspects before opting for product differentiation:

- Does the difference provide a relatively higher value to a sufficient number of buyers?
- Is it profitable for the company to introduce a new product based on differentiation?
- Is it delivered in a distinct way and is it superior to other ways of obtaining the same benefits?
- Is it vulnerable to imitation by the competitor/s?
- Can the buyer afford to pay for the difference?

Product positioning becomes a natural choice when a firm indulges in market segmentation. Segmentation allows a firm to target a given brand to a specific segment of the market. It creates an appropriate product concept in the minds of the customers in the given segment. According to Rooser Reeves, a company should develop a unique selling proposition (USP) for each of its brands. A USP can be any special attribute about a brand e.g. its quality, service, price, value, safety provisions, customization, user friendliness, technology, etc. Marketers often try to promote the product on the basis of its USP. But positioning the product on the basis of a single attribute or USP is not always beneficial. Marketers use two or more attributes of the product to position it better. This type of positioning is specifically beneficial when two or more brands claim to be the best on the same attribute(s). Exhibit 12.3 describes how a company that promotes more than one brand can position each of its brands differently.

Exhibit 12.3

Positioning: the Balsara style

The Balsara group of companies markets several brands of toothpastes. The emphasis is on highlighting the different attributes in each brand to bring a change in the way customers perceive them.

For example the attributes highlighted for Promise toothpaste are (i) contains natural clove oil (ii) is the first toothpaste in the world to receive international accreditation from the British Dental Health foundation and (iii) it has antiseptic and germ killing properties that protects teeth and gums from bacteria and provides freshness throughout the day and (iv) it is priced at Rs.32 for a pack of 200gm, while the price of competing products in the market is reasonably high.

For Babool toothpaste, a different set of attributes is highlighted. It (i) contains the goodness of Acacia Arabica (Babul tree), helps prevent swelling and bleeding of gums, and (ii) keeps gums healthy and teeth strong.

Miswak toothpaste is promoted by highlighting the following attributes of the product: (i) formulated from the extracts of Salvadore Perisica (Miswak plant) and (ii) its astringent and bactericidal properties help reduce tooth decay, fight plaque and prevent gum disease.

Adapted from <http://www.balsara.com/toothpaste_main.htm>, Suresh, Jacob 2002, 'Very refreshing'. 5 September 2003. <http://www.mouthshut.com/readreview/44354-1.html>

Creating a position for its products in the market helps a company develop a competitive advantage. Al Ries and Jack Trout, in their book *Positioning: The Battle for your Mind*, have elaborated upon the positioning strategies that need to be devised by companies to reach the target customers in a marketplace that is swamped by competitors. Various positioning strategies suggested by Al Ries and Jack Trout are discussed below.

Getting into the mind of the consumer

Getting into the mind of the customer is easier if the product or service happens to be the first in the market. It is very easy to remember who is first but very difficult to remember who is second. For instance, if you were asked to name the first man to land on moon, you would immediately say "Neil Armstrong" but if you were asked to name the second person to land on the moon, would you be able to confidently give the right answer – “Buzz Aldrin.” Similarly, in the marketplace, customers find it easy to remember products that were introduced first in the market. Subsequent products in that category, however good they may be, are difficult to bring to mind. Thus, marketers cannot deny the relative advantage of the first mover. However, not everything is lost if a marketer is not the first in the market. The marketer needs to make attempt to occupy a unique position in the customer's mind. For instance, although Tide detergent was not the first in the market, by positioning itself as a detergent that gives the whitest wash compared to all other detergents, it has claimed for itself a unique position in the mind of the customer. Another example is that of TVS Centra motorcycle. Although it is not the first vehicle to claim better mileage, through its positioning as a vehicle whose tank needs to be refueled only once a month, it has claimed for itself a unique position in the consumer’s mind.

Positioning of a leader

It is traditionally believed that the number one brand in the market occupies twice the market share of number two brand. Likewise, the number two brand occupies twice the market share of number three brand. The success of a company is not just due to its successful marketing strategies, but a major reason is that it was first in the market. For instance, Xerox being the first in the plain-paper copier market was able to attain market leadership. However, the company failed several times to introduce products in other categories where it did not have market leadership. Another example is IBM, the market leader in manufacturing computers. When IBM tried to compete with Xerox in the copier market where it did not have first mover advantage, it failed. It is therefore important for a market leader to maintain its position by positioning its products intelligently. Most important of all, a market leader should not boast about its being number one in the market. The danger is that customers may believe that the insecurity of being number one in the market is forcing the company to do so.

If a company is the first to launch a product, this point can be reinforced in its positioning strategy. Another strategy for a market leader would be to introduce multiple brands from time to time in order to cater to the changing needs of customers. It is simpler and costs much less for a market leader to introduce new brands and create a unique position for each brand rather than change the position occupied by existing brands in the mind of customers.

Positioning of a follower

As already mentioned, if a brand is not the first that comes to mind, then it is better to identify an unoccupied position where the brand can be the first. For example, when large cars like Ambassador and Fiat were popular in India in the 80s, Maruti introduced a smaller car with an 800 cc capacity and it turned out to be immensely successful because it was the first in the small car segment.

Repositioning the competition

Marketers sometimes try to reposition their products. The reasons might be that competitors are also positioning for the same segment or that the market has become overcrowded or that the target segments do not turn out to be as attractive as forecasted. For example, When Tata Sumo of TELCO was introduced in the market, it was positioned on the “takes the rough with the smooth” and “the tough one” ideas. However, when Toyota’s Qualis was introduced in the market much earlier than expected and the rural market did not turn out to be as attractive as forecasted due to poor harvests in several states, TELCO had to reposition Sumo as a multi utility vehicle (MUV) suitable for the urban market. Before repositioning, it modified the design of Sumo. It redesigned the exterior, giving it a more urban look, took better care to soundproof the cabin, and added power steering and central locking to make the Sumo attractive for the urban segment. To communicate the change in the positioning, Tata Sumo came out with a teaser campaign in August 2001. Its advertisement in the leading newspapers said, “If you can identify the family vehicle shown here, don’t bother paying us for it.” Readers had to call a toll-free number to register their responses. Readers’ responses varied widely. In September 2001, the new look Sumo was unveiled and it received a favorable response in the market.

The power of a name

Creating a unique position for the brand in the mind of the customer becomes easy if the brand has a suitable name. Names like Uncle Chipps, Pepsodent, Close Up, Head & Shoulders, Clinic All Clear, Timex, Speed (branded petrol), etc reveal something about the product's utility and therefore have a large recall value for customers. These examples indicate the power of a name in positioning a product suitably. At the same time, condensing the company name into a series of initials may not help significantly because it tends to confuse the customer as to what business the company is involved in. This strategy may benefit large companies, but not small companies.

Pitfalls in positioning

Positioning is undeniably a tough job, and if a marketer attempts to position a product without careful planning, it becomes very difficult to sustain the product in the market and derive a competitive advantage. There are certain pitfalls that might creep up while positioning a product:

1. Quite often, it happens that a product is positioned on the basis of the obvious aspects of the product features; this become too predictable and the charm in positioning is lost. However, many times, the obvious aspects have to be used for positioning. For instance, when Coca-Cola was the first entrant in the cola market, it positioned itself as the “Real Thing.” This positioning made sense at that time but as time passed, it lost its charm and the company had to alter its positioning strategy by coming out with a new punch line “Always Coca Cola.” Companies have to resort to such changes when they feel that positioning on the clearly obvious aspects of the product is not drawing the desired benefits.
2. Most companies try to live in the future rather than position their products based on their current capabilities. They might achieve newer technologies or resources in the future, but need to take care to position their products on the basis of their current advantages. It is important to ensure the success the company can achieve today, rather than trying to position the product on the basis of a technology that might accrue in the future.
3. Marketers often commit the mistake of diluting the positioning strategy to make it more attractive. Products should be positioned with powerful ideas and communicated as they are. But normally marketers come out with a simple positioning idea and pass it on to the creative department. This is where the strength of the positioning gets diluted and the process is known as underpositioning. Positioning statements like ‘Think Small’ for Volkswagen's Beetle, Volvo's ‘Drive Safely’ and so on, convey what they ought to convey. But meddling with a powerful statement to make it look cute spoils the entire positioning effort.
4. Just as underpositioning of a brand is a possibility, there is also scope for overpositioning a brand. In this situation, buyers may have a very narrow image of the company's brand. Overpositioning is usually seen in cases where the firm initially promotes its brand as a premium brand. For example, customers perceive the Tanishq jewelry brand to be very high priced, while the reality is quite the opposite as Tanishq offers jewelry that suits every budget also.
5. Positioning is normally done by managers with an ‘inside-out’ thinking and is based on what is going on in the organization. But, actually for a positioning strategy to be successful, it has to be based on an ‘outside-in’ strategy. An outside-in strategy is one where a manager tries to develop the positioning based on what customers and other stakeholders think about the company.
6. Companies often position their products such that it helps them achieve short-term sales and profits. Issues like stocks and share prices are a major reason for this type of positioning. But positioning has to be done keeping in mind long term gains in the market and not short-term gains.
7. Another pitfall is confused positioning. Marketers should not confuse consumers by meddling too much with the positioning strategies of their established brands. For instance, Pepsi once introduced a clear Pepsi with the name Crystal Pepsi. Consumers thought that if it was not brown, then it could not be a cola, and as a result the product failed in the market.
8. Sometimes companies try to create brand awareness among customers even before positioning the brand clearly in the market. This phenomenon, known as doubtful positioning, can lead to a bad positioning of the product in the market, and often generates a negative attitude towards the brand. For instance, many of the dot com companies spent heavily on television advertising, without themselves being clear about what they were selling.

9. Companies quite often do not realize what customers expect from a product. As a result, they position the product based on the wrong attributes or on attributes that are of no interest to the customers. For example, Le Sancy, a toilet soap, was positioned as a long-lasting soap, but, what consumers wanted was freshness, rather than longer life of the soap, and hence the product failed.

SUMMARY

Firms try to bring about differentiation in their products to provide superior value to their customers. Marketers try to highlight aspects of product differentiation to ensure that customers perceive their product as different from their competitors' products. Marketers use goods, services, distribution channels and positioning strategies to differentiate their products. Differentiation can be based on differences in quality, features, style, price, or can be even based on the image of the product in the mind of the customer.

Product differentiation focuses on the elements of a product that makes it different from the competing brands. A product can be differentiated on the basis of its physical form, features and product quality, apart from its other attributes such as price. The physical form of the product includes its size and shape. Product features are the characteristics that allow a product to perform certain functions. A firm can differentiate its product by adding or removing certain features from the product. Product quality refers to the overall characteristics that enable the product to perform according to the expectations of customers while also satisfying their needs.

Sometimes, it becomes difficult for the marketer to differentiate on the basis of the product alone. Therefore, marketers introduce differentiation based on services offered with the product. These services include ease of order, delivery, installation, financial arrangements, customer training, warranties, repair services, maintenance and disposal of the product. Firms invest millions of rupees every year to train their employees. Training employees helps them serve the customer better and this can help the firm in creating a difference in customer experience.

A firm can achieve a distinct differentiation for its products through adequate distribution channels and on the basis of its image. Image is the way in which people perceive a company and its products. An effective image establishes the product's character and value positions. Companies use various tools like symbols, events, print and mass media, and communication channels to convey the image of the product to customers.

Products can also be differentiated on the basis of positioning. A product's position is the customer's perception about the product's attributes in relation to the attributes of competing brands. Product positioning becomes a natural choice when a firm indulges in market segmentation. A company should develop a unique selling proposition (USP) for each of its brands.

Positioning is a challenging task for marketers and any error in positioning or improper planning can hamper the credibility of the company and lead to a loss of the product's position in the market. Hence, marketers need to take utmost care while positioning their products. Major positioning errors that can occur include underpositioning, overpositioning, doubtful positioning and confused positioning. Once a firm has created a position for the product or service in the mind of the customer, it must communicate it effectively to its customers.

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Part IV
Making Marketing Decisions

Chapter 13

New Product Development

In this chapter we will discuss:

- Challenges in new product development
- Organizing the product development process
- Stages of new product development

Advances in science and technology have changed the lifestyles of people, their food habits, standard of living, social customs, expectations, etc. People are seeking better and improved products that are easy to use, occupy less storage space, are aesthetic and provide value for money. The increasing expectations of customers is forcing companies to concentrate more on product innovation.

For higher levels of growth, firms look beyond their product lines, product positioning and branding decisions. Product innovation is a major component of the product policy of a firm. Firms develop new products to enhance their product mix by adding new products or by increasing the depth of their product lines. A good product is the primary ingredient that ensures a continual growth and prosperity for a firm. Therefore, companies invest heavily in introducing new products and improving the existing ones. Organizations take new product development initiatives to meet different objectives. According to Booz, Allen and Hamilton, a new product can be categorized as

- New to the world products: They are new products and have not been introduced earlier and are expected to create a new market. For example, Polaroid's Instant Camera was a revolution in the market.
- New product lines: New product lines help companies enter with a new product in an established market.
- Additions to the existing product lines: New products that contribute to the existing product lines of the company. Products that are introduced in the market with slight variations like size, flavor, color, packaging, etc. For example, new improved Lifebuoy, Chhota (small) Coke.
- Improvement and revision of existing products: They include improved versions of the existing products that provide improved performance. These products usually improve the perceived value of the existing product and replace them.
- Repositioning: Targeting the existing products to new markets or newer market segments.
- Cost reduction: Introducing new products that provide the same benefits at a lower cost.

CHALLENGES IN NEW PRODUCT DEVELOPMENT

New product development is both important and risky for a firm. For example, Motorola suffered severe financial losses due to the failure of their satellite phone (iridium), which was completely rejected by the market. However, organizations need to invest their efforts and resources for developing new products. The average age of a product continues to be on a decline, as customers demand new and better products, and competitors keep coming up with improved products. Marketing strategies adopted by a firm can also affect the performance of the new products. For example, Colgate came up with a new innovative product that it believed had a groundbreaking formula of antibacterial technology. But, the decision of the firm to launch the new product (toothpaste), as yet another product in the product line and not differentiating it as an innovative product, had a negative effect on its sales. Though the product was expected to grow by 5%, it actually grew at 1%. Market research revealed the fault in the product launch strategy. Later, the company had to take corrective measures to target the product as an innovative one in both the local as well as the international market which led to a 10.5% growth in the market share, leaving the P&G's ‘crest'' behind.

A company risks its very survival, when it does not make any effort to come up with a new and improved product. For example, in the software industry, new products usually become obsolete by the time they reach to the mass market. Firms operating in this market must continue not only to provide improved and updated versions but also to innovate new products in order to create a competitive advantage. Companies also face the risk of failure in case of new product development, if they are not careful enough while developing new products. And this can lead to huge irrecoverable losses for the firm in the form of both monetary losses as well as loss of image. Research has shown that almost 33 – 60% of new products fail either in the market place or after the company has invested a substantial amount of resources in its development.

Some companies have been highly innovative. For example, 3M (Minnesota Mining and Manufacturing) has been termed as the most innovative company. The organizational ambience at 3M is very conducive for employees to think creatively which is very essential for new product development. Generally, products with a high product advantage succeed, rather than those with a moderate or minimal advantage. Further, it is essential for the company to have a fair idea as to what it wishes to develop before it embarks on the development process. Factors such as technological and marketing synergy, execution quality at all stages and market attractiveness are vital for ensuring an effective product development.

Exhibit 13.1

New Product Development for Different Geographical Markets

New product development by a global company entails developing products for the different geographical markets it operates in. The products have to be designed taking care of the needs and requirements of the new market.

For instance, consumer tastes differ across North America, the UK, Germany, Italy, Japan and India. Therefore, if a car manufacturer wants to sell a 'global' car in these markets, without any country-specific differentiating features, he would fail. At the same time, he cannot be expected to design a separate car for each market as it would involve significant costs.

The solution lies in the 'modular approach,' pioneered by Ford. The different components that constitute a car are mixed and matched to provide features required by different markets.

Not all companies develop new products for different markets and yet they succeed. In fact, Kellogg's ignored the advice of its marketing research team not to sell cereals in France, as the French had totally different breakfast habits from the Americans. But it went ahead to launch the same variety of cereals it was selling in the US markets, regardless of the then existing local preferences; and twenty years down the line Kellogg's is successful in France.

McDonald's on the other hand, had to offer burgers without beef or pork in India, in deference to local religious sentiments in India.

New product development for different geographical markets is therefore an important ingredient of the 'international product mix' strategy. MNCs have to therefore add or drop features according to the needs and preferences of the different geographical markets, in which they operate.

Almost all MNCs launch products in new geographical markets after considerable market research. Unilever has four global research laboratories that develop products for different geographical markets. The laboratories co-ordinate their efforts, try and look at the possibilities of welding together different ideas from different countries. Similarly, Motorola co-ordinates efforts of its software-development establishments working in different parts of the world, so as to incorporate the innovative ideas which have been successful in the diverse geographical markets.

Thus new product development strategy can provide three choices;

- Customize a product for every market.
- Offer standardized product everywhere.
- Settle in the middle.

Adapted from Arvind Sahay, "Finding the Right International Mix," Business Standard, December 14, 2001.

As companies are entering into different markets due to liberalization of economies, saturation of markets, etc., they need to modify their products or develop new products that suit the taste and preference of those markets. Exhibit 13.1 discusses what multinational companies need to do when they need to develop products for different geographic markets.

ORGANIZING THE PRODUCT DEVELOPMENT PROCESS

Typically, a company organizes the product development process with the help of the following people/ entities:

Product Managers

In product management system, line and staff categorization is not applicable. A product manager needs to command support from other functions. The success of a product manager depends on the soundness of plans and his ability to coordinate activities of others over whom he does not have line authority.

In some organizations, product managers are made responsible for providing ideas for new product development. However, this approach has not been very successful because either product managers are too busy in their routine activities or they lack skills and knowledge to develop new products.

Product Committees

Many companies appoint high-level management committees that are responsible for reviewing and approving proposals for the new product development.

Product Departments

Usually, large companies appoint a manager who heads a department specifically meant for product innovation and development. The manager has substantial authority and access to the top management. This department works towards screening and generating new ideas, working in tandem with the R&D team and conducting field-testing and commercialization.

Product Venture Teams

A venture team can be defined as a "group brought together from various departments and given the charge of developing a specific product or business." They can be instrumental in organizing new-product development.

The 'stage-gate' system is the most sophisticated system for managing product innovation and is used by many companies today. Each stage of innovation has a checkpoint. It is the project leader's responsibility to bring a set of known deliverables to each gate before the project progresses to the next stage. For example, in order to move from the business plan stage to the product development stage, it is essential to do a concrete market research of consumer needs and interest along with competitive analysis and technical appraisal. The gate keepers at every stage have four choices to decide from: go, kill, hold or recycle.

STAGES OF NEW PRODUCT DEVELOPMENT

Before the introduction of a product into the market it goes through several stages of development. These stages of development usually include (a) idea generation, (b) screening, (c) concept testing and business analysis, (d) product development, (e) test marketing and (f) commercialization.

Idea Generation

Companies seek new ideas to enhance the performance of their existing products and/or to innovate new products. The act of searching for new ideas is called idea generation. New product ideas can come from customers, dealers, in-company resources, advertising agencies and the external research consultants. But the main source of ideas for generating new products or improving the existing product is the customers. Their complaints and grievances are a rich source of ideas. This is true in case of customer products as well as industrial products. Most companies prefer user stimulus strategies and announce attractive prizes for people who suggest ideas.

In house or in-company resources consist of the R&D team, market research team as well as sales persons and other employees of the organisation. Some organizations encourage their employees to conduct research and come up with wacky ideas. Creative techniques like brainstorming and incentives or reward system are also used for generating new product ideas. A company can either hire the services of an external research consultant or assign the job to its internal market research group. These groups conduct surveys and study the customer needs, ask suggestions from customers for the existing products, understand the competition, etc. The information thus obtained reveals the gap that exists between the existing product and the expected product. Firms choose the most commercially viable gaps and develop new products that fill those gaps. It is not feasible to implement all the ideas generated by the company due to lack of time, shortage of financial resources and technical niceties. Sometimes, new product ideas originate as a matter of chance or by observation and as natural instincts. But firms that strive to manage their product mix effectively develop a systematic approach to generate new product ideas.

Idea Screening

The main purpose of idea generation is to collect a large number of ideas. However, not all ideas can be commercially viable. Therefore, companies filter the less viable ideas with the help of a systematic process. Companies can use various parameters to screen the ideas such as market size, technical capabilities, potential competition, compatibility with the known customer needs, etc. Addressing the following issues will also help companies analyze the attractiveness of ideas:

i. Whether the product idea matches the existing products of the company.

ii. The degree to which the new product can cannibalize the sales of the existing products.

iii. Company’s ability to produce and market the product thus developed.

iv. Buyer behavior and the probable changes in the environment.

On the basis of attractiveness, ideas can be divided into prospective ideas, marginal ideas and rejects. The prospective or promising ideas are reviewed thoroughly. And if they are found worth implementing, the process moves on to the next stage. While screening the ideas, organizations might commit two types of errors

a. Drop error: This type of error occurs when a company rejects a good idea.

b. Go error: This type of error occurs when a company selects a poor idea.

The main purpose of idea screening is to reduce the number of ideas to a manageable few that deserve further attention for development. Screening calls for spotting good ideas and dropping poor ones as soon as possible. If poor ideas are not dropped at the appropriate time, the company will have to bear the expense of product development and disposal. Therefore, marketers must be prudent in selecting the ideas.

Concept Testing and Analysis

After passing the initial screening stage, the product idea proceeds to the next stage i.e. concept testing. Concept testing is one of the crucial stages of product development. But companies often do not take this stage seriously or omit it completely. As a result, many new products fail. They fail because they reflect only the preferences and capabilities of the company and not the customer needs or product benefits that significantly distinguish them from competitive offerings.

At this stage the idea is submitted for an external evaluation to get a feedback from the market. Concept testing is a low cost procedure. It helps the firm gather important information, customers' initial reaction towards the product, before it invests further in product development. Product idea is expressed in terms of the quality, price level, attributes and unique benefits it provides to the customers to surpass competition. During this stage, the new-product idea is described in the form of one or more core benefits that are then presented to a sample of potential customers for their reactions. Concept testing helps the company in:

a. Selecting the strongest concept from the available alternatives.

b. Eliminating the concepts that are not approved/favored by the target market.

c. Identifying consumer criteria of evaluating the product.

d. Determining the desired features of the product.

e. Finally, deciding upon the product positioning.

Marketers use various tools to explain the product attributes, like drawings, sample designs, computer aided designs and virtual reality programs, etc. Companies use research like a focus group survey and/or broad market survey to collect the feedback about customer needs, perceived value, believability of the idea, comparison with competitive products, and purchase intentions. The results of concept testing help in understanding what attributes and benefits a customer is looking for in a product.

Business analysis

After testing the product concept, the firm makes a plan for developing, producing, and marketing the new product. This requires research on the market size, competitive structure and preliminary technical analysis for providing the basis for the design and production approach, and also the appropriate legal and patent search.

Business analysis is the first in-depth financial evaluation of the new-product to be developed. It undergoes several revisions. Business analysis is considered as one of the important stages in the new product development process, as it involves estimating the total investment required in developing the product and the expected sales.

Total sales estimation

Total estimated sales are a sum of the estimated first-time sales, replacement sales and repeat sales. For one time purchased products, sales rise at the beginning, peak and later approach zero. For infrequently purchased products such as cars, replacement cycles are dictated by physical wearing out or by obsolescence. Sales forecasting calls for estimating first-time sales and replacement sales separately. In case of frequently purchased products, the number of first time buyers initially increases and then decreases. If repeat purchases occur soon after the first purchase, it indicates that the product satisfies some buyers.

While estimating a new product's sales, the manager first estimates the first time purchases of the new product. Some manufacturers base decision to launch a new product entirely on the estimate of first time sales. In case of a frequently purchased new product, the seller has to estimate repeat sales as well as first time sales. A high rate of repeat implies that the customers are satisfied with the product.

Estimating costs and profits

The R&D, manufacturing, marketing and finance departments estimate the cost. The profitability of the new product is estimated through various financial tools. Break-even analysis is the simplest technique which estimates the number of units of a product a company would have to sell to break even with the given price and cost structure.

Risk analysis is the most complex method for estimating profits. Through this analysis, three estimates – "optimistic", "pessimistic" and "most likely" can be obtained for each uncertain variable that affects profitability under an assumed marketing environment. Finally, a computer simulates possible outcomes and computes a rate of return probability distribution, which shows the range of possible rate of returns and their probabilities.

Product Development

After completing concept testing and business evaluation, the next stage involves the actual product development. In this stage, detailed technical analysis is conducted to know whether the product can be produced at costs low enough to make the final price attractive to the customers. A working model or a prototype is developed which reveals all the tangible and intangible attributes of the product. These prototypes are developed in limited numbers for customer testing purposes.

Companies also develop a product protocol which is a detailed document containing the important characters/attributes that are expected in the product. A product protocol is prepared by involving the different parties involved in product development. It contains product specifications and lays down the role to be played by each department that contributes to new product development. A typical product protocol includes:

- Identifying the target customers.
- Positioning strategy of the new product as against the existing products of the company and the competitors.
- Developing the attributes of the new product.
- Competitor's current activities and strategies.
- Points for differentiating the product and its expected competitive advantage.
- Product's development schedule.
- Marketing issues related to the new product.
- Financial issues related to the new product.
- Legal and regulatory issues regarding the new product.
- Production requirements for developing the new product.
- Core competencies that need to be emphasized and corporate strategies with regard to the product

Once the product protocol has been developed, it is handed over to the R&D department to develop the prototypes of the product. The scientists and engineers are furnished with information like market specifications and expectations from the product. Marketers keep in regular touch with the market to obtain useful information as the product keeps taking a distinct shape.

The product specifications evolved from concept testing stage provide guidance to the research team. R&D team in turn develops a prototype of the product. Researchers and engineers can use a number of patterns in developing a new product prototype. Exhibit 13.2 throws light on some of these approaches. Finally a product moves through a number of stages like design, construction, testing and refinement etc. during product development.

Exhibit 13.2

Innovative Patterns

Genrich Altshuller's (a Russian scientist) research identifies five innovative patterns in developing new products. They are

- Subtraction: In new product development process, more and more features are usually added. However, in subtraction approach, features of product are removed especially those which are considered to be dispensable. For example, Philips Consumer Electronics applied this approach and removed local displays and all the control buttons on its DVD players.
- Division: In this process, the product is disintegrated into components with an objective that these components can be reconfigured differently so that a product with unforeseen benefits can be developed.
- Multiplication: In this approach, rather than taking away components from the product, one or more copies of the existing product are made. And different attributes are added to each copy. The objective is to achieve qualitative change. For example, Gillette came up with the innovative idea of twin blade system with its razors.
- Task unification: In this approach, a new task is assigned to an existing element of a product or environment. For example, adding wheels to the suitcase rather than bungee strap equipped foldable luggage cart.
- Attribute dependency change: There is usually a dependency between a product’s attributes and attributes of its immediate environment. Marketers can create new product by either challenging the existing dependency or looking for new dependency.

Adapted from Goldenberg, Jacob et al., “Finding your innovative sweet spot,” Harvard Business Review, Vol.81, Issue 3, March 2003.

Product use testing

Marketers identify a sample of target customer group to test the functionality of the prototype and the final product. They can select the sample from either the employees of the company or volunteers who will test the product. The prototype developed is tested for its feasibility and functionality. Product testing is carried out to evaluate the product characteristics and examine the functional performance of the product. It gives useful information like customers’ first impression about the product and provides early use experiences of the customers and their further expectations. Product testing further helps in:

- Comparing the new product with the existing products of both the company and its competitors.
- Knowing the performance, safety, acceptability of size, color, weight etc. of the product.
- Ensuring that the product is perceived as intended.
- Finding out ways in which the customer uses the product and identifying new or innovative uses of the products.
- Finding out customer preferences and identifying the product's desirability and marketability.
- Identifying the reasons for customer dissatisfactions and deflection and gaining more customer insights with regard to the new product.

Product testing can be carried out in a number of ways. The most common types of product testing methods are (a) alpha testing, (b) beta testing and (c) gamma testing. Business organizations usually prefer alpha testing and beta testing.

- Alpha testing: In this method, a group of target audience is selected from the employees of the company. Alpha testing is less expensive when compared to any other form of testing. Another advantage of selecting the internal employees as a target group is that the chances of leakage of new product idea are less likely. But the disadvantage can be that the company may not be able to get a true picture of the potential customer’s views.
- Beta testing: Beta testing is carried out at the customer site. This type of test is usually carried out for machines and tools to be used in the business operations of the customer. Customer's insights regarding the product and its functionality can be gained through this test. But there is always a chance of the competitor learning about the firm's new product.
- Gamma testing: Gamma testing is carried out on a long-term basis, where the customer uses the product extensively. Gamma testing is often used in pharmaceutical industry.

After obtaining feedback from the target market, the R&D department might add more new features to the prototype, which are tested again in the market, till they get the right product. Therefore, it becomes imperative that the R&D team and the marketing team work in tandem to avoid any snags that can be suicidal for the product and produce the best possible product.

Test Marketing

Test marketing is the stage where the product is introduced in a few select cities. Test marketing comes with its own cost. The company bears the following expenses:

i. High advertising costs considering the low volume,

ii. High manufacturing costs because of lack of economies of scale,

iii. High distribution costs, because of low volumes

iv. Other costs like cost of distributing samples, coupons, etc.

Apart from the above, the firm incurs an indirect cost of revealing the new product idea to the competitors, and revealing the name and brand of the company. For testing the product, the marketer needs to take decision on the following issues:

- The number of cities in which the product is to be tested.
- Name and geographic location of the cities.
- Time to carry out the test marketing.
- Information that the company is seeking through the test markets.

The marketer can use various methods of test marketing like sales wave research, simulated test marketing and controlled test marketing. Test marketing provides insights into consumer responses and traders’ acceptance level. The level of consumer’s awareness, product trial, repeat purchase, etc. indicates how well the product can be accepted in the market. On the other hand, traders’ acceptance level gives information on how to market and distribute the product.

Commercialization

The results of test marketing help marketers decide the changes that are needed in the marketing mix before entering the market. It also helps the marketers decide the amount of production, the distribution strategy, selling efforts and other issues like providing guarantees, warranties, post purchase repair and replacement services etc.

The product enters the market during the commercialization stage. The speed with which the product is commercialized depends on various factors like the advantage of new product over alternative products, the benefits that the users expect, complexity of the product, user's life style, etc. The firm incurs huge costs during the commercialization stage like manufacturing costs, capital costs, promotions and advertising costs, distribution costs, etc. which take a lot of time to be recovered. Therefore, firms roll out the product in select cities and then if the product is successfully accepted, it is rolled out gradually to other cities and finally nationwide. Gradual introduction also brings in the benefits of lowering the risk of introducing the new product. If the product fails in some cities, gradual introduction gives the firm the chance to make desirable changes in the product and alter its marketing strategies.

SUMMARY

Firms develop new products to increase the width and depth of their product mix and compete in the market place. New products can be categorized as (1) new to the world, (2) new product lines, (3) additions to the existing product lines, (4) improvements in the existing products, (5) repositioning the existing product, and (6) reducing the cost of products.

The stages of new product development are (a) idea generation, (b) screening, (c) concept testing and business analysis, (d) product development, (e) test marketing and (f) commercialization. A company seeks new ideas to enhance the performance of its existing products or for developing new products. New ideas can be generated with the help of customers, dealers, employees, market research consultants, and advertising agencies etc. As all ideas may not be commercially viable, they need to be screened and few ideas are selected to consider them for the next stage. After screening the ideas, the company tests the concept or ideas through concept testing. During concept testing, the ideas are submitted for external evaluation, to obtain the feedback from the potential market. After concept testing, the firm makes a plan for developing, producing and marketing the new product. It does a business analysis to test the technical feasibility. It then develops a product prototype, which reveals all the function and aesthetics of the product. Prototypes are developed in limited numbers in the company' lab and are used for the testing purposes. This prototype is put through product use testing to test its functionality. Marketers then test the product in select cities and gradually commercialize it in other parts of the country depending on the response from the market.

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Chapter 14

Branding and Packaging

In this chapter we will discuss:

- Brand as a concept and its significance
- Types of brands and their challenges
- Brand equity
- Sponsorship
- Brand strategy decision
- New developments in brand management
- Packaging and its importance in marketing
- Labeling

You wake up in the morning and brush your teeth with Colgate toothpaste, then take a bath with Pears soap and Head & Shoulders shampoo. You wear Levi's Jeans and a Polo tee shirt. For breakfast you have Kellogg's Frosties and a hot Nescafe coffee. You go to college riding the latest motorcycle from Hero Honda, filling it with petrol from Bharat Petroleum. You attend classes and take down notes with a Parker pen. You send an SMS to your friend in another city on your Nokia mobile phone using the services of AirTel. What are all the different things that we have mentioned above? These are the brands that have become part of our daily life. In fact it is difficult to imagine life without them in today’s world. But what is a brand? A brand is a name, term, sign, symbol or design, or a combination of all these elements that companies use to convey the identity of its goods or services to customers and differentiate them from the products or services of the competitors.

Once people get used to a brand, they shift to other brands only if it is unavoidable. If we take the above brands for example, a person using Colgate, Pears, Head&Shoulders, Levi's, Polo, Kellogg's, Nescafe, Hero Honda, Nokia, and AirTel might not use Pepsodent, Cinthol, Clinic All Clear, Wrangler, Color Plus, Brooke Bond, Yamaha, Siemens or Idea respectively. Thus, a brand when it becomes a part of life, ensures customer loyalty for the companies. Why do customers become brand loyal? How do companies try to ensure customer loyalty? We will find the answers to these questions in the following sections.

BRAND AS A CONCEPT AND ITS SIGNIFICANCE

Consumers identify a brand's distinctive capabilities based on their perceptions that have themselves been created by the marketers over a period of time. Duane E. Knapp, author of “The Brand Mindset,” defines a genuine brand as “the internalized sum of all the impressions received by the customers and consumers resulting in a distinctive position in their mind's eye based on perceived emotional and functional benefits.”

A brand conveys the following:

- **Attributes:** Brands usually highlight the product attributes to inform existing customers and also to attract potential customers. For example, the attributes of Raymonds suits are stylish, fashionable, modern and stitched of high quality premium clothing.
- **Benefits:** The attributes should eventually transform into emotional and functional benefits, for the brand to be successful. If we consider the above attributes, style, fashion and modernity will transform into emotional benefits whereas high quality will transform into functional benefits like the consumer not having to spend frequently on buying clothes.
- **Values:** Most of the brands associate some value with themselves. For instance the baseline of Raymonds, 'The Complete Man,' communicates a value proposition that the clothing makes a man complete and perfect.
- **Culture:** Brands also represent a certain culture. For instance, Raymonds projects a culture of family bonding (father and son, husband and wife) and Indianness (respect for elders) in its advertisements.
- **Personality:** Brands communicate personality status. Raymonds suggests that it is a brand for a man who cares for his family, society, and himself.
- **User:** Brands clearly state their user segments. Raymonds is targeted at upper middle and upper class customers.

A brand that can convey all the above six levels of meanings is likely to succeed in the market.

Value and Significance of a Brand

Brand value is of immense importance to a firm. This is evident from the fact that most companies spend a lot of time, money and energy in brand building. It would be difficult for a company to imagine existence without the brand name. For example, if we are asked to select one of two chocolates kept in front of us, one with the Cadbury's brand name on it visible and the other, also a Cadbury's but with the brand name hidden. we will, in all probability select the one with the Cadbury's name visible on it. This shows the importance of the brand name. If the brand name is removed from the products, will there be any value to the products? Imagine a situation where we come across all the products discussed in the introduction above, without their brand names. Will they not look lifeless although everything except the names remain the same?

Black & Decker purchased the small appliances business from GE with a restriction, that it could use GE's brand name for a period of only three years. Black & Decker later on realized that the cost of transferring the brand value from GE to Black & Decker was as high as building a new brand itself. Companies put in a substantial amount of resources into building a brand, right from selecting a brand name, to brand strategy decisions such as brand extensions – for example, using the brand name Surf to launch new products such as Surf Excel, Surf Ultra etc.

Companies have to understand that branding is at the heart of any business activity. Therefore, a company has to exercise full control over its brands. Christine Arden, the director of marketing and strategy at DNA Communications[1], feels that most of the companies have a constrained perception about their brands. They tend to feel that a brand is just a logo or symbol of an organization. Companies need to have an all-round perception of their brands and understand that brands are much more than logos or symbols. They are in fact a combination of the company's marketing, promotional, distribution and service efforts with a suitable differentiation of the brand from its competitors. So, before branding a product, a manager should be clear about what specific details he wishes to convey to the customers through the brand regarding name, symbol, visual identity and so on.

TYPES OF BRANDS AND THEIR CHALLENGES

There are three major types of brands: manufacturers' brands, private brands and generic brands. Manufacturers' brands are those that are branded directly by the manufacturers who have invested heavily on building them. Surf, Rin, Lux, Colgate, Cadbury's, Coca-Cola, and Pepsi are some of the examples of manufacturers' brands. Resellers' brands are those brands that are developed and owned by the resellers. For example, Big Bazar, Shopper's Stop, Lifestyle, etc. have their own brands. The third type of brands are generic brands like rice, wheat, doormats, broomsticks, and paper napkins, which are not specifically advertised and are sold by grocery stores at a lower price than those of identical private branded products.

Brand Challenges

Traditionally, firms sold their goods and services without branding, but, with a lot of players entering the market and the increasing competition, firms started focusing on branding their products. Branding, however poses many challenges. A marketer trying to brand a product has to consider certain decisions.

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1 An Atlanta, US based consultancy firm, which provides consultancy for developing effective communication programs and brands.

Exhibit 14.1

Branding Challenges

It is becoming difficult for consumers to differentiate one brand from another from among the plethora of brands. One reason for this is that too many brands are being offered in similar product lines by the marketers. The consumers' capability of differentiating among the brands is continuously decreasing, contrary to the expectations of marketers. With more and more brand proliferation and constant brand extensions, they are attaining the status of commodities. A study conducted by Copernicus, a consulting firm in marketing, jointly with a market research firm, Market Facts, found that consumers' capability of brand differentiation was limited to only two product categories: soft drinks and soaps. The study found that around 40 categories of brands were losing their distinctive capabilities.

The reason behind this can be attributed to the marketers' increased focus on promotional aspects rather than on brand building. Marketers are giving in to pressure from retailers and distributors and are adopting temporary promotional campaigns that erode the brand value. Advertising agencies too are focusing on strategies to attract customers to their advertisements rather than on brand building by effective differentiating activities. Therefore, it is important for the marketers to realize that unless effective differentiation is done, it will be difficult for a brand to survive in the market.

Adapted from Kevin J. Clancy and Jack Trout, "Brand Confusion," Harvard Business Review, March 2002, Vol 80, Issue 3.

The important decisions are whether to brand the product or not, and if it should be branded, whether it should be a manufacturer's brand or a distributor's brand or a licensed brand. Subsequently, a decision has to be taken on whether the company should adopt a blanket family brand name like Tata, or individual brand names as used by HLL, and then, at what intervals the company should come out with line extensions or brand extensions. The company should also consider when to reposition the brand. These challenges associated with branding are, however, only one side of the picture. In the present global competitive market, almost all the companies are branding their products and services, and as a consequence, it is becoming increasingly difficult for brand managers to differentiate their brands. Exhibit 14.1 describes the results of a study conducted by Copernicus, a market research firm, on brand challenges.

BRAND EQUITY

Brand equity is the combination of assets and liabilities associated with a brand that enhances or depreciates the value of the brand. The brand equity of a product or service has about five major determinants: awareness, quality perception, loyalty, patents and trademarks. Companies usually try to leverage the equity of an established brand to enter other categories of products. For example Parle-G, the biscuit major which caters to the mass market, is hoping to utilize the brand equity of biscuits in wheat flour (*atta*) market. Parle is selling *atta* under the same brand name as its biscuits (Parle-G). Parle-G is the largest selling bisucit brand in the world in terms of volume. Since the brand value of Parle-G biscuits is also considerably high, Parle-G has launched the *atta* under the same name to gain advantage from the brand equity of biscuits.

A study[2] conducted to analyze the important factors that influence the most powerful brands in the world, revealed that developing and maintaining strong brands has been the topmost priority for most corporates across the world, since a well-established

[2] Kevin Lane Keller is the E.B. Osborn Professor of Marketing at the Amos Tuck School of *Business* at Dartmouth College in Hanover, New Hampshire. He is the author of Strategic *Brand* Management (Prentice-Hall, 1998). He has identified ten characteristics that the world's most popular brands share.

brand results in higher customer loyalty and improves the profitability and value of the firm. In the research, ten factors were identified that the world's most popular brands share. They are discussed below.

1. The *brand* offers more than what the customer expects.

Customers normally buy branded goods, because they expect some tangible and intangible benefits in a branded product along with the product attributes that make a product desirable. A brand which exceeds these minimum expectations of the customer makes a powerful brand. For instance, consider McDonald's fast food chain which has hundreds of outlets across the globe. It ensures that each of its outlets adapts itself to the local conditions and offers products of the highest quality at the most affordable price. This concept has made McDonald's one of the most sought after brands in the world.

2. The *brand* stays associative.

Most of the powerful brands associate themselves with intangible factors apart from the tangible factors one seeks from a brand. For instance, people look for associations, like who is using the brand (this is the reason why most companies use celebrities to endorse their brands), when they are using these brands i.e., on what occasions, what the brand personality is (honest, comfortable, warm, inspiring, soft and so on), and what type of relationship the brand is trying to develop with the target customers. Powerful brands cleverly use these intangible associations to truly relate to the customer at all stages. Gillette, for instance, spends millions of dollars on R&D to develop technologically advanced shaving blades like Sensor Excel, Mach III etc. At the same time, Gillette has developed a consistent, intangible sense of product superiority through the punchline as "The best a man can get" by showing images of men at work and play, which have evolved over time to reflect contemporary trends.

3. Customer's value proposition dictates the pricing of the brand.

The price of a brand must be set according to the value of the brand as perceived by customers. Companies have to adopt optimal pricing strategies that exactly match the customers' expectations. A company can achieve such an optimal level of pricing provided it balances the attributes of a brand, like the features, quality, design, service mix and so on. Although a brand's price should be such that it is well within the reach of the customers, a company should not compromise on the quality or for that matter, on any other attributes of the brand.

4. Right positioning of the brand.

A brand which is positioned well will stay for a longer time in the consumer's mind. Well positioned brands create differentiation and stay close to the customers and develop their loyalty, while effectively competing against competitors. Most of the successful brands have clear positioning and differentiation advantages. For instance, Mercedes has a clear distinction over its competitors as a far superior brand.

5. The *brand* maintains consistency.

It is very important for a brand to maintain consistency. There should be the right mix of marketing efforts to make the brand relevant to the changing times. A brand should adapt itself to the changing customer needs and their preferences. Brands that lose their relevance do not sell well in spite of heightening the marketing efforts to improve sales. As a result, sales do not improve nor does the brand remain consistent. Exactly the same thing happened with the Michelob brand of beer in the US. During the 1970s, the company's advertising campaigns featured young successful professionals demonstrating their affinity towards the brand "Where you're going, it's Michelob." The next ad campaign proclaimed "Weekends were made for Michelob." subsequently in order to improve the declining sales, it started another campaign with the theme "Put a little weekend in your week." During the 80s, it started campaigning with yet another theme "The night belongs to Michelob." while in the 90s, the company again changed its theme.

This sort of inconsistency in projecting a brand image made the company lose its sales drastically. As the customers received so many messages, it became difficult for them to decide when, and on what kind of day they can have this beer.

6. The portfolio of brands are well-maintained

Sometimes, companies develop and maintain several brands so as to gain a greater market share. These companies maintain their portfolio of brands in the most efficient way. They ensure that the brands do not overlap or leave strategic gaps that competitors can take advantage of in the market. If we take Hindustan Lever Limited, for example, it maintains several brands in most of its product lines. Its detergents product line has Surf, Rin, and Wheel. These three different brands cater to the different needs of the detergent market without overlapping.

7. The firm utilizes all its marketing efforts to build a brand equity

Brands make use of all their marketing efforts to develop their image in the consumer's mind. The marketing activities directed at answering questions such as why and how a product should be used, who should use it and when, enhance the brand's image. Brands such as Pepsi, Thumps Up, etc., make the most efficient use of marketing efforts to build their brand equities.

8. The firm knows what a brand means to its customers

The managers in a firm who build the brands have to clearly understand how the customers analyse a brand. This will help them to make effective decisions regarding the brands. If the managers are able to understand what consumers like and dislike in their brands, it will become easier for them to develop suitable brand strategies. Otherwise, it becomes very difficult for the companies to market their products. For instance, Societe Bic, a French company, marketed disposable ball pens during the ‘50s, disposable cigarette lighters in the ‘70s, disposable razors in the ‘80s, but in 1989, it introduced perfumes under the same brand name in the US and Europe and failed miserably. Earlier products succeeded because they were convenient, of good quality and low priced. But the company failed to understand the emotional attachment consumers had towards a product like perfumes and that consumers did not look for convenience or lower prices when they were buying perfumes.

9. The *brand* is properly supported for a longer period of time

Companies should support their brands for a longer period of time by educating customers about all their features and benefits. Building a brand takes time and a company cannot expect to reap the benefits immediately. A brand ensures long-term benefits. Thus a company should strive to support and build the brands sacrificing short-terms benefits. This helps a firm enhance the brand value to the maximum extent in the long run. As a result, the profitability of the firm improves.

10. The company checks for brands’ performance from time-to-time

Firms have to evaluate the performance of their brands at frequent intervals to ensure that they are on the right track. Evaluating the brands with proper brand audits and analyzing all the brands’ attributes at regular intervals will help the company build strong and sustainable brands.

Selection of a Brand Name

Selection of a brand name is crucial for the success of a brand. There are several factors that have to be considered before the brand name is selected. It is necessary to ensure that the brand name is easy to remember. It should have an easy recall value and people should be able to spell and pronounce it easily. The brand name should be such that it arouses curiosity when heard. A brand name, which arouses curiosity, will attract the attention of the target audience.

Exhibit 14.2

How Sony Got Its Name

During his first visit to the US in 1953, Akio Morita realized that the existing name of the firm Tokyo Tsushin Kogyo Kabushiki Kaisha would not be suitable as a product name. He also realized that to be successful abroad, the name of the product should be catchy. He initially worked on certain alternatives such as a shortened version of the firm name, Totsuko, but that was also difficult to pronounce for English-speaking people. Another option he looked at was translating the firm's name from Japanese to English – Tokyo Telecommunications Engineering Company – but it looked clumsy to him. He thought that Tokyo Teletech would be good name but learnt that there was already a company named Teletech in the US.

He realized that the company name and brand name should be same so as to save on advertising costs. He also noticed that companies were using three or four letter words as their logo as well as company name. But he did not want to use a separate symbol. Rather, he wanted to use the name itself as a symbol.

Masaru Ibuka, the founder of the company, and Akio Morita discussed several possibilities for several weeks. While scanning the dictionaries, a Latin word 'Sonus,' which means sound, caught their attention. As they were in the sound business, they zeroed in on it. In Japan, during the 50s, bright young boys were called 'sonny' or 'sonny-boys' because English slang was becoming common in Japan. But, this word had a problem. The word 'Sonny' would be pronounced 'sohn-nee' which in Japanese means to lose money. Akio Morita realized that such a name could definately not be used. He was sure that such a name definitely could not be used. He kept on thinking about it and one day, it struck him that they could just drop one letter from the word Sonny and make it 'Sony.' The new name Sony did not mean anything in any language and had a relevance with the business as well.

Adapted from Akio Morita, Edwin M. Reingold and Mitsuko Shimomura, "Made in Japan," Penguin Books, USA. 1988. p76.

While selecting a brand name, the company has to ensure that it is related in some way to the products or services the company is offering. Exhibit 14.2 shows how the brand name SONY was selected. Similarly, the brand name, Compaq, signifies compactness of communication. The brand name should also identify itself with the sign or motto of the organization. The other important aspect that has to be taken care of is whether the brand name is evoking the intended association with the product offerings or features. The brand name should be such that it distinguishes itself from other brands. And finally, the brand name should be legal, ethical and available. Exhibit 14.3 shows how much effort goes into the selection of a brand name.

The right selection of brand names is more important if the product is meant for international markets. For products meant for international markets, it is crucial to select appropriate brand names that convey the right meaning in those markets. When marketers enter international markets with their brands they have to analyze the meaning of the brand name in local languages. Besides searching for any negative connotations, which the brand name might have, marketers also have to evaluate whether the name is easily identified and pronounced, whether it could confuse the audience with unintended references, what kind of an image the brand name will project and what the brand name would convey when it is pictorially represented.

BRAND SPONSORSHIP

Brand Sponsorship is a form of publicity, which is done by supporting and linking the organization's name with a particular event, most commonly, sporting events or an

Exhibit 14.3

Selecting a Suitable Brand Name

Selecting a brand name is a difficult task. David Placek, of Lexicon Branding, a California based company suggested the name “Pentium” for Intel’s processors. This company had to suggest as many as 400 names to Intel for its chip. When executives at Intel were finally asked to vote for the name, Pentium managed to barely get the majority and was finalized. Lexicon has come up with hundreds of brand names for the products of various companies. For instance, it came up with the name DeskJet for HP printers, PowerBook for Apple's laptop, Slates for Levi's and so on. According to Placek, a lot of work goes into finding a suitable name. It took around eight months for three teams to come up with the name Slates for one of Levi's product. The process of finding a suitable brand name started with an initial meeting with the client, then the teams traveled across the world to find out the customers’ perception about the product. Placek then delegated the project to two senior managers who supervised up to four teams. Each team suggested hundreds of names. Then a panel of linguists checked the finalized name. Subsequently the company's attorneys checked for any violations of trademarks or copyrights.

Adapted from Om Malik, “A Good Name Should Live Forever,” Forbes, November 1998: 88.

activity that involves a large public gathering. Sponsorship of major sporting events is a great opportunity for companies to gain publicity. Globally, the spending on sponsorship exceeds billions of dollars. Exhibit 14.4 briefly discusses the spending on sponsorships and the reasons for the growth of sponsorships. Coca Cola and Pepsi have sponsored many major sporting events, the most famous among them being the cricket world cups. Companies even sponsor individuals, (MRF sponsors Sachin Tendulkar), and teams (Sahara sponsors the Indian cricket and hockey teams). Apart from publicity, sponsorship also includes advertising and sales promotional activities. Companies sponsor many events like cultural festivals and art festivals besides sporting events. For attaining maximum mileage, sponsorships should however be effective. For making any sponsorship effective, there are a few important factors that should be considered. The company should be clear about the benefits it is trying to derive out of sponsoring a particular event. The first and the foremost benefit is creating a visibility/awareness of the brand during the event, and developing an association and relationship with the brand. Secondly, from the options available the firm should choose the event that will help it achieve its sponsoring objectives. Third, the brand should be easily associated with the event it is sponsoring. For example, Sahara India, sponsoring the Indian cricket team reflects Sahara's core values of team spirit and this can easily be linked to the Indian team. Fourth, it is better to have a long term relationship with an event rather than sponsor a new event every time. Examples of a long-term relationship include the Wills sponsorship of Polo in India and Johnnie Walker sponsoring golf in the USA. Fifth, opportunities have to be identified and utilized for the maximum publicity. For example, during the cricket matches, sponsors distribute free caps and T-shirts and other promotional material to the audience. This gives the brand name maximum publicity. Sixth, companies should consider these sponsored events as platforms for launching product awareness campaigns. In case sponsoring an event turns out to be too costly, a company can co-sponsor it. Seventh, the sponsorship should be effectively planned and implemented to attain maximum brand mileage.

BRAND STRATEGY DECISION

A brand signifies some value to the customers and a brand strategy decision involves the necessary steps that have to be taken to deliver this value to the customers. These

Exhibit 14.4

Sponsorship as a Brand Building Strategy

Sponsorship in itself has become an important industry across the world. Although sponsorship is an old concept, it has gained immense significance over the past two and a half decades. Globally, the spending on sponsorship during the '90s had increased manifold and it is destined to grow further in the future. Over the years, sponsors have realized the importance of gaining the maximum mileage from sponsored events, rather than sponsoring an events just for the sake of sponsoring. For instance, Shell has leveraged its Formula 1 sponsorship of Ferrari to the maximum extent. According to FT Sport Marketing Survey, the worldwide spending on sponsorship during 1990 was to the tune of $7.7 bn. According to the study conducted by Sponsor Click (Sponsor Click is an independent agency helping its clients on developing sponsorship related marketing activities), it was $29.3 bn in 2001. It is estimated that the spending on sponsorship will reach $45.2 bn year 2005. However, this figure is just 4 percent of the worldwide advertising spending for the year 2000. With spending on advertising being drastically reduced during the early part of the 21st century, sponsorships have become a major promotional tool for brand building. Sponsoring of sports events has become the most viable option for companies the world over. For instance, in 2001, more than 60 per cent of the sponsorship spending was for motor sports and football in the UK. Vodafone, the mobile phone company based in the UK, has spent around $46 mn to display its name on the shirts of the players of Manchester United and similarly, $41 mn to put its name on Michael Schumacher's Formula 1 Ferrari (Michael Schumacher is the world champion in Formula 1 racing). Generally, companies set aside an amount that is two or three times more than the amount given for sponsoring as it can spend the additional amount to get the maximum mileage from such an event. Experts feel that the spending on sponsorship has increased globally due to factors such as curtailment on tobacco and alcohol advertising in almost all the countries across the world, increasing expenditures of media advertising, people getting increasingly attracted to sporting events and leisure activities and sporting events gaining high media coverage and so on. Sponsorship of activities besides sports is, however, very small but is poised to grow in the near future especially due to the attention companies get by sponsoring activities which show them as being socially responsible.

Adapted from Dr. Julie Verity, "Maximizing the Marketing Potential of Sponsorship for Global Brands," European Business Journal, 2002 4th Quarter, Vol 14, Issue 4.

steps are: identification of the availability of resources for allocating budgets for brand building, the commitment of the company, and its capability to take an initiative that is required. These steps form part of a brand building exercise and if an organization is unable to take such steps, the brand becomes a liability to the organization rather than an asset. The strategic implication of building a brand is that it should help improve the business of the organization. (Refer to Exhibit 14.5 to know how JetBlue airlines has adopted an intelligent branding strategy to further its business). The brand strategy decision should support the organisation's business strategy. If the business strategy is well-defined, it will help the organisation evolve a brand strategy decision. But if the business strategy is not well-defined, it will be difficult to evolve a brand strategy.

The most important part of the brand strategy decision-making process is to identify which products to brand. Exhibit 14.6 describes the brand strategy decision of Italian jewelers. Some products such as pulses, chemicals, etc., are difficult to brand, because they are very difficult to differentiate. Other important branding decisions include whether to adopt separate branding for each of the company's products or to adopt umbrella branding. If the company decides to develop separate brand names, it helps it develop the products according to the needs of different segments catering to the same product market. HLL adopts different brand names for its detergents to cater to the different niches of the same product market with Surf, Rin, Wheel, etc.

Exhibit 14.5

Airline with a Difference

High fuel prices coupled with intense competition forced many of the new entrants out from the airline business such as Pro Air, Legend and National to close shop during the late 2000 and early 2001. But JetBlue overcame these problems with a well-planned business strategy combined with sufficient financial resources. The company tried to create a differentiation by treating each and every customer very specially. In fact, the CEO of JetBlue, David Neeleman, travels onboard JetBlue each week to have a personal interaction with the passengers. He came out with a strategy of pricing its service very low. The company operates from John F. Kennedy airport, flying its planes across 23 cities. The company has been set up with a substantial capital investment. These funds have been used to buy brand new A-320s fresh out of Airbus' production units. The interiors of these planes are revamped with comfortable leather cushion seating and each seat is fitted with free satellite DirecTV, offering 24 channels. The company operates new planes, which means that the planes will normally have low maintenance cost and consume less fuel, giving the company a competitive advantage. Increased customer service facilities have also helped the company to stay competitive in the market.

JetBlue's cosmopolitan, color-coordinated branding campaign extends from its trendy ad copy – "JetBlue Airways brings humanity" – to the blue upholstery on the sleek, brushed-steel chairs in the terminal. It's a branding strategy for a company that's planning to survive for a long time in the airline industry.

Adapted from "Upstart With a Difference," Time, January 2001, Vol 157, Issue 3 and "Learn More, JetBlue 101," <http://www.jetblue.com/learnmore/air101.html>

Companies also adopt comprehensive family branding i.e., same brand name or part of the brand name for all the products. Example Tata tea, Tata iron & steel, Tata Safari, Tata Indica, Tata Indicom, Bajaj Chetak, Bajaj Caliber. Line family branding is another branding strategy where a company brands only a particular line of products with the same name rather than all the products of the company. That is, the same name is used for products in the same line but not for those in different product lines. For example HLL uses the same brand name for a particular product category like Kissan Jam and Kissan Annapurna *Atta*, and uses different brand names for other categories. In brand extension branding, the company uses the same brand name for an enhanced product version. For example, Rin's brand name has been extended to quite a few products like Rin Supreme, Rin Shakti, Rin Super etc. Brand licensing is another strategy where some of the authorized producers use a company's brand name for their products for a licensing fee.

Line Extension

A line extension is the development of a product that is closely related to one or more products in the existing product line but is designed specifically to meet the somewhat different needs of customers. For example, Godrej had a face cream with the name Fair Glow Fairness cream and came out with the Fair Glow toilet soaps to cater to the people who wished to use soap bars rather than cream.

Brand Extension

Brand extensions are brand names extended to new product categories. Market dynamics throw up opportunities for extending a brand in three forms:

Exhibit 14.6

Branding Strategy of Italian Jewelers

Italian jewelery designers are adopting a renewed brand strategy to obtain their lost market share in the US gold jewelery market. They are using a repositioning strategy to counter the competition from low cost producers from India, Turkey and China. According to the World Gold Council and the Vicenza Trade Fair, the Italian jewelers have realized the importance of branding. They were traditionally selling their gold jewelery in the US market with the help of local retailers' brand names. But the decreasing market share forced them to promote their own brands in the premium segment with 18 karat gold. The US gold jewelery market is generally a 14-karat market, but there is a market for 18 karat gold. The Italian jewelers are trying to promote their brands based on superior designs, workmanship, advanced technology, etc.

Adapted from "Italian Jewelers Unveil New Branding Strategy," Business Line 11th December2003, P6.

1) *Extending the brand to another form of the same product:* The primary benefit derived from both the products is the same. For instance, the benefit derived from brushing the teeth with either Colgate toothpaste or toothpowder is the same. The efficacy levels of both forms are assumed to be similar. Several brands have grown in value through this route. For example, Colgate is available both as a toothpaste and toothpowder. Similarly 'Vim bar' has been extended to a powder form. In the pharma sector, a branded anti-allergy medication from Dr Reddy's Laboratories sells both in syrup as well as tablet form. By offering the same brand in different forms, the marketer enhances the scope of application of a brand and reaches a larger audience.

2) *Product line extensions:* Adding related products to a brand that is well established. A marketer resorts to this when he wants a brand to cover different sub-segments within the same product category. HLL extended its Flora brand of sunflower oil to the gingelly oil sub-segment of the edible oils category. Such a move is common in very competitive markets.

3) *Reaching out to a new category:* When the brand has the potential of providing benefits in another category – either through a carefully chosen name or through its wide acceptance in a category, this form of extension is followed. Godrej Consumer Products extended its Fair Glow brand, having a presence in fairness creams, to soaps. By extending the brand to soaps, the assurance that Fair Glow promoted fairness was expected to easily flow to soaps as well. The brand enables this extension conveniently by standing for a product that promises fairness.

The premise in each of the above forms is that the entry into a new form or line or category will be helped by the qualities reflected by the original brand. The above statements convey that the line or category extensions can leverage themselves on the qualities of the original brands. If the foray succeeds, the marketer gains by adding value to the brand. On the other hand, a failure may end up diluting the parent brand's equity.

David Aaker[3], has suggested several issues to be considered while going in for brand extension. Organizational synergies, product category similarity, and perceptional match or mismatch need to be considered exhaustively. Otherwise, there's a risk of compromising on the carefully built up parent brand equity.

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[3] David A. Aaker is the E.T. Grether Professor of Marketing and Strategy at the Haas School of *Business* of the University of California at Berkeley.

Extension is advisable when the value proposition reflected by the parent brand gets enhanced through the extension. For example, Clinic All Clear's extension to hair oils. Both shampoo and hair oil complement each other as hair care products. Extension is also advisable when distribution and communication synergies exist. The closer an extension is to the product category of the parent brand, the greater are the synergies in both distribution and promotion. For example, Cadbury's has a presence internationally in chocolates and ice creams. Both are impulse purchases and need refrigerated distribution and storage. Both the products need lifestyle advertising and promotion and thus, there is scope for alignment of promotional strategies for both.

An extension strategy has to be avoided when a breakthrough product is to be launched. If the new product launched is revolutionary and has no bearing on other brands of the same marketer, coining a new brand as a stand-alone is better. An extension carries the baggage of the parent brand, which may or may not be relevant to the new product. It is also advisable to avoid an extension strategy when there is a possibility of a mismatch between what one brand delivers and an extension promises. One of the reasons why Nirma's foray into the high-end soap category with Nirma Premium Soap didn't generate enough of a market share was the incompatibility between what the parent brand basically stood for and what its extension to the premium segment conveyed. While the parent brand stood for functional, value-for-money proposition, the high end soaps category was different, with its aspirational and beauty overtones.

Brand extensions are common in most companies. Companies go in for brand extension to leverage themselves on the opportunities that are present in the market. Firms generally adopt upward or downward brand extensions. An upward extension is where it is trying to cater to an upper market segment than the one it is serving currently while the downscale extension is where it is trying to cater to the lower end of the market than the one it is serving currently. But there is a possibility of both these kind of extensions damaging the brand value.

Sometimes, extending a brand becomes a necessity for a firm when there is no other way for the organization to grow. But a number of companies across the globe have failed miserably trying to extend their brands. Therefore, a firm has to tread very cautiously and ask themselves a few questions before going in for brand extensions. The questions are: what is the potential of the new market? What should the position of the brand be in the new market? Is brand rejuvenation required? Should the firm develop a completely new brand?

Firms quite often face a situation where they find tremendous opportunity in the next level of price sensitive customers. In such situations, companies extend the same brand with products whose prices may be either lower or higher than the existing product to cater to different segments of the market. This kind of extension increases the sales volume by leveraging on the economies of scale. However, when firms adopt a downward extension, the brand may lose its up-market image. Price reduction also may have serious repercussions on consumers' perceptions about the brand's ability to offer superior value. But to avoid consumers nurturing such a perception, firms need to communicate to the target customers that the quality has not been compromised by reducing the price. Another strategy could be to come out with an entirely new brand. HLL came out with Wheel detergent powder to capture the lower end of the market. Yet another strategy could be to reposition the brand. A price reduction in the brand should not be adopted under any circumstances if it does not give the company a cost advantage.

To extend to a downscale market another successful strategy is to develop sub-brands. Most of the brands in the market adopt this strategy to cater to the lower end of the market. For instance, Gillette caters to the lower end of the market with twin blades and Gillette Vector, as against the parent brand of Gillette Sensor Excel and Mach III. This strategy has two advantages: the parent brand name is not diluted and the sales of the sub brand do not affect that of the parent brand in any way.

Extending to upscale markets is normally done to leverage on the vast potentials of the higher end market as the margins here are normally very high. The problem with extending a brand to cater to an upscale market is that the consumers are often less confident about the credibility of a previously cheaper brand. When a company is trying to serve the upper end of the market, it is always better to come out with a new brand, rather than try to extend the existing brand. Brand repositioning could be another strategy but it is very difficult to reposition a brand from a lower end segment an upper segment, because the brand will in no way associate itself with the brand image and personality of an upper class market.

Creating sub brands can be useful to an extent, but this strategy also requires heavy investment in brand building. However, it is very difficult to extend a brand into an upscale market because people usually lack confidence in a brand that caters to the lower end of the market and suddenly provides a product for the upper segment of the market. For example, Nirma detergent is usually perceived as a product that caters to the lower end of the market. When it came out with a detergent of high quality and targeted the upper end of the market, it failed miserably because people still perceived it to be a product for the lower segment.

Brand Rejuvenation

Brand rejuvenation is a process of revitalizing an ailing brand. An old brand which is losing its market share over a period of time has to be revitalized through the adoption of several strategies like increasing the usage of the brand. For example, Cadbury's extended its market by targeting adults for its Dairy Milk chocolate, identifying new uses of the brand, reaching new markets, and increasing the product or service benefits and attributes. These are some of the strategies that a company can apply to rejuvenate a brand. Onida and Cinthol are two brands (among many) that were repositioned in the recent past. Exhibit 14.7 discusses the repositioning strategies of the these brands.

Experts suggest that to rejuvenate or differentiate or introduce a new product there are certain basic steps that have to be followed. They are discovery, innovation, and expression. Discovery represents a process of identifying the company and its brands in terms of what they mean to the customers. This exercise reveals the hidden values of the firm, helping it to effectively communicate the uniqueness of its brand. For a company to come up with an effective differentiation strategy, it is necessary to understand the decision-making style of the company. Subsequently, evaluating the product and its market along with the wholesalers and retailers is important. It is also essential to analyze the competition. Detailed consumer research will also help the company in coming out with effective brand rejuvenation strategies.

The next effective process is innovation. If at the discovery stage, the marketer finds any shortcomings in the brand such as the brand having a low recall value, then he should improve upon the package and design styles and even the symbols and the brand names. Once new packages and designs are created, they can be effectively tested with the wholesalers or loyal customers rather than incurring a huge expenditure on mass customer testing. The last step is expression. Here the company should try to project a positive image of the brand in the consumers' mind. The new designs have to be displayed in all forms of media, promotional material, and also in all of the company's stationery.

Exhibit 14.7

Brand Repositioning Strategies

During the 1980s, Onida positioned its color television with 'envy' as a sales churning factor, but in the 1990s, it repositioned itself as having advanced technology in its products. Again in the 21st century, it went back to its envy positioning platform but in a lighter tone. Repositioning has become the most powerful marketing weapon for marketers today. With the number of brands increasing every day (in 1998 there were 148 toilet soap brands which increased to around 235 in 2003), fresh and new positioning strategies are common. The most crucial element to be kept in mind while repositioning is that the brand should not lose its core value. Onida is one brand which tried not to lose out on this aspect. When Onida was introduced in the market in 1980s, color televisions were a luxury, so it positioned its product as 'pride for the owner and envy for the neighbor'. But gradually, color televisions became common, this positioning did not seem to work. This became evident from its dipping market share. It lost 5 percentage points within five years. Onida then repositioned its product with technologically superior sound quality. This strategy was supplemented with humorous advertisements. But this strategy of highlighting technological superiority did not work, because competing televisions also positioned themselves on the same platform. During mid-2003, Onida's research found that 'envy' could still be associated with the product, but only as a secondary aspect. The main thrust of Onida’s repositioning was to display its new-age products like DVDs and flat screen televisions with a new baseline 'Onida may cause envy.'

MTV, too repositioned itself as an all-Indian channel in 1997 with 70 percent of its music being played in Hindi as against it being a totally English channel in 1990. Cadbury's Dairy Milk too had to reposition itself and find a new market with the existing market getting saturated. Therefore in 1995, Cadbury's extended its target market from children to adult consumers. Cadbury's Dairy Milk was repositioned with the baseline 'real taste of life.' The baseline related the product to adults by talking about 'setting free, the child in you.' Similarly, Horlicks repositioned itself with a new campaign *Apang, opang, japang,* This campaign gave a fresh leash of life to Horlicks and broke the traditional perception that it was a drink meant for the sick. Coke and Pepsi have started to reposition their colas in the wake of the crisis they faced over allegations of pesticide residue in their products.

The constant repositioning strategies of Colgate and Pepsodent aimed against each other with the ‘*dishum dishum’* campaign of Pepsodent and ‘Talk to me’ campaign of Colgate made the dental care industry more competitive.

Adapted from Prasad Sangameshwaran and Shweta Jain, “The Art of the Makeover,” Business Standard 16th December 2003, and C R Kannan, “Brand-Positioning It Right,” Business Standard 16th December 2003.

Brand Relaunch

Brand relaunch is a process of launching the brand again after a time gap. Most companies try to acquire a brand from other companies and relaunch it with necessary modifications. GlaxoSmithkline acquired Viva and Maltova from Jagatjit Industries in 2000, but could not secure the expected benefits. HLL acquired Kwality ice cream in the mid-nineties and relaunched it as Kwality Walls (Walls was an ice cream brand of HLL).

Brand Proliferation

Brand proliferation is the converse of brand extension. Introducing new products in the market in different product categories with an existing brand name is referred to as brand extension. Brand proliferation is the introduction of products with new brand names in the same product category. For example, HLL has several products with different brand names in its detergents category. Brand proliferation helps the company to increase its market share by introducing variations in the same product category. Even though brand proliferation helps the company in reaching a wider market, it increases the competition in the market. Sometimes it so happens that the company's brands compete with each other, resulting in lower margins from such brands. Another drawback of brand proliferation is that the company has to divide the resources among these brands for their maintenance, the returns from these brands may not be proportionate. Cannibalization can be avoided by positioning the brands with differentiation to cater to the different requirements of different market segments. A company needs to attain a balance in the introduction of new brands, so that it can maximize its profits without cannibalizing its brands. For example, HLL resorts to both brand extension and brand proliferation, but it efficiently manages its brands so that it maximizes its profits as well as its market share.

Most companies increase their brand width by resorting to brand proliferation. But quite often, brand managers fail to realize that the introduction of several brands in a single product line increases the expenditure of marketing efforts. If a company does not tread this proliferation path carefully, the costs will exceed the benefits that are expected out of brand proliferation. If a company cannot properly differentiate each of its brands from the others then these brands will overlap and may cannibalize each other. For instance, General Motors introduced Chevrolet, Saturn, Pontiac, Buick, GMC, Cadillac, Hummer, Saab and Opel and finally dropped Oldsmobile from its product line in 2003 because it had been making losses continuously for ten years. Firms introduce several brands in a single product line to capture a greater market share and fill in the gaps created by small niches in the market. But firms across the globe have realized that it costs less to maintain a small number of big brands than a large number of small brands. One reason behind such a realization is that production costs increase and expenditure on maintenance of a small number of brands catering to small niche markets exceeds the profits accrued from them. Also, it hampers the firms’ ability to innovate, thus reducing the freshness of the brands. Thus there is a danger of these brands becoming commodities. Retailers too, will not accept too many brands of a single product line and thus it becomes too costly for the firms to buy shelf space in retail outlets. Managing a large portfolio of brands becomes very difficult as large amounts of financial and managerial resources have to be allocated to manage them. The costs of distribution, advertising, packaging and inventory costs also go up significantly. However, a carefully planned and well-managed brand proliferation exercise that does not overlap other brands’ market segments will definitely succeed and result in greater profitability for the company.

Multibrands

Firms adopt multiple branding strategies to capture a greater market share by filling the gaps in the market. Multi-branding is introducing different brands in the same product category to cater to the different buying patterns of the customers. The problem however, with the multi-branding strategy is that the company may obtain a smaller market share of all the brands and none of the brands may reap a significant market share.

New Brand Name

If a firm decides to enter a new product category, then it might have a new brand name for its new product. For example, Manikchand entered the mineral water segment with the brand name Oxyrich. It did so as it realized that using the same brand name would hamper the sales of mineral water. When Manikchand *atta* was launched, it did not succeed, as people could not associate Manikchand a popular pan masala producer to be an *atta* manufacturer.

Co Brands

When two or more companies combine their brands to generate greater exposure to their brands, which otherwise would have not been possible individually, it is called co-branding or dual branding. There are several types of co-branding such as ingredient co-branding (Hero Honda recommending MRF tyres), same company co-branding (Coca Cola recommending Kinley mineral water and Georgia coffee). Joint Venture co-branding and multiple sponsor co-branding (Taligent, a technological alliance of Apple, IBM and Motorola).

NEW DEVELOPMENTS IN BRAND MANAGEMENT

Brand management has undergone a lot of development in recent times. Companies like HLL, and Procter & Gamble are concentrating on a particular set of their own popular brands, which they term as 'Power Brands'. Power brands are those brands that have immense value in the market and have been built by the firms over a significant period of time. Power brands give the resources that the firm needs to build other brands, says Christopher Prox, a consultant. HLL has chosen around 30 power brands from its existing portfolio of 110 brands. Some of these power brands include Lifebuoy, Lux, and Fair & Lovely. HLL's brand management strategy according to its Chairman, M.S.Banga, is to concentrate all the firm's energy and resources on these 30 brands. For the rest of the brands, HLL is exploring the possibility of maintaining profits with the minimum investment. It is also planning to drop some of the brands that are not profitable. HLL's brand management strategy seems to be successful as six brands (Pond's, Lux, Pepsodent, Rin, Surf, and Close-up) are on the top ten list of Brand Equity Survey of India's most trusted brands of 2003.

Semiotics is a science of signs and/or sign systems. Companies try to associate their brands with sign systems that have historical and cultural significance to enter the comfort area in the people's subconscious minds. When a firm positions a brand by giving it some cultural, actual and historical relevance, people start looking at the brand with curiosity, ensuring that the brand never loses its shine. In fact, the brand will never bore the audience and will keep its freshness for years together. Apple computers is a good example of the successful use of semiotics. The apple fruit has a relevance dating back to Adam and Eve and also has scientific relevance in terms of Newton’s gravitational theory. The apple is considered the fruit of a genius and that is how the fruit was taken as a symbol to represent a top class personal computer with advanced functional capabilities.

Brands that are innovative will always stand out in the market. According to traditional thinking, bigger brands always perform better. But a study conducted by John Blasberg and Vijay Vishwanath came out with a different finding. A study of 524 brands in 100 consumer- product categories, showed that 90 of them had an annual growth rate of nearly 10 percent which was more than three times the average growth rate. Of these 90 brands, the majority were smaller brands. The major factor differentiating the brands that had performed from those that had not was only constant innovation and advertising.

PACKAGING AND ITS IMPORTANCE IN MARKETING

Packaging is the process of developing a design and a container for a product. Packaging adds value to the product in the form of easier handling and secured usage. Packaging plays a prominent role in the sales of a product since a properly packaged product will result in repeat purchases by the customers. A secured, transparent and easy-to-use packaging will have better sales. A clear transparent packaging will help the customers view the contents of the product and will help them in their purchase decision-making.

Exhibit 14.8

John Players New Packaging

ITC has come out with an innovative package design for its John Players branded shirts. A transparent plastic case has been developed for displaying the shirt, which safeguards the shirt from frequent handling by the customers as well as from the dust. The package also has the facility of displaying the shirts by hanging them or by stacking them. The storage space is also considerably reduced – two shirts can be stored, in a space where only one shirt was being displayed previously. Himalaya's Chyavanaprasha, HLL's Fair & Lovely, Birdy's chocolate cases have adopted unique packaging designs that are customer friendly. Even for industrial products, Shriram's Piston and Rings have adopted innovative designing for their packaging.

Adapted from Gina Singh, "Best FMCG Packaging," Business World, 30th June 2003.

Therefore, most manufacturers use transparent packaging for products such as jams, sauces, beverages, and perfumes. Packaging is also important for preservation of the products, especially for those products which might get spoilt if exposed to the environment for a long period of time. Products such as clothes, especially shirts easily get spoilt if they are repeatedly handled by customers. To overcome this drawback, the John Players brand of shirts from ITC created a unique packaging. Exhibit 14.8 shows the packaging intricacies of John Players. The size of the product packaging is crucial for industrial consumers as the packing should suit their handling and storage facilities.

The time spent by a customer in picking up a product from the shelf of a retail outlet is a few seconds. Therefore, a package should appeal to a customer within such a small interval of time. Packaging involves many factors that contribute to the purchase process. For instance, the size of the package, shape, color and labeling should attract the customer both visually and psychologically. It has been observed that a change in the color patterns or the size and shape of packaging completely changes the consumer's attitude towards that particular product. Therefore, it is important for marketers to come out with an appropriate packaging design at the early stages of the brand introduction itself. When brands are especially marketed in international markets, proper care should be taken in packaging so that these designs do not confuse local customers. However, it is better to maintain consistency in the packaging design across the countries, so that consumers can recognize the products irrespective of the countries where they are marketed.

Importance of Packaging in Marketing

Packaging is very important in marketing, since an aesthetically packed product will attract the attention of the consumers and help in its sales. The package with its verbal and nonverbal communication informs the consumer about the contents of the product and its features and attributes. Generally, firms try to highlight the utility of the product through various packaging techniques, such as using appropriate colors for the pack. For instance, Britannia Milk biscuits are packed in a white color package white signifying the color of milk. Normally, firms try to link the packaging with its utility with the use of appropriate colors, designs and structures. Colors play a vital role in marketing since consumers associate different moods and acquaintances with different colors. For example, red symbolises danger, fire, blood and anger, and vitality. Blue represents sky, water, coldness, sadness, etc. Yellow represents caution, energy, warmth, and sunlight. Britannia chose red, white and green for its logo representing vitality, purity and freshness respectively. These are important attributes for promoting Britannia's food related products. Packaging should also be done in such a way that it is easier for wholesalers and retailers to handle the products. Finally, packaging should be environment friendly as issues like global warming and ozone layer depletion are high on the environmentalists' agenda. An environment friendly packing will add to the good qualities of the product and thus help in the easy saleability and marketability of the product.

Packaging and Marketing Strategies

Packaging can be a major part in formulating marketing strategies, as the most suitable and convenient packaging may give the product a competitive advantage. A marketer has to review the packaging at regular intervals so that he does not miss out on potential packaging options. There are various reasons for changing the packaging. Packaging can be changed whenever a need arises, like when the competitor's packaging is being changed, or when the existing package is no longer stylish and appealing to the targeted consumers, For example, the packaging of Cadbury's Eclairs was changed twice to counter the competition and also to improve the looks of the chocolate. Packaging is also changed to increase the visibility of the product, and for better shelf space utilization. Another method is developing packaging for reuse. For example, Horlicks has traditionally been packed in glass jars that can be reused for storage of other food stuffs. Packaging should help in maintaining the consistency of the product type. For example, ketchups, jams in glass bottles, body sprays in metal cans, toothpaste in tubes etc. Innovative packaging is adopted to distinguish a company's products from those of competitors'. For example, transparent Close-up toothpaste tubes stand out easily as they help the consumers know how much of the paste is left in the tube.

Firms adopt certain packaging techniques to increase the product's consumption. One such technique is large package size. A research study conducted by the Marketing Science Institute in Cambridge has revealed that a large package size motivates the consumers to consume more because they have a feeling that they have bought a large quantity of the product at a reduced rate. They also have a feeling that products sold in larger packages will cost less compared to smaller pack products. Customers tend to consume more from a full container than from a half-full one. On the other hand, the study also found that consumers will not use higher quantities of products that have negative results. For example, an excessive amount of detergent may spoil the clothes.

LABELING

Labeling is the process of exhibiting important information on the product's package. Labeling has become increasingly important and legally essential. Manufacturers have to display the ingredients of the product on the package, with warnings and safety precautions along with instructions about the best possible utilisation of the product. Consumers are becoming increasingly health conscious, so it is essential to display the contents of the product especially in the case of food products as most people prefer to avoid high calorie products. Injurious products such as cigarettes and other related items should carry a statutory warning. Governments issue regulations about labeling from time to time.

The Government of India encourages the manufacture of products that are eco-friendly. One such step in this direction is to provide a labeling with the name 'ECOMARK' for those products that meet certain criteria. Such criteria could lead to effective reduction in the harm caused to the environment, when such products are disposed of. The Government of India issues this ECOMARK, when the products meet the set standards along with the requirements of the Indian Standards Institute. This process has been started to encourage the industries in India to contribute to the protection of the environment.

Universal Product Codes

Labeling many products is done by attaching a universal product code which consists of a unique sequence of lines that identifies a product with the help of an electronic scanner usually placed at the retail checkout counters. These lines also give the data regarding the price and the inventory status. Manufacturers and retailers use the universal product code (also known as the bar code) for efficient pricing and inventory controls. The bar coding technology helps in the smooth flow of business and control of inventory. The black and white lines of the code absorb and reflect the light rays and this helps in identifying the product uniquely. This technology works with the help of a bar code scanner and printer. In India, the usage of the bar code started in the 1990's with the Indian Institutes of Technologies (IITs) using it for coding their library books. The concept was later introduced in retail outlets like Food World. Most of the logistics firms are increasingly using the bar coding technology in India. Bar codes, however cannot help a firm in effectively tackling piracy or imitations. But it has advantages like reducing the amount of data entry work. EAN (European Article Number), a Delhi-based organization, is responsible for issuing bar codes for products. The Government of India has made it compulsory for exporters to bar code their products.

SUMMARY

A brand is a name, term, sign, symbol or design, or a combination of those elements used to identify a company's goods or services to consumers and to differentiate them from the products or services of the competitors. A brand is used by companies to gain maximum customer loyalty. A brand's distinctive capabilities are identified by consumers based on their perceptions that have themselves been created by the marketers over a period of time. A brand may possess about six levels of meaning: Attributes, Benefits, Values, Culture, Personality and User. The brand value is of immense importance for a firm. This is evident from the fact that most of the companies spend lot of time, money and energy in brand building. There are three major types of brands, manufacturer's brands, reseller's brands and generic brands. Traditionally, firms sold their goods and services without branding them, but as competition increased, firms started focusing on branding their products. Brand equity is the combination of brand assets and liabilities associated with a brand. It enhances or depreciates the value of the brand attributed to it by the products or services. Selection of a brand name is crucial for the success of a brand. There are several factors that have to be considered before a brand name is selected.

Brand sponsorship is a form of publicity, which is done by supporting and linking the organization’s name with a particular event, most commonly sporting events or an activity that involves a large public gathering. A brand signifies some value to the customers that is to be delivered by the company. Brand extensions are brand names extended to new product categories. Brand rejuvenation is a process of revitalizing an ailing brand. Brand relaunch is a process of launching the brand again after a time gap. Packaging is the process of developing a design and a container for a product. Labeling is the process of exhibiting important information on the product's package.

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Chapter 15

Pricing and Marketing

In this chapter we will discuss:

- Significance and importance of price to a marketer
- Price and non-price competition
- The process of setting prices
- Approaches to price adjustment
- Effects of price changes

Every human being in society is required to pay a price for the products or services he consumes. The price of a product or service is the number of monetary units a person pays to obtain one unit of the product or service. Every organization, irrespective of whether it is for profit organization or not, needs to fix a certain price for its products or services. For instance, every morning you receive the newspaper and milk and pay a price for them. Similarly, the monthly groceries are purchased from a supermarket for a price. Besides the products you buy and consume, there are a host of services that you utilize on a regular basis. For instance, you use the services of the electricity department for the electricity you consume when you use your electrical appliances. Similarly, the local cable operator provides the facility of numerous channels on the television, for which he charges a monthly price. And have you ever wondered who pays for the maintenance of the country's infrastructure, such as roads. It is the citizens who pay the government taxes for these services. The petrol you use for transportation, the food you eat, the water you drink, the clothes you wear, the movies you watch – almost everything you consume and utilize comes for a price. When individuals consume and utilize thousands of products and services, it is obvious that there is bound to be intense competition among the producers of these products and services. Therefore, to attract consumers, producers adopt different kinds of pricing strategies. In this chapter, we study some of the important strategies adopted by producers. Beginning with the significance and importance of price to a marketer, we eventually analyze the pricing objectives and go on to determine the factors that affect the demand patterns. This will be followed by an evaluation of the various pricing methods and selection of a pricing policy. Lastly, the chapter concludes with a discussion on how marketers can adapt themselves to changing marketing dynamics and the effect of price changes on customers and competitors.

SIGNIFICANCE AND IMPORTANCE OF PRICE TO A MARKETER

Pricing the products and services might be a routine job for most producers and retailers, but pricing involves a thorough and a deep understanding of the principles and practices governing the business environment. A manager should possess a certain level of ingenuity, sufficient skills and sometimes, he has to use his sixth sense while fixing a suitable price for a product or a service. Adopting the right pricing strategy helps a company achieve its objectives. However, ineffective pricing causes significant damage to the company's growth and sustainability. To sustain and achieve its objectives in the competitive market, a company should adopt the most effective pricing mechanism. Thus, pricing is very important to a marketer.

A marketer should bear in mind the following factors before adopting a pricing strategy – the demand for the product/service in the market, customers' perception, how much margin is adequate to sustain in the market, the image of the company in the market, the expenditure incurred for producing the goods, and finally, the intensity of competition. Some marketers do not give adequate importance to pricing due to certain reasons, such as missing links between individual pricing strategies and corporate strategies, failure in linking cost of goods sold to the pricing strategy, inability to understand the value perceptions of the target customers, and so on. However, pricing is a very important aspect of the firms' existence and hence, firms must develop proper pricing strategies and convert them into effective competitive advantages. Lack of competitive pricing strategies will eventually wipe out companies from the market. The example of two such companies, Polaroid and Sun Country Airlines, is described in Exhibit 15.1.

Pricing is the biggest challenge that marketers face, and quite often, they may feel that they have not set the right price. This may be due to several reasons. One of the most important is that prices are dependent on market factors. The sales of a product have an impact on the pricing mechanism. However, sales of a product can increase because it has been priced too low and not because it has been priced right. Setting the right price can have a substantial impact on the profits of the firm.

Exhibit 15.1

Implications of Improper Pricing

Pricing is normally a question of survival for most companies. An improper pricing strategy can lead to its failure. Consider the case of Polaroid. Despite being the first company to develop a breakthrough digital-imaging technology, it could not leverage any benefits out of this development since managers at Polaroid believed that they could not earn profits from this expensive technology. Traditionally, Polaroid had been selling its cameras at a low price generating larger profits on the film. The top management at Polaroid perceived that digital technologies would not fit into this type of a pricing approach and consequently, gave up the idea of marketing its digital imaging technology. Much to Polaroid's misfortune, its competitors, Kodak and Fuji, seized the opportunity and entered the digital imaging business. Thus, Polaroid lost a potential opportunity due to its failure to identify a suitable pricing strategy for its digital cameras. This case proves that the inability to find a suitable pricing strategy can drive even an innovative company like Polaroid out of the market.

A similar case occurred with another company, Sun Country Airlines, which was set up in 1983 as a low-cost alternative to Northwest Airlines to cater to the needs of Minnesotans traveling to sunny vacation spots. Sun Country Airlines was unable to develop a suitable pricing strategy and this ultimately led to its closure. It changed its prices on the basis of changes in customer demands for a route or by blindly following the pricing strategies of its competitors, without realizing that the objectives, costs, and organizational structure of the competitors were completely different from its

Adapted from Shantanu Dutta, Mark Bergen, Daniel Levy, Mark Ritson and Mark Zbaracki, "Pricing as a Strategic Capability," MIT Sloan Management Review, Spring 2002, Vol. 43, Issue 3, 61-66.

The management of a company must establish a process to ensure that all the relevant factors are taken into consideration while setting prices. The marketing strategy of a company should influence its pricing patterns. For example, "one price-no negotiation" policy of Saturn, a wholly owned subsidiary of General Motors, makes the dealers happy since potential customers will not haggle for price reductions. The customers are also happy since they know that others will buy the automobile at the same price and there is no fear of other customers getting a better bargain. Setting the prices of products should be a coordinated effort between the various departments of an organization. For example, the manufacturing and operations department knows the manufacturing costs of a product; the R&D department knows the expenses involved in developing a product; the finance department knows the finance costs for developing and manufacturing a product. If a coordinated effort is made, the organization will be able to estimate the total cost of a product accurately. After that, organization can adopt the right pricing strategy. Therefore, it is advisable to consider all these aspects while setting the price of a product.

PRICE AND NON-PRICE COMPETITION

The pricing of products in a market is dependent on the type of competition existing in it. The competition can be broadly divided into two categories – price and non-price.

Price Competition

Marketers develop different strategies to survive in the market and attack the competitors. A marketer who resorts to price competition will compete with his competitors on the price front by offering his product/services at the same price or at a lower price than that of the competitor. In price competition, marketer who can sell his products at the lowest cost will usually win a larger part of the market share.

Marketers engaging in price competition will often have to alter their prices to match the competition. For example, Pepsi and Coca-Cola frequently engage in price competition and alter their prices to match the price set by the other. However, organizations engaging in price competition will lose strength in the market as they constantly reduce their prices to fight each other out.

Non-Price Competition

Non-price competition ensues when marketers focus on factors other than the price, such as product features, quality of the product/service being provided, packaging, promotions, and so on. Marketers try to increase their sales by concentrating on these factors. Focusing on these factors helps marketers improve relations with customers and thus, leverage their brand loyalty. The advantage of non-price competition is that it becomes difficult for competitors to attract customers of rival companies by lowering their prices, since customer preferences are dependent on factors other than pricing. For example, people prefer premium brands like Mercedes, not because of its price but due to factors such as customer service, quality, and so on. Thus, even if a competitor reduces his product's price to lure potential customers of Mercedes, he will not succeed.

THE PROCESS OF SETTING PRICES

Setting the price involves the following steps:

- Setting pricing objectives
- Factors affecting demand determination
- Analyzing the pricing of the competitors
- Selection of a pricing method
- The selection of pricing policy

Setting Pricing Objectives

Before setting the pricing objectives, a marketer should first decide his target market as well as the positioning strategies for his product or service. Once he knows which market he is serving, it becomes easy for him to fix the price of the product. The pricing objectives should actually be in line with the company's overall objectives. The objective behind setting the price of a product or service may be to achieve maximum market share, or long-term sustainability in the market, and so on. If a company has multiple objectives, they should be consistent with one another.

Survival

Survival can be the short-term objective of an organization's pricing strategy to compete in the fiercely competitive environment. Organizations feel that a reduction in the price can be compensated with the increase in sales volume. However, no company can exist in the market in the long run, if it sets its prices merely for survival. It has to focus on improving its performance and capabilities and thereby attaining profits.

Profit

The fundamental objective of organizations is to maximize their profits. Their profits are directly dependent on the prices of their products because pricing, to a certain extent, is a controllable factor in the profit equation. Therefore, they adopt pricing strategies that will maximize their profits. Generally, companies arrive at a price after evaluating several pricing alternatives and choose the alternative that produces the maximum profits under the given circumstances. Firms quantify their objectives either in absolute rupee terms or in the percentage change in profits compared to those of the previous period so that it can be measured easily.

Return on investment

The objective of pricing products of an organization can be to attain a specified return on their investments. Usually, data used to arrive at the returns on investment is not available at the time when prices are set. Therefore, organization adopts a trial and error method wherein the company arrives at the best pricing alternative to leverage the maximum return on investment.

Market Share

The objective of pricing the products and services of many organizations is to either increase or maintain the market share. Organizations usually focus on increasing their market share because they believe that such an increase results in higher profits. However, it is interesting to note that the growth rate of a firm's market share is independent of the industry's performance in which the firm is operating. Absolute sales volume of a company might increase though its relative market share is decreasing. For example, after the entry of many other foreign players in the Indian passenger car market, the market share of Maruti Udyog Limited decreased, though its absolute sales kept on increasing. This phenomenon is usually seen when the total market for a product increases.

Status quo

Organizations can maintain status quo as their pricing objective. Firms adopt a status quo approach to pricing to maintain a certain level of stability in its prices or to maintain the market share. Maintaining status quo helps the company to reduce potential threats in the form of competition by stabilizing the demand for the company's products.

Product quality

Firms try to set the prices of their products to reflect the product's quality leadership in the market. Firms set high prices for their products so as to cover the high R&D costs incurred in improving the quality of the product. It is also important for marketers to communicate the product quality to the intended audience, as customers will be inclined to pay a high price only when they are assured of the product quality. When the company increases the price of the product, it is also important to improve the relative quality of the product.

Factors Affecting Demand Determination

It is essential for marketers to determine the factors affecting demand for their products and services. They can assess the demand by seeking the help of market research team and sales forecasters. Market research team and sales forecasters help companies establish the relationship between the price of the product and the quantity demanded.

Price sensitivity

Normally, when the price of a product goes up, the demand for the product comes down. Similarly, when the price of the product comes down, then the demand goes up. It is important to note that this phenomenon continues as long as there is no change in the marketing environment and the buying patterns of customers. There are about nine factors that affect price sensitivity.

Exhibit 15.2

Pricing Telecommunication Services

Understanding the customers' perceptions and price sensitivities helps marketers decide whether to fight the competition with price cuts or through some other strategy. Normally, consumers are unaware of substitute products available, especially when the product features are almost similar on the functional basis. For instance, in the US telecommunications market, the three major players – Sprint, AT&T and MCI – all were offering long-distance services to the citizens, but the price options offered by each only ended up confusing the customer. AT&T priced its services at 15 cents for a minute, without any monthly rental and another option was 10 cents per minute with a monthly fee of $4.95. MCI charged 5 cents per minute during nighttime and 25 cents per minute during daytime with a monthly fee of $1.95. Sprint charged 5 cents per minute during nighttime and 10 cents per minute during daytime, with a monthly fee of $5.95. It was very difficult and costly for customers to choose the best plan, especially with the service being a low involvement one. A company wanting to compete on the price front in such a scenario can simplify the pricing pattern, and this was what Sprint chose to do. It priced its calls at 10 cents per minute thereby enabling customers to easily compare its rates with the rates of other companies like MCI and AT&T.

Adapted from "Analyzing The Battleground," Harvard Business Review, March/April 2000, Vol. 78, Issue 2.

1. Unique value effect: When the product is a new innovation and offers a unique value proposition to customers, they are less price sensitive.
2. Substitute awareness effect: When customers lack knowledge about the substitutes available for the product, they tend to be less price sensitive.
3. Difficulty in comparison: Customers are less price sensitive when it becomes difficult for them to compare the product with substitute products in terms of features, quality, etc.
4. Total expenditure effect: When the expenditure on the product is very little compared to the overall income of the customer, they are less price sensitive.
5. End benefit effect: Customers are less price sensitive, when the cost incurred on the product is too little compared to the total cost of the end product.
6. Shared cost effect: When the cost of the product is partly borne by another party, customers are less price sensitive.
7. Sunk investment effect: Customers are less price sensitive, when the products are purchased as an extension of products that were purchased in the past.
8. Price quality effect: When the product is considered to be of high quality or to be an exclusive product, the buyers are not price sensitive.
9. Inventory effect: Buyers are less sensitive to price changes of the products which they cannot store.

Customers are, however, becoming increasingly price sensitive with the advent of technological solutions wherein, services like the Internet allows customers to compare the product's price with those of the competitors. Therefore, marketers work harder to differentiate their products from those of the competitors. For instance, Sprint, a telecommunications company in the US, differentiated its services from those of its competitors (See Exhibit 15.2).

Demand curve

There are various methods to estimate the demand curve of a product. One way is to statistically analyze past prices, volumes sold, and other factors to estimate the relationship between price and demand. Developing a model and fitting the data into a model using a statistical tool needs considerable skill. The demand curve can also be measured by changing the price of the product in the same market segment and observing the demand fluctuations. There are other methods as well, such as consumer surveys, where the buyers are asked how many units of a product they would buy if the price were changed. However, when measuring the price-demand relationship, marketers have to be careful about competition and other factors that influence the demand patterns.

Price elasticity of demand

The price elasticity of demand is said to be the percentage change in quantity demanded divided by the percentage change in the price of that commodity.

$$\text{Price Elasticity of Demand} = \frac{\%\ \text{Change in Quantity Demanded}}{\%\ \text{Change in Price}}$$

Determining the price elasticity of demand makes it easier for marketers to set the price for their products. If a change in the price of a product does not cause a significant change in its demand, the demand is said to be inelastic. For instance, a change in the price of an important and essential service, like water or electricity, will not bring about a significant change in its demand. Inelastic demand is likely to occur under certain conditions, such as, when there are very few or no substitutes or competitors providing the product or the service; when consumers are not immediately aware of the price change; when the target consumers are slow to respond to the price change, and so on.

If the demand for a product significantly changes with a change in its price, the demand is said to be elastic. For instance, the demand for holiday packages may drastically come down, if there is a steep rise in their prices.

Analyzing Competitors' Pricing

While setting prices, it is very important for a marketer to assess the competitive environment. The demand for a product in the market is influenced by the pricing strategies of the competitors. Marketers must carefully analyze how competitors will retaliate to the company's pricing policies. Companies should, therefore, carefully plan their pricing policies, otherwise, ensuing price wars may force marketers to significantly reduce the price of their products and eventually lose their market share. Apart from these issues, the pricing policies of a company might attract a new competitor into the market or may force the existing competitors to leave the industry. Therefore, marketers should also be careful about potential and future competition. Normally, the price changes made by the company influence how competitors price their products. Competitors may react to price changes in three ways. One way is to maintain the status quo, i.e. not react in any way to the price changes. Another way is to set the prices equal to that of the company. A third way for competitors to react is to attack the price changes by setting their prices lower than that of the company. Apart from the above responses, competitors' pricing patterns also depend on environmental factors such as the types of markets they serve, the customers' requirements, presence of potential competitive advantages, and so on. It is thus very important to analyze the competitors' prices. However, this process is very difficult and companies have to depend on sources like public statements, previous reactionary responses of competitors, publicly available data etc. to analyze the competitors' prices.

The Selection of a Pricing Method

Companies have various options for selecting a pricing method. A firm can adopt any of the following pricing methods, namely, mark-up pricing, target return pricing, perceived value pricing, going rate pricing, sealed bid pricing, tender pricing, differentiated pricing, and value pricing.

Mark-up pricing

Firms fix a selling price on the products they produce, which normally exceeds the costs incurred in producing these products. In this type of pricing, a marketer adds a mark-up on its cost of the product. Mark-up pricing is most common in retailing, where a retailer buys a product for resale. For example, if a retailer incurs a cost of Rs.85 to buy a product, he might add a mark-up of Rs.15 and fix the selling price of the product at Rs.100. Mark-up is most normally expressed as a percentage of the cost or a percentage of the selling price. In the above example, the markup expressed as a percentage of the cost and as a percentage of the selling price is shown below.

$$\text{Markup Expressed as a Percentage of Cost} = \frac{\text{Markup}}{\text{Cost}} = \frac{15}{85} = 17.64\%$$

$$\text{Markup Expressed as a Percentage of Selling Price} = \frac{\text{Markup}}{\text{Selling Price}} = \frac{15}{100} = 15\%$$

Target return pricing

The target return pricing is set by marketers to achieve a specified rate of return on their investments. The companies, which fix a return on their investment, are usually the leaders in their industry. General Motors, General Electric, Dupont are examples of companies, which have linked the prices of their products to this objective. A marketer can fix the prices of his products on the basis of target returns that he is expecting on the investment with the help of following formulae:

$$\text{Target return pricing} = \text{Unit Cost} + \frac{(\text{desired cost} \times \text{invested capital})}{\text{Unit sales}}$$

Suppose a marketer produces a product and the cost of each unit is Rs 200. He made an investment of Rs. 100,000 to set up his business. He expects that he will be able to sell 500 units of the product and obtain 15 percent return on his investment. He will price his product at

$$200 + \frac{0.15 \times 100{,}000}{500} = \text{Rs } 230.$$

Perceived value pricing

In this type (perceived value) of pricing, marketers set the prices of the products on the basis of their perceived value in the minds of customers. Perceived value is calculated as a weighted average of the products' perceived attribute scores. Marketers normally use advertising and sales promotional activities to enhance the perceived value of the product in the market. Firms may conduct market surveys to analyze customers' perceptions about the value of the product. This will help marketers efficiently set the prices for their products. Dupont follows perceived value pricing for its products. However, there is an inherent risk in using this method. If the marketer underestimates the value of the product based on the customer's belief of the perceived value of the product, he will charge less than what he actually can from the customers and he will not be able to maximize his profits. Similarly, if the marketer overestimates the value of the product, the customers will not buy the product and it will be difficult for him to survive in the market.

Going rate pricing

Going rate pricing is a simple method in which a company simply follows the prevailing pricing patterns in the market. The company adopts a pricing strategy similar to those adopted by the major players in the market or may slightly adjust its prices to suit the company's systems and processes. Generally, in this method, marketers give importance to price changes made by the market leader and alter their own prices accordingly, rather than changing the prices according to the demand patterns of the company's product in the market.

Sealed bid pricing

In some markets, business is carried out on the basis of sealed bids rather than on the basis of openly setting prices for products. This type of pricing is more suitable for industrial products. Many companies compete in this process, where the price of the product or service is usually quoted in a sealed cover. This method is adopted for the products that do not possess a market price or for products for which it is difficult to fix the price owing to attributes like varying levels of quality and specifications. The sealed bid method is usually followed in government organizations. Whenever a government organization needs to purchase a product or service, it is required to call for bids and several companies are invited to quote their prices in a sealed form. After receiving the sealed bids, the organization will normally purchase the product or service from the company, which has bid the least price.

Differentiated pricing

In differentiated pricing, marketers adopt different prices for the same product at different locations or for different types of customers. For instance, the cost of a 250 ml Pepsi may cost Rs.8 in a supermarket, Rs.10 in a cinema hall and Rs.12 in a restaurant. Thus, even though the product is the same, it is sold at different prices at different locations. This pricing method, if used effectively, will help a company increase its profits. Another example of differentiated pricing can be seen in the service provided by Andhra Pradesh State Road Transport Corporation (APSRTC), which offers tickets at a lower cost to regular travelers through various schemes, than to those who only travel occasionally. Similarly, at hill stations, hotels keep different prices for summer and winter seasons.

Value pricing

Value pricing is a method in which marketers offer low prices for high quality products or services. The idea of value pricing is to help the customers perceive that they are getting a high quality product at a low price. Value pricing is not implemented as a response to the pricing patterns of the competitors. On the contrary, it is an outcome of improved research and development that helps the company deliver high quality goods at low prices. For example, The Times of India started a revolution in the newspaper market by offering the daily newspaper for as less as Re.1 on some days of the week. Similarly, in the shampoo and detergent markets, HLL and P&G have recently reduced their prices by 15-20% in an attempt to send a message to customer that they are getting better value for their money.

Market skimming

Marketers usually adopt such an objective when they develop unique and innovative products or a breakthrough technology. Certain companies prefer to set high prices for their products and recover the costs incurred in developing and producing them as early as possible. It becomes necessary for a marketer to do this if he feels that the product being developed or the technology being utilized has a short life cycle. Intel, the chip producer, adopted this strategy. However, this strategy has an inherent disadvantage. If the competitor prices his products lower than the firm’s prices, it may result in the firm losing significant market share.

The Selection of a Pricing Policy

The selection of a pricing policy is vital for an organization, since it is the single most important factor on which the existence of the organization depends. There are several pricing policies that companies adopt. The selection of a pricing policy is dependent on its internal and external environment. Some of these pricing policies are briefly discussed in the following section.

Exhibit 15.3

Dollar Shops

The popularity of 9 to 9 dollar shops has been on the rise in recent times. The concept of the store is that it stocks different varieties of products ranging from candles to kitchenware to household items and price them at Rs.49/- to Rs.99/-. These shops work from 9 am in the morning to 9 pm in the night. As the products in these shops are priced at Rs. 49/-, close to a dollar exchange in Indian rupees, they are called as 9 to 9 dollar shops. This concept actually started in the US in 1992, when the first shop was opened in Las Vegas. These stores stock about 50 varieties of high selling products and at any given point of time, they display around 3000 items. These stores are popular among price-conscious customers, and quite often, people walking into the store to buy one or two items usually end up buying more number of products. The increasing popularity of these stores is causing even manufacturers of branded goods to stock their products in these stores.

Adapted from Renni Abraham, "All For A Dollar," Business Standard, 10 June 2003.

Psychological pricing

Consumers generally judge a product's quality by its price; they feel that a higher priced product normally indicates good quality. This perception of customers is more apparent when we observe the pricing patterns of certain goods like perfumes and higher-end automobiles. It is a general perception among consumers that the more costly the perfume, the higher will be its quality. This is true even for certain automobiles such as, the Mercedes Benz. This car is regarded as a status symbol and once it so happened that when the price of the car was reduced, its sales dipped instead of improving. If no other information is available to the customers about the quality of the product, then price becomes a major factor in judging its quality.

Products' prices ending in the number 9 have a significant impact on the psychology of customers. The traditional view of psychological pricing states that the prices of products ending in odd numbers, especially with a 5 or 9, increases consumer sensitivity. The customers' response to this method of pricing is tremendous. This can be seen in the increasing popularity of stores such as 9 to 9 dollar stores (Refer to Exhibit 15.3). Generally, it is felt that as prices go up, the demand for a product comes down, but a research conducted in the US has shown that the demand for women's clothing increased by one third when the price of a dress was raised from $34 to $39. Another study was conducted in which two versions of catalogs were mailed to potential customers, one with a price ending in 00 cents and the other with a price ending in 99 cents. Researchers found that customers who received the catalog containing prices ending in 99 cents were more likely to place orders. In India, Bata has been successfully implementing this strategy of ending its price with the figure 9. When Akai entered the Indian market in the late 90s with 21" color TVs, it followed the principle of psychological pricing. It priced them at Rs 9,990 (approx) to break the barrier of Rs 10,000.

Influence of other marketing mix variables

The influence of other marketing mix variables on price is rather high. Therefore, setting the price of a product, other variables of the marketing mix, like the product features, production costs, distribution costs, and promotional and advertising expenditure are also considered. Modern marketing deals with understanding the consumers' perception of the marketing mix variables, which will enable the marketers to devise suitable strategies to serve them better. Prices of products are usually set on the basis of the production costs or cash flow requirements, rather than on the basis of customer expectations. Over the years, among all the elements of the marketing mix, pricing received the least importance among marketers. In a research conducted on marketing executives, over 50 percent of the respondents considered price as the least important policy decision. However, in recent years, marketers have begun to give importance to the value buyers attach to the products and services while setting their price. Apart from the value at which each customer perceives the product, understanding the why, where, when and how a customer buys a product will also provide useful information for setting the price.

Product pricing should be done keeping in view the company's goals and objectives. Pricing policies should be in tune with the other marketing mix variables. Besides the product features, the distribution and promotional efforts of the company should also be taken into consideration. Advertising campaigns should be designed to convey the intended message effectively. If the company wants to decrease the price sensitivity of consumers, it should focus on non-price advertising. Another variable – distribution – also plays a major role in influencing the price decisions of the firm. The distribution outlet's service quality, its proximity to the markets, the ambience and image of the outlet will influence the customers' perception of the price of the product or service. This is one of the reasons why most marketers give significant priority to maintaining the distribution outlet to match customer expectations. Finally, the product features and attributes such as product quality affect the price of the product. For the customer, the product quality becomes an indicator of its price. Therefore, it is essential for marketers to understand the influence of marketing mix variables while setting the price of a product or service.

Transfer pricing

When one division of an organization transfers or sells goods or services to another division, the price charged for the goods is called transfer pricing. Generally, this happens in multinational companies when one division in a country sells its products or services to another division in another country.

Pricing impact on other parties

It is also very important for marketers to analyze the impact of the pricing policy of the company on the other players in the industry. The other players could be suppliers, distributors, producers of complementary products and services, the government, and most importantly, the customers. These players substantially influence the consumption patterns, the quality of the products, the intensity of sales, and also the after-sales service. They may directly or indirectly initiate or influence a price war. For instance, Motorola launched low priced cellular phones in the Chinese and Brazilian markets and subsequently, it found that the prices of its phones in the US market also dropped significantly. After investigations, Motorola found that its distributors were diverting cell phones meant for the Chinese and Brazilian markets to the US markets. This happened because Motorola gave an impression to its distributors that prices in the US and European markets were quite high and so selling in these markets would be profitable for them.

At times, these players also help in significantly reducing the price of the competition. For instance, Intel helps computer manufacturers by assisting them in their marketing activities.

APPROACHES TO PRICE ADJUSTMENT

Companies normally adopt a pricing pattern on the basis of several aspects like geographical factors, demand patterns of the customers, service levels that have to be delivered, pricing to improve short term sales, customer perceived value pricing, and so on. The popular methods adopted by marketers to fix the price of their products and services include geographic pricing, promotional pricing, discriminatory pricing, discounts and allowances, experience curve pricing and product mix pricing.

Geographical Pricing

When customers are geographically scattered in different locations, marketers adopt different pricing for different regions using a pricing method that adequately covers their delivery expenses. This form of pricing is known as geographic pricing since it is based on the geographic location of the customer. It is usually observed that the marketers who are close to the manufacturers are able to sell at lower prices than those in far off locations. There can be different types of geographic pricing – uniform delivery pricing, FOB pricing, zone pricing, and basis point pricing. In uniform delivered price, the company fixes a uniform price for the entire market it serves. In FOB pricing, the customers bear the transportation costs of the goods being delivered. The ownership of the goods is transferred to the buyers at the point of origin (factory or warehouse). In zone pricing, marketers divide the target market into different zones depending on population density, transportation infrastructure, shipping costs, etc. The prices in one zone remain constant. In basis point pricing, certain locations are called basis points. The goods dispatched from the same basis point are priced the same.

Promotional Pricing

Another important pricing adaptation process is promotional pricing. The management's acceptance of promotional pricing varies from blindly accepting the proposal to summarily rejecting it. A general perception among marketers is that a price reduction or any other promotional deal will attract customers to try the product or service. Although marketers resort to promotional pricing to achieve a short-term increase in sales, it is suggested that they need to have a broader perspective if they want to achieve and sustain long-term credibility through promotional pricing. In a research conducted on promotional pricing, it was found that off season price reductions resulted in more profits because they are of below average magnitude and marketers need to communicate the value of the promotional offer again and again by increasing the frequency of promotions. Promotional pricing cannot counter the introduction of new product by competitors. Price deals will be more appealing and effective when they are done for new products or brands rather than for the established ones. The purpose of offering a product or a service at a promotional price is to increase its sales to the maximum extent possible. In another research, it was found that customers tend to become more price conscious for products that come with frequent price promotions. Hence, as the frequency of promotional offers increases, the gains to the company from such promotions keep decreasing. Therefore, marketers should carefully plan the promotional pricing patterns in order to achieve maximum mileage out of such price deals.

Discriminatory Pricing

In discriminatory pricing, companies charge different customers differently for the same product on the basis of their paying capacity and the value of the customers. When a company adopts discriminatory pricing, it generally divides its markets into geographical segments and adopts discriminatory pricing to ensure that the customers who buy its products at lower rates do not sell the same for a profit to the other market segments, as they are located elsewhere. A good example of discriminatory pricing is the pricing patterns of publishers who price their books differently for different segments of the market. The cost of any international edition is different from the cost of the Indian edition of the books that are available in the market. Another example is that of magazines, which are priced differently for regular subscribers and for those who buy the magazine occasionally from the stands. Prices of certain products also vary from one state to another in India.

Exhibit 15.4

Airline Schemes

Owing to the severe crunch in the airline market that has resulted in empty planes and vacant perishable seats, Indian Airlines and Jet Airways have introduced a new scheme called advanced purchase excursion fare (Apex). This scheme gives the passengers a discount for booking their travel in advance, and is categorized into four types. The passenger can book his ticket 30 days in advance, or 21 days, or 15 days, or even 7 days in advance. An online booking is also available where the passengers can participate in an auction and can buy the ticket for the minimum bid price. The minimum bid price for Delhi-Goa sector comes for a price as less as Rs.5,380/- or a New Delhi-Mumbai sector for as less as Rs.2,775/-. The idea behind this scheme is to rope in the first class train passengers.

Adapted from Arti Sharma, "Leveraging Apex Fares," Business Standard, 14th August 2003.

There was even a proposal with the Government of India to fix the prices of petroleum products differently in different regions of India. Thus, petrol and its by-products would cost less in cities like Mumbai, which are closer to the oil fields or have commercial ports, and it would cost higher in the hinterland areas like Delhi. The proposal was put forth taking into consideration the costs incurred by oil companies to transport petrol and petroleum products to the inland areas from the coastal areas.

Discounts and Allowances

Discounts and allowances are the pricing techniques marketers adopt to increase the stock movement and thus increase the sales volume. There are various types of discounts and allowances that marketers resort to such as, seasonal discounts, cash discounts, quantity discounts, trade discounts, seasonal discounts and so on. Manufacturers usually give allowances to their intermediaries to help them achieve their desired goals. In the airline industry, companies such as Indian Airlines and Jet Airways are offering discount schemes to increase sale of tickets by luring the first class rail passengers to travel by air (Refer Exhibit 15.4).

Experience Curve Pricing

In experience curve pricing, new products are introduced at a low price. This is strategically done to attract price sensitive customers to purchase these products. Organizations believe that as employees acquire experience in producing the product, they will learn the technology and production process better and work more efficiently. Therefore, more units are produced in the same period of time and the organization's cost of production decreases significantly. The low prices of the products can be justified since a large number of price sensitive customers are present in the market. While adopting experience curve pricing, the company has to carefully set the initial price and also devise strategies for different price adaptations as the product grows in the market. Although the company loses revenue initially by setting the prices low, it should be able to recover it as the experience of employees increases and the cost of production comes down.

Product Mix Pricing

Setting appropriate prices for the product mix variables is very difficult, since the demand patterns and the market segments vary significantly from product to product. There are different methods of product mix pricing such as product line pricing, optional feature pricing, captive product pricing, two-part pricing, by-product pricing and product bundling pricing.

Product line pricing

When marketers offer more than one product item in a product line, they usually set prices for product lines instead of individual products. In such a pricing, the sales of one product in the product line may affect others. Marketers should consider the interrelationship between different items. Marketers usually try to offer products that will increase the sales of other products as well. But, in an effort to provide variety to the customers, they offer directly competitive products. Marketers can adopt different price points within a product line so that customers perceive the quality of these products on the basis of these price points.

Optional feature pricing

Optional feature pricing is done for the accessories that come along with a product. For example, during the purchase of a car, accessories such as seat covers, floor mats, metal guards, air-conditioner, music system, etc., do not form a part of standard features and are priced separately. Pricing such optional features that are not a part of the main product is a difficult task as different customers may opt for different features. Maruti has priced the base model of Alto at Rs 2.3 lacs. Other optional features such as air conditioner, power windows and power steering are priced differently.

Captive product pricing

When manufacturers price the ancillary products or spare parts relatively higher than the basic product to overcome the low profits earned on the basic product, it is termed as captive product pricing. For example, Gillette follows this strategy for its Mach III blades. The original razor comes at an attractive price, but the blades that have to be used along with the razor are priced higher. Similarly, Hewlett-Packard also adopts this strategy for its printers and cartridges. Though the cost of an HP Inkjet printer is around Rs 3000, the cost of both the cartridges (black and color) is around Rs 2400. This strategy sometimes paves the way for duplicate and pirated products to enter the market.

Two-part pricing

This type of pricing is normally followed in services in which a company charges a fixed price for an initial service and subsequent charges for over and above the minimum service consumed. Reliance, for example, charges a fixed price for its mobile phone services that allow the subscriber a certain number of calls based on the amount he pays and any calls made beyond that limit are charged extra. All the landline telephone service providers follow the two part pricing strategy. Tata Indicom has introduced different schemes in which charges are divided into fixed and variable categories. For example, in the economy scheme, the fixed charges are Rs 500 for 450 free calls and thereafter the customer is charged on a per call basis. Per call rate is also different for each scheme. So, it can be said that along with two-part pricing, Tata Indicom has also adopted discriminatory pricing.

By-product pricing

By-product pricing is a process of setting prices for by-products obtained from the original product. The pricing of diesel, kerosene and other petroleum by-products like crude oil is done in a way to sustain the competitive pressure on the original product.

Product bundling pricing

Product bundling pricing is a procedure where the manufacturer provides a set of related products at a price. In this pricing strategy, marketers anticipate customer needs and accordingly bundle either accessories or other related products with the main product. For example, Most PC manufacturers bundle free software (antivirus, office suites, etc.) with PCs. Similarly, many computer magazines like Chip, Computers Today, PC Quest, Data Quest, etc. bundle a CD of free software. Microsoft bundles the word processor, spreadsheet, database and web design tool in a package called Microsoft Office.

EFFECTS OF PRICE CHANGES

Marketers sometimes face a situation wherein they may have to increase or decrease the prices of the products and services they offer. The effect of these price changes should be carefully studied in the light of perceptions of the buyers as well as the competitors' reactions.

Buyers' Perceptions on the Price Changes

In situations, where price changes become unavoidable, marketers need to convince the buyers about the price changes in their products or services if they want to retain their loyalty. Customers are more sensitive to changes in prices of products that they buy frequently. They are less sensitive to changes in prices of products, which they buy rarely and are of low value. In India, the prices of petrol and other petroleum products have been increasing for the past several years. Petroleum companies have been giving adequate reasons time and again for such price increases, such as to make up for the oil pool deficit, and so on. Whatever may be the reasons, marketers need to make sure that they convince the customers about the necessity of making price changes in the products and services they offer, otherwise they constantly face a threat of losing customer loyalty forever.

Competitors' Reactions

It is very important for marketers to observe the competition very closely before resorting to price changes. It is better to analyze the internal and external environment of the competitors, their present and past sales data, their markets, the types of customers they are targeting, and so on. By thoroughly studying the competitors and their past reaction patterns, the company can predict their reaction to the latest price changes. Marketers should analyze the objectives and goals of the competitors to gain vital information about their reaction patterns.

Marketers also need to thoroughly analyze the competitors' cost structures, their strengths, and strategic positioning. It may be proper for all the companies in the industry to reduce their prices at certain times, but inordinate price reductions in pursuit of improving the market share will have a negative impact on the industry over a period of time. Marketers need to consider crucial issues such as which of the competitors will respond to the company's move and in what manner. Product managers should normally study the previous trends that have caused price changes and analyze the intensity of such price wars. They must also keep a close watch on competitors who update their technology, distribution systems, information sources, and so on. Such a careful analysis provides valuable information about the competitors' reaction patterns. Identifying the right competitor is also a crucial issue. For example, Encyclopedia Britannica, after realizing that its main competitor is Microsoft rather than another company Grolier's (both of which produce encyclopedias), started providing free access to its database on the Internet and generated revenue through the banner ads.

SUMMARY

Pricing of products and services is a crucial issue for managers and involves a thorough and a deep understanding of principles and practices governing the business environment. Arriving at the right price for the products is a challenging task for managers.

Marketers typically involve in price and non-price competition. A marketer resorting to price competition competes with the competitors on the price front by offering the product or service at the same price or at a lower price. In non-price competition, marketers try to increase their sales by concentrating on factors other than the price.

Organizations need to adopt a systematic process to determine the prices of their products and services. This involves setting the pricing objectives, determining factors that effect demand, analyzing the competition, selecting pricing method and selecting the final price.

Marketers should develop pricing objectives for setting the prices. Various pricing objectives can be survival, achieving profits, attaining higher returns on investment, or increasing the market share,and so on. It is important for marketers to determine the factors affecting the demand for their products and services.

Price sensitivity exists when the demand for a product falls with an increase in its price and when the demand for the product increases with a decrease in price of the product. It is important to observe that such rise and fall in demand with increase or decrease in price of the product occur as long as there is no change in the marketing environment and the buying patterns of customers.

Firms use various methods to measure the demand curves. They may statistically analyze past prices, volumes sold and other factors to estimate the price-demand relationships. The price elasticity of demand is said to be the percentage change in quantity demanded divided by the percentage change in the price of that good.

Marketers must carefully analyze the competitors' reaction to the company's pricing policies. Companies have various options for selecting a pricing method. These include mark-up pricing, target return pricing, perceived value pricing, going rate pricing, sealed bid pricing, differentiated pricing and value pricing.

Further, the selection of a pricing policy depends on its internal and external environment. Psychological pricing is where the price is fixed at odd numbers for the products. Another type of pricing policy is transfer pricing, where one division of an organization transfers or sells goods or services to another division. The price charged by the division for such transfer is called transfer pricing. The influence of other marketing mix variables on price is rather high. While setting the price of a product, all the other variables of the marketing mix, like the product features, production costs, distribution costs and the promotional and advertising expenditure should also be considered.

Companies normally adopt a pricing pattern on the basis of aspects like geographical factors, demand patterns of the customers, service levels that have to be delivered, pricing to improve short term sales, and so on. The popular methods adopted by marketers to fix the price of their products and services include geographic pricing, promotional pricing, discriminatory pricing, discounts and allowances, experience curve pricing and product mix pricing. Marketers sometimes face situations wherein they may have to increase or decrease the prices of the products and services they offer. The effects of these price changes have to be carefully studied in the light of perceptions of the buyers as well as competitors' reactions.

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Chapter 16

Channels of Marketing

In this chapter we will discuss:

- Nature of marketing channels
- Role of marketing channels
- Functions of marketing channels
- Designing distribution channels
- Channel management
- Channel dynamics
- Multichannel marketing system
- Channels and conflicts

A channel is a passageway that allows the happening of certain processes. The term 'marketing channel' was first used to represent a trade channel covering the distance between the producer and the consumer. Marketing is understood to be an exchange process. Marketing channels help this exchange process to take place. A marketing channel can be defined as a group of exchange relationships, which create customer value in acquiring, consuming and disposing of products and services. A marketing channel can also be understood as an organized network of agencies and institutions, which, in combination, perform all the activities required to link producers with users to accomplish the marketing task. The marketing channel right from the producer to the final consumer is designed in such a way that it provides sufficient value to the customer and creates a competitive advantage to the producer.

The development of marketing channels took place in four stages. Stage one comprises the 'production era and distributive practices.' The study of marketing during its earlier stages was actually the study of distributive practices. Linking the producers with the customers in the form of middlemen was the major form of marketing during the earlier days. The second stage involved the rapid expansion of industries and the development of inventory management practices. Producers started shifting their focus from production to the sales concept and heightened their advertising and sales expenditure to attract customers by offering products on the basis of customer needs and perceptions. This stage saw the emergence of the four Ps (Product, Price, Place and Promotion) of marketing as an effective marketing tool. Stage three saw the emergence of the marketing concept, which directed the producers to follow the principle of "producing what can be marketed rather than marketing what has been produced." The fourth stage saw the emergence of relationship marketing where techniques like Total Quality Management (TQM) were developed.

NATURE OF MARKETING CHANNELS

A channel facilitates the transfer of ownership and the physical exchange of products and services. This is the most strategic area of a business and determines its success or failure. The diverse and complex nature of a variety of marketing channels ranges from a simple channel linking producer directly to the customer, to a complex one where there are several layers of distributors linking the producer to the end customer. This diversity in the nature of marketing channels makes it all the more difficult to explain the challenges faced by marketers in developing a marketing channel. Business managers need to plan carefully before actually setting up a suitable channel for company products. Once established, these channels should be adjusted often according to the needs of the customers. Thus, marketing channels are of a dynamic nature as managers constantly seek to improve or make them better and thereby leverage them as a competitive advantage.

ROLE OF MARKETING CHANNELS

Channel roles are the sets of activities or behaviors assigned to each intermediary in a channel system. It is very important to understand the roles of the marketing channel. The first and foremost role of a marketing channel is to fill the gaps between the production and consumption process. These gaps are categorized as time gaps, space gaps, quantity gaps and variety gaps. Time gaps arise because there is a considerable time difference between the production and consumption of goods. For example, the toothpaste that we use today must have been prepared at least a month earlier. Manufacturers, in their production process, follow schedules that ensure continuity of production and help them improve their production efficiency. Space gaps occur when production takes place at one or a relatively small number of locations. Since the place of production need not be close to the final consumers, it results in space gaps. Quantity gaps occur because manufacturers produce products in much larger quantities than the individual customer would purchase. This gives rise to the need for breaking down these large quantities into smaller quantities in order to match the needs of individual customers. Finally, variety gaps occur because consumers desire a greater variety of products than a manufacturer can produce. It is important for the producers to match the needs of the customers to the extent possible by offering a variety of products.

The smooth flow of products from the producer to the end-user takes place with the help of intermediaries, who bridge the gaps discussed above. Marketing channels as intermediaries reduce the amount of time and expenditure of the manufacturer by reducing the number of contact points between the point of production and the point of consumption. These intermediaries also help marketers aggregate the narrow product ranges of several producers producing a wide range of product assortments. Middlemen help the manufacturers by apprising them of the customer requirements from time to time. They also help in promoting the products through efficient product displays and other techniques like discounts, promotional schemes and so on.

Channel Flow

The primary task of marketing channels is to move the goods from the producer to the end user. In the process, the channels help close the gaps such as those of time, space, quantity and variety. In order to close the gaps that arise between producers and customers, those representing marketing channels perform a number of tasks such as:

Possession: The flow of goods physically from the producer to the final consumer takes place with the help of intermediaries, like transporters. The possession of goods thus gets transferred from the producers to the final customers.

Ownership: The flow of ownership or transfer of the title of the goods takes place on physical receipt of the goods from one channel member to another. The flow of title normally takes place in the same direction as that of the physical flow of goods.

Financial flow: The financial flow involves the payment process wherein the customers pay for the goods or services they have received from the channel members. Financial flow is usually in the opposite direction of the ownership and physical flow of goods. The payment process may involve financial institutions like banks, and the mode of payment may be either cash or credit.

Information flow: The flow of information from the channel to the customers is essential in order to create awareness among them about the availability of the products. The flow of information can help in obtaining customer orders, producer promotions, and so on. The information may also flow in the form of customer complaints from the customers to the producers.

Risk flow: Risks may flow from one channel member to another in the form of product perishability, fluctuating demand patterns, price fluctuations, risks generated by faulty products, and so on.

Negotiation: Negotiation is the process of reaching an agreement on the price and other conditions (such as financing, features, and so on) for facilitating easier transfer of ownership and possession of goods.

Channel Levels

The function of an intermediary is to move a product or service closer to the final consumer and this is described as a channel level. The length of a channel represents the number of intermediary levels that exist between the producer and the final user.

For consumer markets, the various levels of channels possible are zero, one, two and three levels. A zero level channel represents a manufacturer directly selling his products to the final consumer. Door-to-door selling, mail order catalogs, telemarketing, and manufacturer-owned retail outlets are some examples of zero level channels. Companies such as Amway, Tupperware and Eureka Forbes are well known for their door-to-door selling strategy. In case of manufacturer-owned retail outlets, Singer Corporation is a well-known example whose multi-branded retail outlets contribute up to two-thirds of the company's revenues. Eureka Forbes also plans to set up such retail outlets in smaller towns of India where they expect to have much lower break-even periods compared to the metros. A one-level channel represents a single intermediary, such as a retailer buying goods directly from the producer and selling them to the final consumer. Automobile dealers and petrol pump dealers are examples of a one-level marketing channel. These dealers purchase the product from the manufacturer or producer and sell it directly to the end customer. A two-level channel represents two intermediaries, such as a wholesaler purchasing goods from a producer and selling them to a retailer, who in turn, sells them to the final consumers. Fast moving consumer goods (FMCGs) are usually sold along this route. For example, companies like HLL, Whirlpool, Videocon, Philips, Sony, etc., have two-level channels of marketing wherein the wholesaler purchases the products from the manufacturer and in turn sells them to the retailers. The retailers then sell the products to the end consumer. A three-level channel represents a wholesaler, an agent, and a retailer.

Industrial markets too possess the same channel levels but with minor exceptions. In the zero-level channel, producers sell their products directly to the industrial customers. In the one-level channel, the producers' salespersons market their products to industrial distributors, who in turn, sell them to industrial customers. In the next stage, the manufacturer may use his representative to market the products to the industrial distributor, who in turn, sells the products to industrial customers.

As we saw earlier products flow in the forward direction, but it is important to note that they can flow in the backward direction as well. This comprises the reverse channel of marketing. In today's market, where customers are looking for environmental friendly products and services, recycle management has become one of the most important aspects of a cost-effective production process. The flow of goods in the process of recycle management takes place in the reverse order, that is, the goods flow from the end users to the producers, in turn helping the latter in procuring cost effective raw materials. Recycling of products is common in the plastic, glass and paper industries. The recall of products by the manufacturer owing to inferior quality is yet another example of a reverse channel. A recent example of product recall in India is that of Coca-Cola and Pepsi following a report identifying pesticide contamination in the carbonated beverages sold by these multinational companies. Other examples of companies that have ordered large-scale product recall in the past are Johnson & Johnson, Firestone, Nike, General Electric, Dell Computers and Nestle.

Organizations should determine the number of intermediaries they need at each channel level. Depending on the number of intermediaries required at each level, the three major choices of distribution available to producers are: intensive distribution, exclusive distribution and selective distribution.

Intensive distribution

Intensive distribution is a form of distribution in which the manufacturer distributes his products through as many outlets as possible. This type of distribution is used for those products that are characterized by low involvement of the customer and where customers look for location convenience. Products like chocolates, biscuits, shaving blades, soaps and detergents are distributed in this manner, so that they are easily available to the customers at their nearest locations.

Exclusive distribution

Exclusive distribution is a form of distribution in which there are a limited number of intermediaries between the producer and the customer. This type of distribution network is opted for by producers who want to deliver the maximum service quality to the customers. By limiting the number of distribution outlets, the manufacturer or producer can control the quality levels at these outlets. An exclusive distribution arrangement also helps the producers ensure that the distributors do not sell competing products along with the producer's products. Products that are marketed through the exclusive distribution process have a higher brand value and are naturally priced higher. Automobiles, apparels and its accessories are sold through exclusive distributorship.

Selective distribution

This form of distribution falls somewhere in between the two extremes of exclusive and intensive distribution. In this form of distribution, although the manufacturer does not use all the available marketing channels, he uses more than one distribution channel. As the manufacturer uses a relatively fewer number of distribution channels, he can maintain good relations with the channel members and as a result, expect an increased marketing effort from them. Branded menswear like Color Plus, Arrow, Zodiac, Lee and so on are available at exclusive showrooms as well as through other distribution channels. Similarly, in the branded suitcase or luggage market, VIP, Aristocrat, Samsonite, etc., sell their products at exclusive showrooms as well as at other retail outlets.

Service Sector Channels

Besides distribution of products, channel members also participate in the distribution of services. Companies that deliver services also deal with distribution problems and supply the services as and when the customers demand them. Due to the changes taking place in the external environment as well as the changes in customer expectations from time to time, producers take enough care to adapt to these changes. The use of advanced technological tools, such as the Internet, has created a whole new paradigm for the distribution of services such as banking facilities, online reservation of train, flight and movie tickets, and so on. Though cybercafes in India are a popular medium for accessing the Internet, the scope for them to become an effective distribution channel for companies is limited (Refer Exhibit 16.1). However, certain aspects of the services have critical significance for the channel members. For instance, storage of services is not possible. Services such as movies, haircuts or surgeries are consumed while they are being delivered.

FUNCTIONS OF MARKETING CHANNELS

The functions of marketing channels can be understood better by analyzing the five functions of the marketing channels – facilitating the exchange process, alleviating discrepancies, standardizing transactions, matching buyers and sellers, and providing customer service.

Facilitating the Exchange Process

The most important function of a marketing channel is to facilitate the exchange process between a firm and an individual. The exchange process is the mechanism that connects the channel members and allows them to combine their resources and assess the market risks to achieve the common goals of the channel. Since marketing is a process of exchange between the buyer and the seller, channel members are considered as exchange facilitators.

Exhibit 16.1

Will Cybercafes Emerge as a Potential Distribution Channel?

The Internet is one of the prominent technological advancements that happened in recent times. In India, about two-thirds of Internet usage is through the 8000 cybercafes located across the country. Will these cybercafes act as a lucrative distribution channel for companies? Cybercafes in India are estimated to generate revenue of about Rs 8 billion.

A research conducted in India by a US-based agency, Ispos Reid, found that among those willing to access the Internet in the future, two thirds would want to do so from cybercafes. Even now, two thirds of the Internet access takes place from cybercafes.

There are certain reasons behind the popularity of cybercafes. In India, computers cost much higher compared to the average household income. The penetration of computers in India, at approximately 0.4 to 0.5 per cent of the population, is low compared to PC penetration in other countries. The cost of accessing Internet from cybercafes is cheaper than the cost of accessing it from home. Limited usage of Internet in India would obviate people from acquiring their own connection. The main users of cybercafes in India are students and those who cannot afford to have an Internet connection at home.

Despite the popularity of cybercafes in India and the potential rise that is likely to occur in their number, it is unlikely that these will emerge as effective distribution channels for companies as their main customers would still be students and those who cannot afford an Internet connection at home.

Adapted from "Widening the Net" Business India Intelligence, August 2001, p2, 2p.

Alleviating Discrepancies

The primary function of the marketing channel is to deliver goods and services to the customers. However, when a marketing channel fails to deliver goods that match customer expectations, discrepancies occur. Discrepancies can be of two types – quantity and assortment. Discrepancies of quantity occur when customers are unable to purchase the exact quantity of the product they want. Discrepancies of assortment occur when customers are unable to buy the exact combination of goods and services they want. General stores, supermarkets, and the like offer a variety of products and services in their outlets to overcome discrepancies of assortment. Marketers resort to regrouping activities to avoid these discrepancies. The regrouping activities involve up to four steps – sorting, accumulating, allocating, and assorting.

Sorting: Organizations produce different varieties of products for several reasons such as for different uses, to target a bigger segment of the market, because of an increase in the utilization of resources, etc. Organizations need to sort the products so that their identification becomes easier and they can be delivered fast. For example, cement manufacturers such as Birla Cements, ACC, etc., manufacture several varieties of cement. After manufacture, the cement varieties are sorted and packaged into various grades according to their quality and intended use. Birla Cements, for instance, produces six varieties of cement. They are graded as 33, 43 and 53, OPC, PPC and Sulphate Resistant Portland Cement (SRPC).

Accumulating: This is the process of collecting the same product in large quantities. It helps both buyers and sellers protect themselves against price and supply fluctuations. Depending on market predictions, buyers can alter their purchase decisions and store larger or smaller quantities of goods. Similarly, when there is some problem in the plant of a manufacturer or the suppliers, accumulation will help both the manufacturer and the wholesaler to ensure an uninterrupted supply to the retailers or customers. Interruption in supplies can be costly for organizations. If customers do not find a product in the market, they might shift to that of competitors because sufficient alternatives are available to them in this fiercely competitive market.

Allocating: Allocating is the process by which larger quantities of homogeneous products are broken down into smaller quantities. For example, manufacturers or producers sell their products in bulk to wholesalers, who in turn, sell these in bulk to retailers. The retailers finally sell these products in smaller quantities to customers. The process of allocation is also known as 'breaking bulk.'

Assorting: In this process, the exact requirement of the customers is ascertained for a target group of customers. The marketers try to assort the products for different consumers according to their tastes and preferences. Assortment of goods and services in supermarkets to cater to the varying needs of customers is an example of assortment. Assortment is also helpful in today's environment because in many families in the metros both the members are earning. They do not have much time to spend on shopping. Therefore, they would like to go to a place where they can find a wide variety of household goods.

Standardizing Transactions

Standardizing transactions is another function of marketing channels. Taking the example of the milk delivery system, the distribution is standardized throughout the marketing channel so that consumers do not need to negotiate with the sellers on any aspect, whether it is price, quantity, method of payment or location of the product. Another example of standardization is the automatic vending machine which delivers the same product to every customer in a standardized manner such that the customer who uses an automatic vending machine knows what to expect. By standardizing transactions, marketing channels automate most of the stages in the flow of products from the manufacturer to the customers.

Matching Buyers and Sellers

Perhaps the most crucial activity of the marketing channel members is to match the needs of buyers and sellers. Normally, most sellers do not know where they can reach potential buyers and similarly, buyers do not know where they can reach potential sellers. From this perspective, the role of the marketing channel to match the buyers' and sellers' needs becomes very vital. For instance, a painter of modern art may not know where he can reach his potential customers, but an art dealer would surely know.

Providing Customer Service

When a channel member provides efficient service to the customers, it improves his credibility in the market. Due to the globalization of markets, customers are increasingly looking for producers who can offer better customer service. Unlike in the olden days, customers need not send their products to companies based in foreign countries for getting them serviced or repaired. Almost all companies are setting up local outlets to offer service and repair facilities for products manufactured by them. Customer service normally includes installation, training, maintenance of the product and other forms of services as required by the customers.

DESIGNING DISTRIBUTION CHANNELS

A design is a pattern or an arrangement or a structure of parts. Designing of the distribution channels deals with the decisions that are associated with forming a new distribution channel or modifying an existing one. A properly designed distribution channel will help a company leverage a sustainable competitive advantage. A sustainable competitive advantage is a long term advantage for marketers and cannot be easily copied by competitors. Exhibit 16.2 describes how the strong distribution

Exhibit 16.2

ITC's Distribution Efficiency

ITC Ltd entered the retailing business a few years ago, and since then, has been trying to enhance its business by leveraging its brand equity and strong distribution channel structure. In 2002, the company's new division, ITC Foods, started manufacturing branded packaged food.

ITC Foods offers four categories of branded food – ready-to-eat, staples, snacks and confectionery. Apart from this, the company's brand, Kitchens of India, offers gourmet Indian cuisine packed in cans and distributed in the four metros besides Ahmedabad and Bangalore. These are based on recipes sourced from ITC Welcomgroup Hotels. The company also caters to the staple food segment through its *aata* under the brand name, *Ashirwad*, and also has plans to launch branded salt and rice. According to its CEO, Ravi Naware, the company will be able to effectively tackle the competition from other branded food makers, like HLL and Nestle, if it can utilize its distribution network efficiently.

The company distributes its products to more than a million outlets across the country with the help of its distribution centers which are located in the major states and geographically arranged so that logistics costs are minimized. The company's distribution network consists of e-choupals, a two way sourcing and distribution system established for farmers in remote villages. The e-choupal system sources agricultural products directly from farmers through 1,286 kiosks situated across 9,000 villages. The e-choupals act as a distribution channel where the farmers are linked to the company online through these kiosks and initiate a two-way processing that will facilitate efficient distribution of agricultural products and household items. The company even uses the services of *paanwalas* for distributing its brands.

The distribution philosophy is that of channel-tailored support. The company and its distributors use the services of different sales force to cater to convenience outlets, grocers and supermarkets. Sales for the confectionery products, such as Minto, come from convenience outlets and sales for ready-to-eat products, such as *aata,* come from grocers.

The company has developed a supervision process that ensures that overstocking or stock outs do not occur at the retail level. Increased frequency of distribution to its retail outlets help the retailers manage their stocks better and also helps the company manage its working capital in a better manner. Such an efficient stock management is possible because of the online ERP-based logistics system developed by the company that links distributors, warehouses and marketing branches to its head office and factories, and continuously feeds the data regarding sales and stock positions across the entire supply chain.

The company has also developed a company-wide hybrid network, called Project Infobahn, consisting of 69 leased lines, 103 ISDN lines, 10 radio frequency devices and four new VSAT links. This helps the company's wholesale dealers and partner companies to have access to crucial data and continue their business process with the help of the Internet. With such advanced distribution facilities, the company can easily improve its business in the branded food segment and efficiently tackle competition from other branded food manufacturers.

Adapted from Teresa Tharakan, "Networked Advantage," Business India, January/February, 2003, p86,2p.

channel structure of ITC Ltd. is aiding it to efficicently tackle competition from other branded food manufacturers. Designing distribution channels is a crucial aspect of marketing because the price of the product depends on the levels of channels used by the producer.

Designing a marketing channel is similar to devising a competitive strategy. The ultimate purpose of a competitive strategy of a firm is to deliver a value proposition to the customer. Marketing channels support the firms in this strategy by ensuring an effective delivery of the customer value proposition. In order to effectively perform their role, marketing channels need to be effective, cover the target market, be cost-efficient and adaptable in the long run. Companies such as IBM and Apple adopted channel designing to cut costs and increase their market coverage. The effectiveness of a marketing channel is evident from how well the channel is able to address the stated and unstated requirements of customers. A marketing channel is considered to provide efficient coverage, if customers can easily find and reach it, whenever they need it. A marketing channel's ability to justify its trade-off in cost-efficiency to achieve strategic effectiveness and efficient coverage determines its effectiveness. Long-run adaptability of a channel refers to how well the channel is able to adjust to new product offerings or to emergent channel forms in the market.

Analyzing Customer Expectations of Service Output

Prior to designing a channel, marketers need to first analyze why target customers buy their products. Such an analysis helps marketers categorize the buying decisions of customers into four types of channel output utilities. The four types of utilities are lot size utility, convenience (both spatial as well as temporal) utility, selection utility and service utility.

Lot Size Utility: Lot size refers to the total number of units of a product that a customer acquires during a transaction period. For instance, car rental agencies prefer to meet their requirement of cars by purchasing them in larger lot sizes. On the other hand, individual customers would prefer to purchase a car in a lot size of one. So, car manufacturing companies provide different distribution channels to meet the demand of these different sets of customers.

Convenience Utility: Convenience utility needs to be considered from two perspectives – time and space. While convenience in terms of time is known as temporal convenience, the convenience in terms of space or location is known as spatial convenience.

Temporal convenience takes into consideration the waiting time, that is, the time for which the customer must wait to receive the product or service. Normally, customers seek faster delivery channels. Faster delivery, in turn, necessitates higher service levels.

Spatial convenience refers to the ease of location or the ease with which customers can acquire the products. For instance, Maruti's wide dealer network allows it to offer greater spatial convenience than its competitors. Due to Maruti's greater market decentralization in terms of the number of dealers and service stations, customers save a lot in the way of search and transportation costs.

Selection Utility: Marketing channels which offer selection utility in terms of variety or breadth of product assortment are always preferred by customers. The selection utility of a marketing channel refers to the likelihood that the needs of customers will be exactly satisfied. For example, consumers of household products such as soaps, cosmetics, eatables, etc., seek a greater variety or breadth of product assortment while making their purchases. Therefore, marketing channels like supermarkets ensure that they not only carry a wider assortment of products but also a greater variety or breadth of product assortment.

Service Utility: Service utility of a channel member refers to the value added services offered by the channel member. Services such as credit facility, free delivery, installations, repairs and so on enhance the service utility for customers.

However, designing marketing channels in such a way that they provide all these utilities to customers is an expensive proposition for the channel member since providing these utilities heightens his marketing expenditure. Therefore, organizations should be clear about which utility they want to provide and should design their distribution channels accordingly.

Formulating Objectives

While designing marketing channels, firms must first develop objectives. These objectives may vary with the size of the firms. The objectives of smaller firms pertain to the markets these may want to serve and the level of service they can offer. For instance, a manufacturer who is new to the industry might want to initially serve a limited market with fewer intermediaries. Larger firms, on the other hand, may develop objectives to suit their business structure. These firms may use different categories of channels in different markets. For instance, a manufacturer might use a wholesaler in larger markets and he might directly sell his goods to retailers in a relatively smaller market. The firm should also develop objectives regarding the type of relationship it wants to maintain with the channel members. The relationship could be that of franchising, exclusive distributorship, and so on. Designing of marketing channels necessitates the formulation of certain other objectives as well. A manufacturer, whether big or small, has to conduct a SWOT analysis of the intermediaries in terms of their strengths and weaknesses in the internal environment and opportunities and threats in the external environment. The firm has to also analyse the channel member's profitability, sales volume, brand associations, product portfolio and life cycle along with his managerial capabilities, attitude, performance, etc.

Evaluation of Distribution Environment

The evaluation of the distribution channels is a very important aspect. The evaluation process consists of analyzing, forecasting and observing the external factors that may influence the channel environment. Observing the market changes that take place helps marketers manage the uncertainty associated with the market in a better way. Decisions regarding the channel structure extend to almost the entire length of the channel. Therefore, channel members must closely coordinate with each other in order to serve the changing needs of the customers effectively.

Evaluating Channel Alternatives

Before selecting a specific channel for distribution of its products or services, a firm evaluates the channel alternatives on the basis of three criteria – economic, control and adaptive.

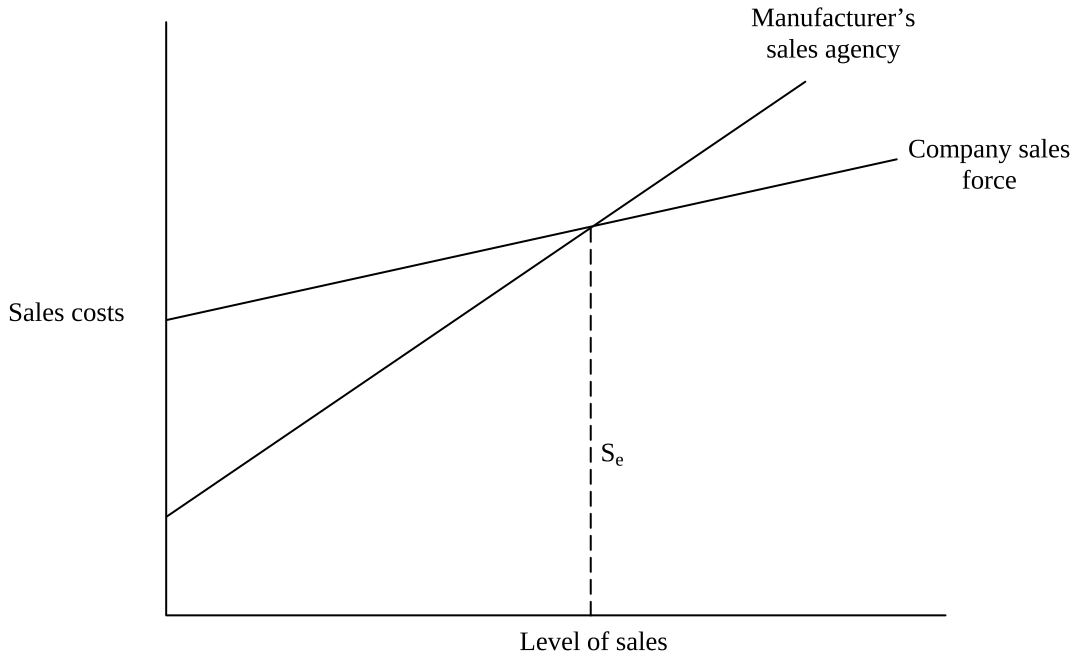
Economic criteria

While evaluating channel alternatives, the first question a firm needs to answer is, which channel member can produce more sales. Although the company's sales force is better equipped and trained to sell the products of the company, there is a possibility that a specialized sales agency might sell more. The simple reason can be customers' willingness to deal with sales representatives dealing in several brands of the same product rather than a specialized sales representative dealing in only a single brand. By giving higher commissions to these specialized agencies, the company might leverage larger sales from their long-standing experience and customer relations. But if the sales agencies are new to the product, it is better to use the company's sales force.

The next question to be answered is what are the relative costs involved in selling different amounts through the two intermediaries. Figure 16.1 describes the cost schedules involved.

The fixed costs incurred in using a sales agency are lower than that of developing a company's sales force. However these costs go up as the sales increase owing to the higher commissions of the sales agency. From the graph, it is evident that the selling costs are the same for both the channels at the level (S_e). Therefore, we can infer from the graph that for sales volume that is below S_e, it is better to use a sales agency and for sales volume above S_e, it is better to use the company's sales force. So, companies use an external sales force when the sales volume is lower.

Figure 16.1: Break-Even Cost Analysis: Company Sales Force and a Manufacturer's Sales Agency



Source: Lou E. Pelton, David Strutton and James R. Lumpkin, "Marketing Channels: A Relationship Management Approach,"USA: Irwin, 1997,68.

Control criteria

Normally, firms are not self-sufficient. This warrants their dependence on the services of external agencies. However, the more a company depends on external services, the less it can control its product and resources. Therefore, while selecting an intermediary, a company has to strike a balance between its desire to control important functions of the firm, and the need to market coverage with the help of external agencies at a given expenditure level. Thus, control normally is a major issue while evaluating a channel alternative.

Adaptive criteria

The last criterion in evaluating channel alternatives is the adaptive nature of the relationship between the manufacturer and the distributor. There should be some agreement on the commitment levels from both the sides before the actual start of the business. If the channel member is committed, then he will try to maintain the relationship with the manufacturer. Channel members who operate in a highly turbulent atmosphere will try to structure the channel in a way that will allow them to adapt to the changes by altering their channel strategy.

CHANNEL MANAGEMENT

After designing the distribution channels, issues relating to the management of channels need to be addressed. These issues include selection of channel members, their training, motivation and evaluation, modifying the channel arrangement, and the legal and ethical issues in channel management. All these have to be carefully managed so that a firm ultimately becomes successful.

Channel Member Selection

Modern management practices suggest that organizations must focus their attention on developing their core competencies. The firms should try to outsource activities, if the outside agencies can perform those activities better than the firm itself. However, firms should not outsource their critical activities. A substantial amount of time should be invested in developing better relationships amongst the channel members. Recruiting and selecting the right channel partners is a crucial managerial aspect of any firm. Before actually recruiting the channel members, certain aspects of selection should be clearly defined. These include the exact role that each channel members will play, the expected qualifications of the channel members, and the duties and tasks of each channel member. Subsequently, a screening process eliminates incompatible channel partners. Finally, the selection of the channel partners is made on the basis of the evaluation of the channel member's sales efficiency, product knowledge, experience, administrative ability and the risk factors involved in selecting a particular channel member.

Channel Members' Training

The training of channel members is important for manufacturers, because it is the channel members who actually deal with the end customers and not the manufacturers. Most manufacturers offer distributor training programs to help channel members increase their efficiency in performing the various business activities. For instance, Ford offers training programs to its dealers through the satellite-based Fordstar network. Through this network, Ford provides online training to more than 6,000 dealers.

Member Motivation and Evaluation

After careful selection of the channel members and assigning them their responsibilities, it is very important for the manufacturers to motivate them continuously to improve their performance. One of the strategies used for motivating channel members is relationship marketing wherein the manufacturer tries to forge better and stronger relations with the distributors so that they perform to their best possible levels. A suitable reward structure also helps manufacturers motivate channel members. Manufacturers can have different tiers of rewards to motivate channel members. Those who bring the highest business should be given the maximum rewards. Similarly, manufacturers can call their channel members and give rewards and recognition in the presence of others. This will motivate the one who gets the reward and recognition and others as well to perform better. The company can also motivate the channel members by helping distributors improve their supply chain, reduce their capital employed, operating costs and risks involved, enhance customer finance schemes and adopt other measures like improving the sales promotional activities, and so on.

The company can also motivate channel members by initiating cooperative programs, providing advertising allowances, training the distributor's sales force, providing payments for displays, and providing commission on higher sales. The company can facilitate the setting up of distributor advisory councils that help distributors to regularly meet to discuss crucial issues and the problems faced by them and communicate the same to the top management of the company.

Modifying Channel Arrangement

Modifying channel arrangements becomes necessary when consumers' purchase patterns change or when rapid expansion of the market takes place or when a new competitor comes into the market or when the existing channel technology becomes obsolete and is not sufficient to carry on the business.

A manufacturer might generally resort to one of the following three moves for bringing about modifications in the channel arrangement. He may add or drop an intermediary, add or drop a particular marketing channel, or may design a completely new distribution channel. It becomes very difficult for the manufacturers if they have to revise the entire channel strategy for the sake of modification. For instance, if the manufacturer of two-wheelers decides to employ independent outside dealers in place of company owned distributors, then it needs to bring about a substantial change in its strategy, as this involves a change in at least two areas of the marketing mix. Strategies regarding promotion and distribution processes have to be changed to suit the modifications.

Legal and Ethical Issues in Channel Management

Normally, companies develop the channel structure according to their own interests. However, it is important that they do not use certain exclusionary practices to stop competitors from using a particular channel. These practices, such as dual distribution, exclusive dealing agreement, tying agreements and dealer's rights fall under legal scrutiny.

Marketing ethics that involves maintaining moral standards underlying business practices also applies to channel management. Exhibit 16.3 describes the conflict between the principal (ICICI Bank) and its channel members (DSAs and Dealers) due to the principal's unethical practices. There is a general perception that for any organization, marketing is more likely to adopt unethical behavior. Marketing activities such as deceptive advertising, salespeople exaggerating the product capabilities and unfair pricing policies of companies are some examples of such behavior. It is important that the channel members balance their individual morals with the interests of the firm's stakeholders.

Exhibit 16.3

The Role of DSAs in Automobile Market

The role of DSA's (Direct Sales Associates) as sales channels is on a rapid growth and these agencies are wielding significant power, especially in the automobile market. For instance, Marketing Times India Private Limited, a direct sales associate for ICICI Bank, offers financial services to its customers buying cars from dealers. The firm has evenly distributed its business to around three to four dealers of each car manufacturer. Owing to the increasing demand and urgency of the customers, the firm sometimes facilitates faster delivery of vehicles to its customers, even before the loan amount is sanctioned by the bank. The firm owes around Rs 50 lakh to dealers at any given point of time and serves about 300 customers every month. Of late, banks have been giving a higher commission to the dealers (around 5 per cent on the amount financed to its customers) than the commission they give to the DSAs (around 4 per cent). But Marketing Times India Private Limited counters such moves by shifting its customers from one dealer to another, according to which dealer gives a higher discount to them. Dealers, on the other hand, coordinate with the DSAs to avoid such events. At the beginning of every month, dealers quote the maximum discount they can give to the DSAs in that particular month.

On many occasions, dealers tried to form cartels against DSAs, but their attempts failed because they could not stay together strongly. Sometimes, even manufacturers tried to offer financing schemes that would obviate the existence of DSAs, but even their attempts failed because it was very difficult to lure away customers from DSAs. For instance, when Hyundai offered finance directly to the customers through dealers, DSAs succeeded in increasing the sales of Maruti's Wagon R thereby countering Hyundai's strategy.

The monthly car finance business in Delhi is around Rs 330 crore and DSAs account for around 70 per cent of that business. DSAs are thus playing a major role in offering the best deals to customers and see no threat to their business in the near future.

Adapted from M Anand "Diary of a Sales Associate," Business World, October 21, 2002.

Dual distribution

In dual distribution, a manufacturer distributes his products through more than one marketing channel. Manufacturers resort to dual distribution to cater to the customers' perceived differences about the product. However, this gives rise to an ethical issue by resulting in a loss of market for the channel members if different channel members target the same segment of the market. However, marketers need to ensure that the prices of products offered by one of the channels they own are not different from those offered by other independent retailers.

Exclusive dealing agreement

This is an agreement between the manufacturer and the distributor, which makes it legally binding for the distributor to exclusively deal with the distribution of the manufacturer's product line. The distributor is implicitly or explicitly prevented from distributing the competitor's products. The advantage for the channel member in this form of arrangement is that he will be granted exclusive rights to deal in the manufacturer's product line. The advantage for the manufacturer is that these agreements allow him to attract dealers who will, in turn, allocate all their resources to selling the manufacturer's products. These agreements are considered legal as long as they do not decrease the competition drastically, tending to create a monopoly.

Tying agreements

This is an agreement between a manufacturer and a distributor that makes the distributor purchase other products produced by the manufacturer along with his main line of product. Manufacturers adopt this practice when the movement of their products in the market is not uniform. Therefore, they tie weaker products with the stronger or fast moving products. For instance, a company can tie the spares, tools and accessories with the main products and argue that it is necessary for quality control and to protect the image of the company. A related issue, full line forcing or full line pricing is a practice in which the dealers carry the manufacturer's entire line of products. Tying agreements are legal as far as the distributors are allowed to carry competing products.

Restricted sales territories

Restricted sales territories refers to an agreement between the manufacturer and the distributor in which the manufacturer agrees not to sell his products to any other distributor other than the appointed one within a designated geographical territory. The distributor too, in turn, agrees not to sell the manufacturer's products in any other territory other than the one designated to him. Franchising may be considered as an example of restricted sales territory agreement wherein the franchisor gives the franchisee exclusive sales rights in a particular territory.

Dealer's rights

Companies generally have the freedom to select their dealers, but their right to terminate the dealership is restricted. Although manufacturers can terminate the dealership on several grounds, they cannot do this easily in case of doubtful legal agreements pertaining to exclusive dealing or tying agreements.

CHANNEL DYNAMICS

Channel dynamics involves the study of the impact of environmental forces such as economic, legal, political, social, technological and competitive ones on marketing channels and therefore the need for channel members to develop certain characteristics in response to the constant changes in the environment. Channel members need to develop the following characteristics in response to the changes in the environment:

- Flexibility: Channel members should be flexible enough to adapt to the market changes. They should also understand that each channel member in the environment will get affected by the changes in the environment.
- Preparedness: Channel members should not completely rely on market intelligence reports, as they are seldom perfect. Therefore, each channel member should wisely use such information for the benefit of the channel and channel members should openly communicate the relevant information among themselves so that they can be better prepared to cope with the changes taking place in the environment.
- Attunement: Channel members have to work together if they want to overcome the uncertain conditions they face. They should maintain a healthy relationship with each other to succeed in the market.

In order to reduce costs, achieve economies of scale, stabilize supplies, achieve coordination among themselves and overcome conflicts, the various channel members need to integrate their functions under the directions of a channel leader, either horizontally or vertically. This gives rise to the horizontal marketing system and vertical marketing systems.

Horizontal Marketing System

A horizontal marketing system is the process of sharing marketing resources amongst two or more unrelated businesses at the same level of operations to attain common benefits. These companies lack the resources to exploit new opportunities on the basis of their individual capabilities.

Horizontal integration of related businesses allows them to achieve economies of scale by selling more of the same product through geographic expansion. Economies of scale may also result in purchasing from suppliers and gives increased control and bargaining power to these firms. Other advantages of horizontal marketing systems include economies of scope through synergies achieved by sharing of resources common to different products, and reduction in cost of international trade by operating factories in foreign countries.

Horizontal marketing systems, however, are not without disadvantages. The integration of businesses may result in problems related to size such as lack of coordination, conflict between members, decrease in flexibility, etc. Another disadvantage of horizontal marketing systems is that a firm's attempt to increase its market share by acquiring a competitor's business may lead to anti-trust action as happened in the case of Microsoft Corporation (Microsoft faces anti-trust lawsuits filed by its competitors such as Sun Microsystems for its attempts to become a monopoly power). Many times, the economic gains that were anticipated from integrating channel functions in the form of a horizontal marketing system may not materialize at all.

Vertical Marketing System

The vertical marketing system (VMS) is a process where producers, wholesalers and retailers perform the marketing activities jointly. In a traditional channel system, each channel member is a separate business unit striving to attain profits. As these members act independently, the profits for the channel as a whole decrease. Also, in the traditional channel system, the wholesalers, retailers and producers negotiate aggressively with each other for maximum cost reduction. In contrast to this, in a vertical marketing system, one of the channel members owns or franchises or wields considerable authority over other channel members, and as a result, is able to obtain their cooperation. Vertical marketing systems are purposefully developed to achieve the maximum economic efficiency and market impact. The basic purpose behind the development of VMS is to reduce the conflict that arises when independent businesses in the channel strive to pursue their individual objectives. Channel members can enter the VMS through contractual agreements. In this system, the entire channel is linked together as a single competitive unit and at least one of the members in the channel possesses enough strength to organize and control the channel resources. This firm becomes the channel leader ensuring that other channel members put in their best performance towards developing the channel.

The following are the various types of vertical marketing systems:

Corporate vertical marketing system

When a firm owns and operates businesses at other channel levels, it is called a corporate vertical marketing system. This system is used by firms that want to leverage high levels of control over their channel functions. These firms have access to detailed information about the performance of their channel members and thus have higher performance monitoring capabilities than firms that operate in traditional or other vertical marketing systems.

Administered vertical marketing system

Administered vertical marketing systems are similar to traditional channels in the sense that they are independently owned and operated. However, the system possesses a high degree of inter-organizational management. One of the firms which has considerable authority will manage the channel activities by obtaining the cooperation of and control over the channel members. Sometimes, two or more firms may come together and administrate the channel activities through a partnership system so as to improve business opportunities for other members in the distribution channel.

In an administered vertical marketing system, some firms with their dominant positions in the market due to their technical expertise or due to their market share, brand value or strong consumer demand wield extraordinary authority and command cooperation from other channel members in terms of greater shelf space, displays, promotional and pricing policies, and so on.

Contractual vertical marketing system

A contractual vertical marketing system comprises independent firms operating at different channel levels that coordinate their distribution processes on a contractual basis. Such contracts help companies achieve greater economies of scale by virtue of working together than they could have achieved by working individually. Firms in a contractual VMS control the activities of other firms on the basis of the legally binding contract between them. So, enough care needs to be taken while drafting the contracts regarding the roles, obligations and activities that each channel member has to perform. The contract among the channel members characterizes a formal relationship which will allow the organizations in the channel to work towards achieving general channel goals. There are three types of contractual VMSs. These are retailer-sponsored cooperative organizations, wholesaler sponsored voluntary organizations and franchise organizations.

Retailer-sponsored cooperative organizations

A retailer-sponsored cooperative organization is a type of contractual vertical marketing system in which the retailers concentrate their buying power. The members of this group jointly open a wholesaling firm or a cooperative which offers products to retail members at subsidized rates. This wholesale firm is also involved in several activities such as shipping, warehousing, promotional or information management for the retail members. Retail members receive rebates at the end of the year on the basis of the purchases they have made throughout the year.

Wholesaler-sponsored voluntary organizations

In a wholesale-sponsored voluntary organization, a group of retailers is formed by wholesalers to develop a coordinated marketing system and to reduce conflicts and achieve economies of scale. These groups of retailers buy together in bulk and are involved in collective merchandising. By integrating several retailers into a voluntary association and streamlining purchasing methods, a wholesaler can deliver goods and support services more efficiently and effectively than the retailers if they had acted on their own.

Franchise organizations

Franchise organizations or franchising is the third type of contractual vertical marketing system. It is an agreement between the franchiser and a franchisee, wherein the franchiser provides a licensed privilege to the franchisee to do business in a particular geographic area. The franchiser can be a producer of goods or a service provider. The franchisee sells the product or service in a given region according to the terms and conditions of agreement between them. Generally, a franchisee pays an initial amount and gives a share in the monthly sales to the franchiser. There are three types of relationships possible between a franchiser and a franchisee. These are legal relationship, business relationship and non-business relationship.

Legal relationship: A legal relationship legally binds the franchiser and the franchisee by means of a carefully drafted agreement.

Business relationship: A business relationship between the franchiser and franchisee develops as a result of the day-to-day activities that take place between them. Unlike a legal relationship, a business relationship is dynamic in nature and changes according to the market situation. Although changes in the market situation can create a scope for conflict between the franchiser and franchisee, these conflicts can be reduced if both parties understand each other and agree to adapt to the market changes for mutual benefit.

Nonbusiness relationship: When both the franchiser and the franchisee realize the importance of working together and one's success is dependent on the other, it is called a non-business relationship.

There are generally three broad types of franchising that have been elaborately discussed in Chapter 17.

MULTICHANNEL MARKETING SYSTEM

Multichannel marketing is where a single firm uses two or more marketing channels to reach one or more market segments. This process is also known as 'dual distribution.' Previously many producers used to adopt a single channel for marketing their goods, but of late, due to the increase in the process of segmentation and the urge to cater to the differing needs of customers, they have started adopting a multichannel marketing system. If a manufacturer produces three different products in one product category and brands them separately, he may adopt different channels for the different types of products.

In the process of catering to more segments, firms generally achieve wider market coverage, lower distribution costs and also need to make specialized marketing efforts. Generally, firms add additional channels to their distribution structure if the existing channels are unable to reach a specific customer segment or to take advantage of the specialized skills of a particular type of distribution. Although additional channels increase the market coverage of the firm, they also result in greater conflict between the channel members, especially if they are vying for the same market segments. Exhibit 16.4 explains the advantages of hybrid marketing channels and the types of conflicts that may arise.

Exhibit 16.4

Hybrid Marketing Channels

Companies are increasingly adopting new marketing strategies to cut their costs and expand their market share. One such strategy is to add new channels such as direct sales, direct mail and retail sales to the existing distribution channels. Such companies are said to have hybrid marketing systems. Marketing channel designs, where the companies use both direct and indirect channel members, are known as hybrid marketing systems.

IBM relied only on its sales force for distribution, but it soon realized that in order to capture the increasing lower end market, it needed to add new channels. It, therefore, began to distribute its products through dealers, resellers, catalogue marketing, direct mail and telemarketing. Even Apple added new channels to its distribution system for supplying high end computers to large companies.

The trend of hybrid marketing channels began in 1990s, and they are now being extensively used in industries such as textiles, office supplies, and metal fabricators, apart from computer-related industries. Even the insurance industry has begun to use hybrid marketing channels.

Creation of hybrid marketing channels gives rise to difficulties in terms of conflict and control. Conflicts arise because all the channel members compete for the same customer revenue and control becomes difficult because indirect channel members are not under the complete control of the management. However, hybrid channels help the company increase its market share and lower its costs.

Adapted from Rowland T. Moriarty and Ursula Moran, "Managing Hybrid Marketing Systems," Harvard Business Review, November/December 1990, Vol. 68, Issue 6.

CHANNELS AND CONFLICTS

Ideally, organizations like to own and control the businesses of suppliers and distributors. However, it is usually not possible due to time, money and other resource constraints. Therefore, firms striving for success in their businesses, establish a channel relationship. As in any other relationship, there is a potential for conflict in channel relationships too. A conflict between marketing channel members is a situation in which one member of the marketing channel perceives that another member is preventing or impeding it from achieving its marketing goals.

Types of Channel Conflicts

There are normally three types of channel conflicts – vertical channel conflicts, horizontal channel conflicts and multichannel conflicts.

Vertical channel conflicts

This type of channel conflict arises when channel members operating at different levels compete for the same market share, as for instance, when a manufacturer and resellers compete with each other for a share of the business profits from the same segment of the market. For example, General Motors attempted to buy back some car-dealer franchises as a possible step towards selling directly over the Web. The dealers protested so vehemently that both GM and Ford Motor spent a lot of time in reassuring dealers that they would not sell directly to consumers.

Horizontal channel conflicts

This type of conflict arises between channel members operating at the same level and also within the same market. For instance, department stores like FoodWorld, Trinethra, Apna Bazaar, etc., in Andhra Pradesh compete for the same segment of the market.

Multichannel conflict

Multichannel conflicts arise when a manufacturer sets up two or more channels that serve and compete for the same market segments. For example, the conflict between showrooms and factory outlets of a manufacturing company for the same market segment is an example of multichannel conflict.

Causes of Channel Conflicts

Conflicts between different channel members occur because they have individual goals and objectives that are not compatible with other. Conflicts arise between the producer and the intermediaries because the primary aim of the producer is cost reduction, while the aim of the channel members is to differentiate the products and serve as many customer segments as possible. The channel members are margin-focused in their approach. Producers, on the other hand, would prefer mass production to reduce costs. However, this is incompatible with the needs of the channel members who look for constant improvements in products and their quality as well as customization of the products so that they can differentiate these products and sell them to as many customer segments as possible.

The lack of clearly defined roles and responsibilities is another reason for channel conflict. Clearly defined roles and responsibilities of the manufacturer and the distributors help them allocate their resources efficiently to achieve their goals. The absence of clearly defined roles and responsibilities, on the other hand, leads to ambiguity and confusion which, in turn, leads to increased costs owing to redundancy and inefficiency. Thus, the performance of the entire channel suffers.

Channel conflicts may also arise because of both the manufacturer as well as the channel members fighting for the same market. For example, GE’s decision to market the same merchandise (electrical appliances) through several types of outlets led to a great deal of conflict. GE’s chain discount retailers, believing that the catalog retailers were able to obtain greater discounts on the merchandise, stopped buying GE’s electrical appliances. Although both the channel members differed in their operations, the market they were targeting was the same, thus leading to the conflict.

Managing Channel Conflicts

In today’s globally competitive environment, it is no longer viable for manufacturers to use power to resolve and manage conflicts. There are several methods for solving and managing conflicts such as negotiation, problem-solving strategies, persuasive mechanisms, legalistic strategies, and climate management.

Negotiation

Negotiation is the process of having discussions between two conflicting parties in order to resolve the causes of conflict. Effective negotiation skills improve one’s own position and will become an effective tool for self defense. There are certain steps that can be followed for negotiation to be effective. These include identifying the problem, determining the issues related to the cause of conflict, generating and evaluating possible solutions and evaluating the results after implementing these solutions.

Problem-solving strategies

Conflicts in channel management arise because the interests of one member do not match with those of others. Normally, there are three major sources of problems. These include issues relating to the timeliness of delivery, employee issues relating to failure to follow policies and procedures, or issues relating to communication. Likewise, the problem-solving strategies also vary. One problem solving strategy is logrolling. By definition, logrolling is the act of exchanging favors for mutual gain. Another strategy is the compromise strategy where a middle path is identified by the channel members as opposed to their initial positions. The final strategy is aggressive strategy where the problem is resolved using coercion, threat or punishment.

Persuasive mechanisms

In this process, an individual channel member influences the behavior of other channel members. This is more a process of give and take. However, each channel member has to identify what he can give and what he needs to obtain from the other member. The process of persuasion takes place by gaining the acceptance of the other party, motivating it and dispensing the rewards.

Legalistic strategies

Legalistic strategies involve following legal processes such as arbitration and settlements for resolving the conflicts that arise between channel members.

Climate management

Channel conflicts do not arise overnight. Therefore, channel members have to develop a long term perspective on how to manage the climate within the channels so that conflicts do not arise in the future.

Cooperation and coordination

Maintaining proper relationships with other channel members is indeed an asset for any channel member and goes a long way in securing the objectives of the firm. If cooperation and coordination of the channel members is obtained, it will help the firm in leveraging its limited resources through the combined efforts of the channel members. In such an environment, every member takes advantage of the skills and experiences of other channel members to achieve profits and an increased market share by delivering value to the customers. Cooperation is the process in which a channel member is motivated to work jointly with other channel members and follow its policies, procedures and strategies. It makes every channel member work towards the achievement of the common goals of the entire channel. For better cooperation, a proper coordination of all the activities of the channel members must exist.

SUMMARY

A marketing channel can be understood as an organized network of agencies and institutions, which perform activities required to link producers with users to accomplish the marketing task. Marketing channels are of a dynamic nature as managers constantly seek to improve or make them better and thereby leverage them as a competitive advantage. Marketing channels perform various roles which range from filling the gaps that occur between the production and consumption process, reduction in time and expenditure of the manufacturer in reaching the customers, aggregating the narrow product ranges of individual producers to provide the wide product assortment that customers require, appraising manufacturers from time to time of the requirements of customers and promoting the products of manufacturers through efficient product displays and other promotional techniques.

Depending on the number of intermediaries required at each level, the three major choices of distribution available to producers are: intensive distribution, exclusive distribution and selective distribution. Besides distribution of products, channel members also participate in the distribution of services.

Marketing channels perform the function of facilitating the exchange process, alleviating discrepancies, standardizing transactions, matching buyers and sellers, and providing customer service.

Designing of the distribution channels deals with those decisions that are associated with forming a new distribution channel or modifying an existing one. While designing a channel, marketers need to take into consideration the utility that the channel needs to serve. The four types of utility that marketing channels can serve include lot size utility, convenience utility, selection utility and service utility. A firm’s selection of a specific channel for distribution of its products or services depends on three criteria – economic, control and adaptive. Management of marketing channels involves several issues such as channel member selection, their training, motivation and evaluation, modifying channel arrangement, and legal and ethical issues like dual distribution, exclusive dealing agreement, refusal to deal, restricted sales territories and dealer’s rights.

Channel dynamics involves the study of the impact of environmental forces such as economic, legal, political, social, technological and competitive forces on marketing channels. In order to reduce costs, achieve economies of scale, stabilize supplies, achieve coordination among themselves and overcome conflicts, the various channel members need to integrate their functions under the directions of a channel leader, either horizontally or vertically. This gives rise to the horizontal marketing system and vertical marketing systems. A horizontal marketing system is the process of sharing resources amongst two or more unrelated businesses at the same level of operations to attain common benefits. The vertical marketing system (VMS) is a process in which producers, wholesalers and retailers perform the marketing activities jointly. The various types of vertical marketing systems are corporate, administered and contractual vertical marketing system. Contractual vertical marketing systems are again of three types – retailer-sponsored cooperative organizations, wholesaler sponsored voluntary organizations and franchise organizations.

Multichannel marketing is where a single firm uses two or more marketing channels to reach one or more market segments. This process is also known as ‘dual distribution.’ Although additional channels increase the market coverage of the firm, they also result in greater conflict between the channel members, especially if the members are vying for the same market segments.

Conflicts arise between marketing channel members when one member of the marketing channel thinks that another member is preventing or impeding it from achieving its marketing goals. Channel conflicts can be of three types – vertical, horizontal, and multichannel conflicts.

Conflicts may arise due to various reasons such as a difference in the aim of producer and channel members, lack of clearly defined roles and responsibilities and both manufacturer and channel members fighting for the same market.

The various methods for solving and managing conflicts include negotiation, problem-solving strategies, persuasive mechanisms, legalistic strategies, and climate management. Obtaining the cooperation and coordination of the channel members helps firms leverage their limited resources to achieve organizational objectives through the combined efforts of the channel members.

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Chapter 17

Logistics and Wholesaling

In this chapter we will discuss:

- Objectives of market logistics
- Market logistic decisions
- Functions of warehousing
- Types of warehousing
- Strategic issues in managing logistics
- Growth of wholesaling
- Classification of wholesalers
- Market decisions
- Changing patterns in wholesaling

Logistics is the process of getting products and services where they are required and when they are desired. Delivery of goods and services from those who produce them to those who want them has been taking place since the beginning of civilization. However, since the modern day customer expects products to be available at all times and with the maximum freshness (in case of perishable goods), companies need to ensure that their logistics process matches the highest standards.

Global companies operate in an intensely competitive environment and hence they try to offer customers the best of products and services with a competitive advantage. This situation has benefited the customers who now have access to world-class quality products and services.

Although tools for efficient supply chain were available in the seventies, firms started increasingly adopting these tools in the nineties. Supply chain management gained importance during the same period. Previously, firms used supply chains to cut costs rather than build them to leverage competitive advantage. But of late, for companies operating on a larger scale such as Dell computers, and car manufacturers such as General Motors and Ford Motor Company, supply chain management is the central point of their business processes. Organizations need to stress on the importance of continuous improvement in the supply chain efficiency to attain success in the market. Nokia is a good example of a company which has adopted efficient supply chain measures like rapid response manufacturing, quick-ship logistics, and a global supply web that links its suppliers and plants.

Managing logistics has become a crucial function of an organization. Over the years, many companies have emerged to manage just the logistics operations of their client companies. UTi, described in Exhibit 17.1, is one such successful company in the logistics business. Noting the opportunity that existed in supply chain management logistics, with companies worldwide outsourcing activities such as packaging, warehousing, delivering, order and inventory management so that they could effectively concentrate on their core business activities, UTi was set up as the Indian subsidiary of a US-based $1 billion worth global logistics company, UTi Worldwide. The company has developed rapidly over the last four years with a growth of over 400 percent. This provides a clear indication of the importance of logistics in the current business environment.

Exhibit 17.1

UTi's Logistics Efficiency

UTi seemed to have realized the secret of being an efficient logistics service provider. The company believes that efficient logistics is concerned with providing simple and quick solutions and delivering a competitive advantage to the client's global supply chain. UTi is a 100 percent Indian subsidiary of the US-based $1 billion global logistics company, UTi Worldwide. The company evolved based on the concept of providing all the logistics services under one roof. The services offered by the company are consultancy, packaging, warehousing, delivering, order and inventory management. It also helps in integrating these services into the business plan of the client. The company is trying to apply global logistics rules to its Indian operations. With more and more companies in India outsourcing their logistics operations, the company cashed in on this new opportunity and increased its turnover by over 400 percent in less than three years and expanded its business from 4 to 12 branches. UTi's clients in India include Tata Telecom, Tata Infotech, SKF, Suzlon, Liz Claiborne, Molex, and Dow Corning. To enhance its service facilities, UTi has invested in IT to set up tracking and tracing facilities to appraise the customer about the status of his consignment at any given point of time. These factors are helping the company provide enhanced logistics services to its clients in India.

Adapted from Devendra Mohan, "Catch a Rising Industry," Business India, August 05, 2002.

Exhibit 17.2

McDonald's Supply Chain in India

Companies like McDonald's, whose operations are centered on supply chain efficiency, are rapidly expanding their outlets in India. Apart from speedy expansion, the company is also focusing on delivering high quality food to its customers. It is putting all its efforts into managing the supply chain and ensuring that the products reach the outlets in the best condition. The various ingredients that the company requires for its fast food items come from different local sources. For example, iceberg lettuce comes from Talegaon near Pune, Nainital and Ooty; cheese from Dynamix Dairy Industries in Baramati, Maharashtra; buns from Phillaur in Punjab and Khopoli near Mumbai; and chicken, vegetable patties, pies and pizza puffs from Taloja near Mumbai. Since all the 38 outlets are situated in the north and western parts of India, the company is sourcing its raw materials from these regions to ensure maximum efficiency.

Although the company started searching for suppliers way back in 1991, it took around six years before it was able to set up its first outlet in India. During this period, the company spent around Rs 500 million to set up a proper supply chain. Before actually deciding to enter the fast food business in India, McDonald's did a lot of ground work. For instance, it studied the local tastes, analyzed the government regulations on food and health, and conducted soil and climate tests, to ensure the feasibility of the fast food business in India.

It was a tough job for the company to identify local suppliers who would match international standards, by delivering quality raw materials in good condition regularly and on schedule. It procured refrigerated trucks to transport vegetables and meat. These trucks maintain temperatures between one and four degrees centigrade and are fitted with tracking devices that monitor the temperatures at all times. Further, the quality of the materials is checked at various points. These trucks transport the products to distribution centers from where they are delivered to the outlets. In addition to the refrigerated trucks, the distribution centers are equipped with non-refrigerated trucks to transport paper cups, napkins, and plastic cutlery. And as McDonald's grows in India, its suppliers face new supply chain management challenges.

Adapted from Austin Lobo, "Behind The Burger," Business India, August 2002 and "From Here and There," Business India Intelligence, 06/01/98.

OBJECTIVES OF MARKET LOGISTICS

The Indian retail industry is gradually realizing the importance of effective logistics management. Many companies are beginning to outsource their logistics activities to companies like Geologistics that have expertise in logistics management. Marketers all over the world are focusing on leveraging the benefits of effective logistics management. When we see beautifully packed attractive products on the shelves of stores, we fail to realize the number of suppliers and producers that might have been involved in helping these products reach us. Dealing with logistics can be a very complex process for certain companies like McDonald's as described in Exhibit 17.2. McDonald's had to put in lot of efforts to set up an efficient supply chain. The company maintains high level of efficiency of its logistics operations and ensures all its items on the menu are available and that no item goes out of stock at any given point of time. This sort of commitment commands a very dynamic logistics management. The moment a customer orders any item at McDonald's, the attendant at the counter besides delivering the item, keys in the transaction which is simultaneously recorded in the order form to its warehouse. The warehouse, in turn, communicates it to the supplier.

Modern logistics management is based on serving the customer in an efficient manner. Modern customer-driven logistics management focuses on delivering products on time, with the least cost and without any damages. Companies like HLL, for instance, have developed a systematic logistics management process which checks the credibility of its transporters by scrutinizing the cargo at the delivery point in comparison with its condition at the time of the dispatch, the time taken by the transporter to deliver the goods, the quality of the trucks that are being used and also the past record of the transporter, and so on.

Delivering Customer Service

Effective logistics management helps an organization meet its customer expectations on time with maximum accuracy and without damage to the products being delivered. The concept of customer service emphasizes focusing on all the resources required to satisfy the customers. The following three aspects of marketing form the basis of customer service.

- Customers must be given more importance than the goods and services that have to be delivered.
- Products and services are of significance to the customers only when they are available to them exactly when customers need them.
- Organizations should focus more on profitability than on sales volumes. The number of transactions is a better measure of profitability than the volume of sales.

The first concept of customer service, which indicates that the customers should be given more importance than the products and services, refers to the necessity of understanding customers' tastes and preferences, so that products and services can be developed which satisfy their needs. For instance, if a customer wants a customized product and gives his specifications, marketers should accommodate his request if he is willing to pay a premium for his unique product and the company gets a positive contribution margin. The next aspect, the availability of products, relates to four dimensions of the product, that is, form, possession, time, and place. Efficient logistics management should ensure the delivery of the product in the original form i.e. in the same form as it was manufactured and desired by the customer. It should help in transferring the ownership of the product to the customer, i.e. the possession of the product should be transferred to the customer. Time and place is of immense importance in logistics. If the goods are not delivered when required and at the right place, then the delivery makes no sense to the customer. For instance, we can easily understand the significance of time and place in logistics by taking the example of the delivery of a consignment of life-saving drugs. If the consignment is delayed or not delivered at the right place, the objective of the delivery is lost. Finally, marketers should focus on deriving profits rather than on increasing business volumes.

Reducing Total Distribution Costs

Reduction in the total distribution costs has become a major necessity for companies, especially those operating across the globe. Companies such as Sun Microsystems have even outsourced their distribution management system to specialized companies like Federal Express.

All over the world, companies are trying to cut down their distribution costs to the maximum extent possible, either by building an internal distribution process, or by hiring outside expertise. However, in the 1970s and 1980s, industries reduced their production costs by resorting to efficient production techniques like just-in-time. Companies have realized that cutting down their distribution costs significantly and enhancing their distribution process help them reduce cycle time. As geographic boundaries lose significance, companies need to employ efficient distribution systems so that they can target global customers and gain a competitive advantage in the market.

Distribution systems vary in different countries depending upon various factors like, technology, cost of real estate, economic environment, etc. The distribution system in Japan is different from that in the US due to the high cost of real estate in Japan. Companies in Japan cannot afford to maintain warehouses or distribution centers and therefore, they depend on production techniques such as just-in-time in which they do not have to store raw materials. As distribution and selling costs constitute a significant part of the total costs, companies are looking for ways to optimize their distribution costs. During the 1980s, IBM tried to reduce its distribution costs by moving the lower margin products out of IBM's costly distribution network into lower cost distribution channels like computer resellers. Apart from the costs of distribution, companies should also ensure the quality of goods delivered to the customers. One of the easiest methods of distribution that is being adopted by firms like Wal-Mart and K-Mart is to open warehouse stores through membership clubs. The goods are simply stacked for sale at these stores and are not unpacked and arranged on shelves as is normally done in department stores. The cost savings obtained by the manufacturer in this form of distribution are passed on to the customers. Several companies like Federal Express' Business Logistics Services are ready to offer their support for enhancing the distribution system of client companies. It is important to note that ultimately, firms adopting better distribution processes are the only ones that will survive and operate successfully in the future.

Reducing Cycle Time

The cycle time refers to the time from which the requisition is placed with the vendor to the time the product reaches to the final customer. The company orders fresh stock when the customer demand equals or exceeds the available inventory. The time taken

Exhibit 17.3

Innovative Practices to Reduce Cycle Time

Miller SQA, a subsidiary of Herman Miller Inc., produces office systems. The company has developed an innovative supply chain management system called 'production metering' to reduce the order cycle time, ensure the availability of raw material on a continuous basis, besides reducing the inventory costs. The technique also helped the company deliver efficient customer service and systematize its production and distribution processes. It employed a logistics firm, Menlo Logistics, to manage its dedicated storage facility, located three miles away from the plant. Menlo Logistics', responsibility, was to receive, store, and stack around 64,000 components delivered by SQA's suppliers. The production metering center delivers raw materials every two hours to the company's plant, thus making sure that production carries on continuously without any interruptions and with zero inventory at the plant.

When an order for raw materials is placed by the production department, Menlo Logistics delivers it on ergonomically designed vehicles that facilitate easy handling and speedy delivery of components. Moreover the components are arranged in the exact sequence in which they would be used in the assembling stage. This prevents delay in the production process. The technique also facilitates Menlo Logistics to have real-time visibility of the production scheduling at SQA. This allows Menlo Logistics to estimate the usage rates of components and accordingly arrange for further supply of raw material. Likewise, this system also makes it possible for SQA to check the availability of raw material at Menlo Logistics. Using this system, SQA substantially reduces its inventory carrying costs since the raw materials stocked at the production metering center are owned by the suppliers. This technique has significantly reduced SQA's inventory carrying costs as well as enhanced the production process. Most important of all, this technique has helped the company attain a seven-fold reduction in the order cycle time.

Adapted from Francis J. Quinn, "Cutting Cycle Time and Inventory," Logistics Management and Distribution Report, March 1998, Vol 37, Issue 3, p81, 1p.

by the vendor to supply the raw materials has to be considerably reduced but at the same time, organizations need to ensure that there are no production interruptions. Reducing the cycle time will help organizations reduce the inventory holding costs significantly. Miller SQA, a manufacturer of office equipment, has substantially reduced its cycle time by adopting innovative practices as described in Exhibit 17.3.

MARKET LOGISTIC DECISIONS

Market logistic decisions involve order processing, inventory management, and the transportation process. Inventory management, in turn, involves several important aspects such as reorder point, order lead time, usage rate, safety stock, EOQ, JIT, and fixed order interval system.

Order Processing

Order processing is the process wherein inventory is allocated to meet the replenishment orders of the manufacturers. The inventory is usually allocated using two methods. The first one, known as real time replenishment, involves an immediate processing of the orders. In the second method called the batch method, the orders are processed at periodic intervals, such as, at the end of the day, or shift, and so on. Although real-time replenishment has a quick response time, batch order processing helps the company control the inventory in critical situations of low inventory. This is possible because in batch processing, the orders can be processed to allocate the material from the current stock.

Order solutions should be designed in such a way that they satisfy customer requirements and address enterprise constraints. The order solution should also be interactive so that it facilitates a dialogue between the customer and the supplier regarding the order processing time and both the parties should decide on an acceptable order delivery time. If any conflict arises between the customer and the vendor, it should be immediately resolved. Various resolving actions can be taken such as adjustment in the date of delivery, delivery of substitute products, or delivery of goods through an alternative source.

Inventory Management

Inventory management is a concerted effort to integrate the firm’s value chain and its inventory policy. In organizations, inventory is effectively managed by using certain inventory control tools like reorder point, order lead-time, usage rate, safety stock, EOQ, JIT, and fixed order interval system. However, companies operating in the global markets, such as P&G, constantly strive to develop new and innovative techniques to enhance the logistics process. Exhibit 17.4 describes the technology adaptation by P&G in order to simplify its supply chain management.

Reorder point

The reorder point system is extensively used to identify the stock purchase requirements of an organization. Reorder point system uses information on the quantum of order and demand forecasts. All the components in the inventory of an organization are computerized and have a preset reorder point and reorder quantity. When the inventory reaches a certain predetermined minimum level, the reorder point system notifies the purchase department through various procedures such as emails, etc. to issue an order to the supplier for replenishment of stock. The use of a computerized system in handling the reorder process is highly effective since the system can automatically alert the purchase department about the reorder quantity and also calculate the most economical way of reordering the components by assessing the demand forecasts, inventory holding costs, and ordering costs.

Exhibit 17.4

P&G's Technology Adaptation

Procter & Gamble (P&G) is trying to develop new supply chain techniques by studying ant colonies. You might have often observed that when the path of a line of ants is blocked, they immediately find a new path. The alternative route that is formed by these ants sometimes turns out to be the most efficient one and this is made possible because of the interaction between the individual ants. Complexity science deals with understanding these interactions. This 15 years old science helps in developing mathematical algorithms for the production processes in organizations. P&G hopes to bring about a significant improvement and simplification of its supply chain management process by implementing these mathematical models. These models are built to understand the behavior of individual components and help the company predict the effect of a change in a single component on the supply chain management process.

P&G uses software packages integrated with supply chain management applications to gather data regarding material availability and prices. The data thus collected is analyzed using complexity-theory algorithms and then projected in the form of three-dimensional graphics that pinpoint the best deal available for buying raw materials. This ensures that decisions in the supply chain are not made in isolation but with a holistic perspective. This system tremendously helped the company reach new heights of supply chain efficiency.

Adapted from Rick Whiting, "Behavior Change for Supply Chains," Information Week, 04/02/2001, Issue 831.

Order lead-time

Order lead-time is the period between the date an order is placed to the date the raw materials are available for production. Organizations take into consideration order lead-time because suppliers need time to manufacture and deliver the material. Therefore, organizations order material before they are actually required depending on the time suppliers will take to make the delivery. Lead-time will be different for different suppliers.

Usage rate

Usage rate is the average rate at which the raw materials are used in the production process of an organization.

Safety stock

Safety stock is the extra stock that is maintained in the inventory at any given point of time as a buffer against out-of-stock conditions, which may arise due to unexpected customer demands or delays in supplier deliveries. Organizations always strive to maintain safety stock at minimum possible levels so that the inventory carrying costs can be reduced. Therefore, managing the safety stock is a crucial issue in inventory management. Normally, the safety stock levels are determined on the basis of the worst case scenario (such as what should the safety stock levels be when the supply of raw materials is inordinately delayed). Safety stock levels may also be dependent on the intuition of the managers. Various methods that can help organizations lower safety stock levels include maintaining accurate inventory records, ensuring the vendor supplies the materials within few days of reordering, and a higher frequency in planning the inventory. These methods can help companies reduce the inventory management cost by 20 percent. Certain other methods, which can also help companies reduce the safety stock levels, include just-in-time production, calculating the safety stock levels at all the stock keeping units every day and reducing the safety stock on material that has never gone below the preset safety stock levels in the past, etc.

Economic order quantity

Economic order quantity (EOQ) is the replenishment order quantity that minimizes the overall cost of inventory i.e. the sum of ordering and carrying. A mathematical formula is used to calculate the economical order quantity. The formula to calculate EOQ is

$$EOQ = Q = \sqrt{\frac{2C_o D}{C_h}}$$

where D = Demand per unit time

C_o = Ordering cost

C_h = Holding cost per unit time

The EOQ model is based on certain assumptions given below:

- All the demand will be satisfied.
- Demand is predictable and constant.
- There is no inventory in transportation.
- Capital is available in abundance.
- There is no interaction between the multiple components of inventory.
- Replenishment cycle time is known.
- The price of inventory is independent of order quantity.
- Ordering cost is constant.
- The lead-time for material delivery is known with certainty and it remains constant.

Just-in-time

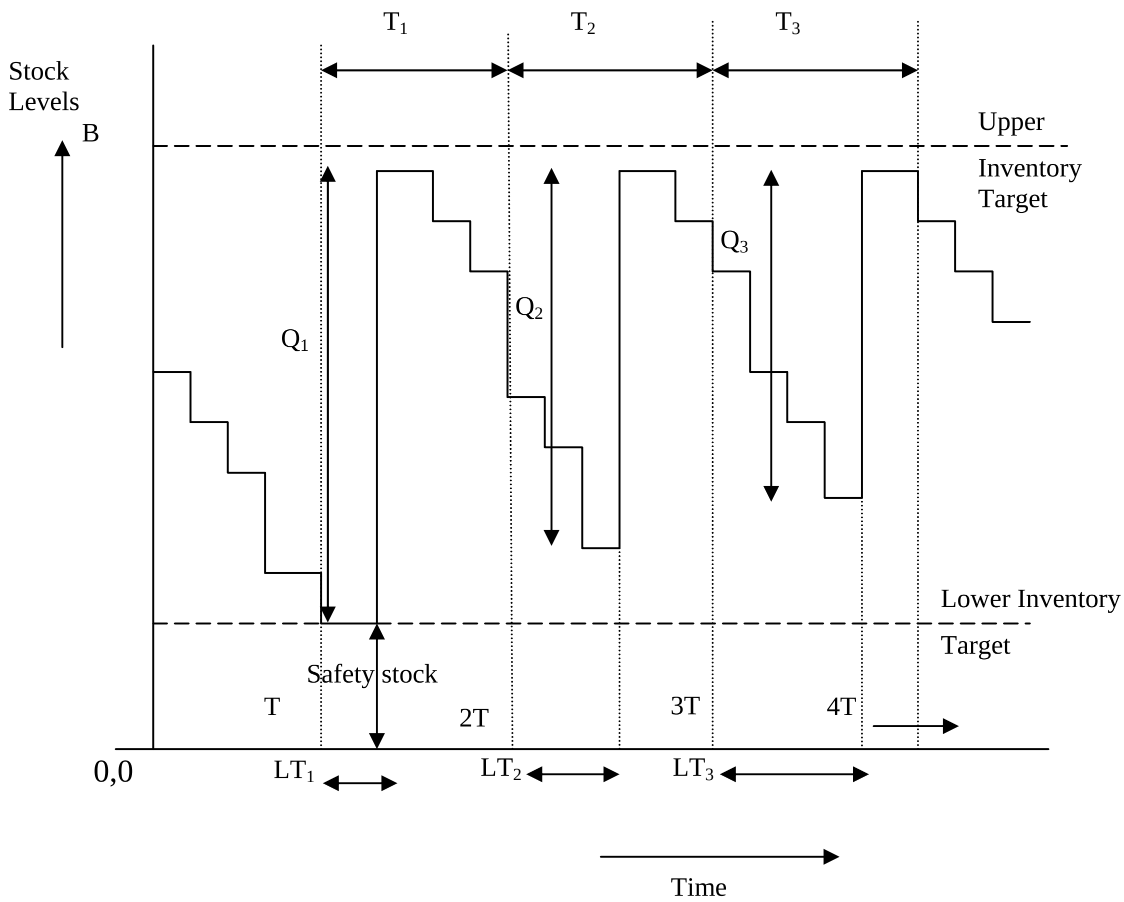
The Japanese developed a time-based logistics management system known as just-in-time. It is based on the process of systematically controlling the supplies as well as production system of the organization. The concept of just-in-time implies that raw materials are delivered in required quantities to the production plant as and when they are needed without any delay. Just-in-time process focuses on the reduction or elimination of inventory in the plant. Toyota is one such company that is following JIT (See Exhibit 17.5). The production process following the just-in-time method is purely dependent on market demand. In this method, it is assumed that whatever inventory is not used immediately is a waste. This concept also focuses on advanced production techniques like zero level inventory maintenance, manufacturing smaller batch lot sizes, rapid switch over, controlling the production with the help of preventive maintenance, quality circles, and so on. The two principles that form the basis of just-in-time management are continuous improvement and a clear supply chain strategy. These two principles emphasize that a continuous improvement of the production process with the minimum stock of inventory is essential and the supply process should be clearly defined by involving the suppliers in the efficient management of the supply chain.

Companies like Kodak, Hewlett-Packard, Northern Telecom are practicing just-in-time production. However, JIT cannot be considered a magic tool that will do wonders unless it is intelligently used by managers. To leverage JIT, employee skills must be developed to focus on understanding customer needs, developing effective product design and so on. Companies following JIT have to improve the quality of their products, eliminate wastage, and reduce lead time at all levels. This can be achieved by involving all the employees of the company. To establish efficient JIT practice, better training facilities must be provided for the employees and organizations should engage in a program of continuous improvement.

Fixed order interval system

In the fixed order period system, the order period is fixed, but the order quantity varies with requirement. The quantity ordered each time depends on the current inventory level or inventory in hand and future inventory requirements. Figure 17.1 graphically illustrates the operations of this system. Here, orders are placed at equal intervals of time ($T_1 = T_2 = T_3$) and the quantity ordered during T_1 is different from the quantity ordered at T_2. The level of inventory in this system is counted during the review period. The order size is determined on the basis of available and required inventory level. As this system is based on a periodic review of inventory levels, the cost involved in conducting constant review can be saved. But the system requires higher levels of safety stocks to tide over any unexpected demand variations.

Figure 17.1: Fixed Order Period System



Transportation

Transportation is the process of moving the goods from one physical location to another. As competition has intensified over the years, and companies are expanding their operations globally, transportation has become a vital function in the logistics process of an organization. In the entire logistics process of ordering, transportation,

Exhibit 17.5

Toyota's JIT

Transystem, a sole logistics service provider for Toyota Motors in India, is excelling in its job year after year. Right from procuring raw materials for Toyota's manufacturing to delivering the completed vehicles to the dealers across the country, the company is performing heavy-duty tasks with minute precision. For instance, the Transystem vehicle picks up weathered beading (used for the windows and the doors of the car) every day by 8.30 am from Metzeler Automotive Profiles India plant at Sahibabad in UP to deliver them to Toyota Kirloskar Motor's manufacturing plant at Bidadi 50 kms from Bangalore. Transystem should have a high level of logistics service efficiency, since it delivers vehicle components to Toyota from 83 suppliers spread across 20 different states using 261 trucks traveling more than a lakh of kilometers everyday. Transystem also ensures that these components reach Toyota's manufacturing plant in Bangalore just-in-time for the operations. A delayed shipment runs the risk of delayed production for Toyota, which Transystem cannot afford under any circumstances. Transystem carries its business operations with 261 heavy and 16 lighter trucks with a staff of 45 employees. The company is a joint venture between Transport Corporation of India and Mitsui & Co. Toyota informs its requirements to all its suppliers and by 25th of every month on the basis of its schedules. Transystem delivers components to the plant and delivers vehicles along with spare parts to 32 dealers across the country without any delay. Once these vehicles are delivered to the dealers, the empty trucks are loaded with vehicles of other companies, so that they do not return in a vacant condition. These innovative ideas, coupled with logistics efficiency matching the standards of Toyota, have made Transystem a truly successful logistics service provider in India.

Adapted from Ashish Gupta, "Transystem Logistics On All Sixteen," Business Today, July 6 2003.

storage, and processing of goods, transportation is quantitatively the largest function. It is a process involving space and time dimensions that enhance the value of the logistics process by delivering the goods at the right time and at the right place. As described in Exhibit 17.5, Transystem, a logistics operator, ensures that its operations exactly match the standards of Toyota. Transporters need to adapt to the changing market needs if they want to stay ahead of the competition. Their focus should not only be on transporting goods, but also on meeting customer needs effectively. Some transporters focus on leveraging competitive advantage by providing warehousing facilities, logistics consulting and so on. Transporters offering such non-transporting facilities apart from their regular services can become strategic partners and eventually, a source of competitive advantage to companies. Efficient transporters must have a long-term commitment and an inclination towards open communication and mutual sharing of information. They need to be cooperative with the firm and pursue total quality improvement on a continuous basis. Finally, efficient transporters should be inclined to share the risks and rewards, which come in the process of their relationship with the firm.

FUNCTIONS OF WAREHOUSING

Warehousing is a physical system that comprises a set area or space, tools and laborers to handle the goods. The goods that enter the warehouse, or rather the inbound goods are safeguarded in the warehouse until the outbound process for these goods is initiated. The warehousing process involves controlling the flow of goods in and out of the warehouse, through proper documentation and recording. Certain important activities of warehousing are receiving, storing, packing, marking, shipping and so on. Receiving the goods is considered a crucial activity of warehousing. The person in charge at the warehouse should be watchful of the goods entering the warehouse. Proper verification of the delivery documentation has to be done prior to the acceptance of the goods.

As mentioned earlier, a warehouse holds either raw material or finished goods. This function of warehousing of holding goods in storage provides economies in purchasing and production. Some seasonal goods are also held in warehouses to facilitate a smooth flow when demand arises.

Another function of warehousing is stock mixing, which involves sorting out bigger shipments into smaller ones and vice versa. This process helps firms reduce the total transportation costs of delivering finished goods to the customers. Stock mixing also facilitates release of several components at a time for the smooth flow of the production process.

Transloading, another function of warehousing, uses the warehouse as a station for transferring goods from one place to another. This function of warehousing is also called as cross docking. On one side of the warehouse, the shipments are delivered and on the other side, these are split according to the destinations to which they have to be sent. This process reduces storage and multiple handling costs.

Yet another function of warehousing is protecting the production process from contingencies, such as employee strikes by locating the warehouses away from the production plants.

TYPES OF WAREHOUSING

Normally, warehousing is of two types, storage warehousing and distribution warehousing. The function of storage warehousing is to store the raw material, other components, and finished goods. The function of distribution warehousing is to act as a temporary port for transfer of goods from one location to another. Distribution warehouses do not stock goods for long periods of time, but only serve as a kind of stop gap arrangement, where the goods are stored for very short periods of time before they are dispatched to their respective locations.

Exhibit 17.6

Advance Technology Logistics Management

Logistics management in the automobile industry may reach greater heights, if advanced technology solutions like Internet logistics are efficiently utilized. Increasing the use of technology will help companies reduce their paperwork. Advanced technology solutions are making revolutionary changes in the way logistics are managed. Companies are racing towards lean logistics with the help of software tools.

If we look at the automobile industry, the amount of material in transit is phenomenal. For instance, Ford Motor Company alone has around 500 million tons of material in transit at any given point of time. The automobile industry's logistics can be divided into three major categories, finished vehicles, production parts and spare parts. For certain products like steel, coal, etc., the cost of cargo exceeds the cost of the material. The immensity of paperwork and the number of activities involved more often than not tend to complicate the process to a great extent. Software tools in the form of enterprise resource management systems, warehouse management system and supply chain management system help organizations enhance the logistics process.

Although these solutions improve the efficiency of supply chain management, they also create significant challenges for organizations. Firms are using the Internet to connect shippers, transporters and third party logistics providers for efficient logistics management, as it is cheaper and universally available. However, they have to ensure that part suppliers, transporters and third party logistics providers also use the Internet efficiently to everyone's advantage.

Adapted from Martin Piszczalski, "Logistics: A Difference Between Winning & Losing," Automotive Manufacturing & Production, May 2001, Vol. 113, Issue 5.

STRATEGIC ISSUES IN MANAGING LOGISTICS

The global business environment is characterized by competition which will only intensify further in the future. Companies, which can adapt to these changes by leveraging the advantage of advanced technology solutions for efficient supply chain management, can survive in such an environment (described in Exhibit 17.6). Even Anderson Consulting, one of the top business consulting firms in the world, has been advising almost 75 percent of its clients to enhance their distribution systems. Exhibit 17.7 describes how some prominent US firms have benefited by enhancing their logistics and distribution management systems.

Exhibit 17.7

Logistics and Distribution Management of some US Companies

Helene Curtis has adopted state of the art distribution technology to manage its logistics. Its distribution center possesses forklifts that are operated by computers and place the packages on the conveyor belts that automatically read the bar codes of these packages and send them to their destinations. A $32 million distribution center by Helene Curtis, being operated by just 225 employees, is able to handle double the quantity of goods compared to its previous capacity using six warehouses. According to the President of the company, there has been a saving of almost 40 percent in its distribution costs.

Another chain of departmental stores, Mervyn's, set up a high-level task force to develop strategies for cost cuttings in the distribution process. According to its CEO, one cannot even think of competing without streamlining the distribution process. Mervyn's had spent $80 million towards improving its distribution process and reduced the distribution time significantly. As a result, the sales of the company increased by about 50 percent.

Some companies, like Sun Microsystems, are even outsourcing their logistics management process to external agencies like Federal Express. Sun Microsystems has realized that it needs to invest the money on improving its human resource rather than tying it up in the distribution process. Most companies have even realized that enhancing the distribution process not only reduces the costs but most importantly reduces the cycle time. Unlike the US, where the spatial constraints for stocking inventory are rare, Japanese manufacturers are severely handicapped by space limitations, since Japan is densely populated and the cost of real estate is prohibitively high. This is one of the reasons why Japanese companies resort to just-in-time manufacturing.

Wal-Mart is another company that had invested huge amounts in adapting to the changes warranted by logistics management. It was one of the first companies to use computerized scanning equipment for cash registers. It also maintained a database of its customers that helped the company inform its suppliers and manufacturers about what to supply and produce. Wal-Mart significantly reduced its inventory holding costs and used information technology in an effective way, where the replacement for the goods purchased by the customers was almost immediately ordered online and the information communicated to its warehouses and sometimes even to the manufacturers.

Adapted from Rita Koselka, "Distribution Revolution," Forbes, 25 May 1992, Vol 149, Issue 11, p54, 4p.

One of the important aspects of a company's adaptation process is to streamline its global manufacturing process by developing coordinated global manufacturing strategies. Strategic logistics management plays a key role in the success of global manufacturing processes and can improve the profit margins of the company substantially. Generally, issues related to production like labor and material costs are considered without giving due thought to the complex logistics related issues. The complexity of performing a task, inordinate delays in the lead times, and matching the products and services according to the tastes and preferences of the different markets, together create a challenging environment for global logistics management. Integrating the logistics strategy in the manufacturing and management process will help firms significantly. The top level management should also develop suitable strategies for logistics management. Issues related to strategic logistic management encompass customer service, responsiveness to the customers' order cycle time and so on.

GROWTH OF WHOLESALING

All business transactions that take place with intermediaries (except those transactions that take place with the final consumer) are called wholesale transactions. It was once thought that the future is bleak for the wholesale business and that wholesalers would be completely eliminated from the marketplace. However, it has been found that enhanced and independent wholesaling process is required for a firm to be successful.

Although wholesaling has been slow in adapting to modern business methods, it is surely following the path of growth. Wholesaling today is growing rapidly and adapting to the changing requirements of the market. Although manufacturers thought that they could replace the wholesaling process, they have been unable to do so because they have realized that middlemen can be removed but not the economic process of wholesaling.

Wholesalers have a very close contact with the market, and a better control over inventory holding and carrying costs, since their primary focus is on managing the inventory. Wholesalers focus on developing localized marketing strategies, as they are not distracted by production problems. Being a local entrepreneur gives a wholesaler the added advantage of understanding the market better.

CLASSIFICATION OF WHOLESALERS

Classification of wholesalers and retailers is done on the basis of who the purchasers are, and not on the amount of purchase that has to be made. A simple method of classifying wholesalers is, if more than 50 percent of the total sales are to other intermediaries, then the seller is termed as a wholesaler, and if more than 50 percent of the sales are to the final customers, then the intermediary is called a retailer. Normally, there are two types of wholesalers, merchant wholesalers and functional wholesalers.

Merchant Wholesalers

Merchant wholesalers are those who buy the products from other intermediaries or directly from the firm and resell them. They possess the title of the goods. More than 80 percent of the wholesalers are merchant wholesalers and they account for almost 50 percent of the wholesale sales. The merchant wholesalers are further divided into full service merchant wholesalers and limited service merchant wholesalers.

Full service merchant wholesalers are further classified into general merchandise wholesalers (offering a wide product mix), limited line wholesalers (offering a restricted line but wide assortment of products), specialty line wholesalers (offering a very thin line of products), and rack jobbers (taking care of the display racks in the outlets and taking back whatever stock has not been sold). Unlike full service merchant wholesalers, limited service merchant wholesalers are involved in limited marketing functions. They are wholesalers who purchase the goods on cash, and arrange their own transportation facility to transport the purchased goods. Truck wholesalers are another category of limited service merchant wholesalers who carry and sell their goods directly from their trucks. These wholesalers primarily sell perishable goods.

Agents and Brokers

Agents represent buyers and sellers on a permanent basis whereas brokers represent buyers and sellers on a temporary basis. Agents are the wholesalers who negotiate for purchases and sell the goods immediately. They do not possess the title of the goods. They are called functional intermediaries as they act as a bridge between the buyers and sellers by getting them together. They are paid money for their services in the form of a commission. Manufacturers' agents represent more than two sellers and provide a complete range of complimentary (non-competing) products and services to the customers. Selling agents market the entire produce of the manufacturers. These agents undertake all the wholesaling activities but do not possess the title of the goods. Commission merchants are those who receive goods in large numbers from the manufacturers and negotiate sales in the markets. Auction houses stock goods for the buyers' inspection and sell them to the highest bidder. Brokers are those who negotiate with the buyers and sellers, take minimal of risks and have minimum participation in intermediary activities.

Manufacturers' Sales Branches and Offices

The manufacturers' sales branches are the manufacturer-owned intermediaries, similar to merchant wholesalers. They generate a significant percentage of wholesale sales. These branches sell goods to the buyers and offer support to the manufacturers' salespeople. Manufacturers' sales offices work along with the agents. These branches are situated at a different place from the production plant of the manufacturers and do not carry any inventory.

MARKET DECISIONS

The different market decisions that are to be taken in the wholesaling process pertain to the target market, price, promotion, and place decisions.

Target Market

Over the years, many wholesalers have stopped acting as mere distribution points and have started responding proactively to the market needs. Wholesalers have started identifying and targeting the most profitable market segments. Some wholesalers have changed their focus from traditional buyers to new ones. For instance, electrical wholesalers in the US have started directing their sales efforts towards commercial and industrial markets, in addition to their existing market of electrical contractors. Wholesalers have also started focusing on the emerging institutional markets, including airlines, hotels, schools, restaurants, hospitals, and so on. The selection of type of products and the product lines is based on the demand for the products in the market. Wholesalers also analyze the costs involved in entering new markets, when compared to satisfying the new requirements of existing markets.

Price

Though wholesalers do not have any control over the price of the products, pricing is a major concern for them. They always want products to be priced in such a way that they can earn adequate returns or profits and can sell their products in large volumes. They feel that they should be involved in taking credit decisions such as reviewing the credit policies, decreasing the credit periods and so on.

Promotion

Normally, for promotional activities, manufacturers assist wholesalers through trade displays, dealer shows, advertisements, direct mails, catalogues, and so on. Certain wholesalers prefer to design their own promotional activities rather than depend on their manufacturers. This type of strategy is followed by those wholesalers who want to stand out in the market and prove to their customers that they are different from the ordinary wholesalers.

Place

Wholesalers distribute several types of products ranging from food, drugs, tobacco, hardware, paper and paper products, industrial chemicals, building materials, industrial tools, and so on. Due to the wide variety of products they provide, wholesalers should make sure that they are easily accessible to their customers and leverage location as a competitive advantage.

CHANGING PATTERNS IN WHOLESALING

Several changes are taking place in the wholesaling patterns which will shape the future distribution process. Wholesale consolidation, productivity and quality, and global expansion are the major aspects influencing the changing patterns in wholesaling.

Wholesale Consolidation

The traditional process of product production and distribution is divided into four types: manufacturing, wholesaling, retailing and consuming. However, of late, these divisions are becoming blurred due to the gradual integration of these processes through wholesale retail franchising, conglomerations, and joint ventures.

Productivity and Quality

As technological advancement takes place, new methods of marketing are developed. Wholesalers are adopting new software technologies for efficient distribution management system. They are using computer systems to receive orders from their customers rather than individually contacting them. Also, wholesalers supplying to industrial customers are tailoring their service quality on the basis of their requirements.

Global Expansion

The increased deregulated environment in the global markets in which manufacturers operate with the advanced technology is making it easy for wholesalers to follow suit. Wholesalers are now operating in the global environment and are supplying their goods and services to customers across the world. This development in wholesaling has been possible due to the changing market dynamics and customer expectations.

SUMMARY

Logistics management is one of the major concerns of business firms today. Logistics is the process of delivering products and services to the desired locations at the required time. Managers across the globe are developing strategies to leverage the benefits of effective logistics management. Effective logistics management helps organizations ensure superior customer service by meeting customer expectations of delivery of consignment on time with maximum accuracy, and without any damage to the products.

Companies are increasingly outsourcing their distribution processes to specialized firms in order to reduce the costs involved in distribution as well to increase their focus on core areas. The cycle time involved in procuring the raw materials from the suppliers has also been greatly reduced. Market logistic decisions involve decisions

regarding order processing, inventory management, and the transportation process. Inventory management involves reorder point, order lead time, usage rate, safety stock, EOQ, JIT, and fixed order interval system.

Warehouses form an important component of logistics. A warehouse is a place, which holds raw material or finished goods. Normally, warehousing is of two types, storage warehousing and distribution warehousing. Warehouses perform various functions such as holding goods in storage, stock mixing, transloading or cross docking, and protecting the organization from contingencies.

All the business transactions that take place with the intermediaries are called wholesale transactions. Classification of wholesalers and retailers is done on the basis of who the purchasers are and not on the amount of purchase that has been made. A simple method of classifying is, if more than 50 percent of the total sales are made to other intermediaries, then the seller is termed as a wholesaler, and if more than 50 percent of the sales are made to the final customers, then the intermediary is called a retailer. Normally, there are two types of wholesalers, merchant wholesalers and functional wholesalers. The different market decisions that are to be taken in the wholesaling process pertain to the target market, price, promotion, and place decisions.

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Chapter 18

Retailing

In this chapter we will discuss:

- Types of retailers
- Franchising
- Strategic issues in retailing
- Market decisions
- Global trends in retailing
- Trends in retailing in India

Retailing is a business activity that involves selling products/services to customers for their non-commercial, individual or family use. Normally, retailing is the last stage of the distribution process.

Retailing has been one of the fundamental building blocks of the Indian economy. It is estimated that by 2010, retailing in India will comprise a $300 billion industry if the economy continues to register a growth of six percent of the GDP (Gross Domestic Product) annually. The retail industry is ever more attractive now, with scores of players leaping into the action and many more testing the waters.

The Indian retail market has undergone an immense transformation in the post-liberalization era. Due to the wide range of products available, the increasing purchasing power of consumers, superior supply chain management leading to economies of scale and a world-class customer service, the Indian retail market is witnessing tremendous growth.

Over the past few years, industrial giants like Tata's (Westside), Eureka Forbes, RPG (Food World, Giant, Music World, Health & Glow), Pantaloons, Big Bazaar, Shopper's Stop, and Lifestyle have made a foray into the Indian retail market. The association of these big names with the retail sector has helped in attracting a large number of consumers. Moreover, the resources available with these companies, in terms of capital, personnel and technology, allow them to invest in the retail sector thus ensuring the sustenance of the retail industry. Globalization and the increase in the double income households has given a tremendous boost to the spending power of consumers thereby opening a plethora of opportunities for retailers. Unlike the past, Indian consumers now spend a significant portion of their income on buying goods and services. Moreover, with a growing number of households in which both the wife and the husband are working, the time available for shopping has significantly decreased but their disposable income has increased. Hence, customers are on the lookout for instant products and services that help them save time. This has opened vast opportunities for retailers to offer an entire range of convenience products, which a typical household requires.

However, in India, the government is still protecting the retail sector and foreign direct investment (FDI) is not allowed. However, once this sector opens up to foreign competition like other sectors, it will witness substantial changes and the Indian consumer will benefit the most.

TYPES OF RETAILERS

Generally retailers are classified into four categories:

1. Retailing based on ownership
2. Retailing based on the extent of product lines handled
3. Retailing based on the services vs. goods retail strategy mix
4. Non-store based retailing

Ownership

Retailing based on ownership primarily includes independent retailers, where a retailer owns only a single retail unit. In India, we have lakhs of retailers owning single retail units. Individual retail units can be set up with minimum licensing requirements. However, the market share of individual retailers is significantly low compared to other forms of retail ownership.

Another form of retailing based on ownership is chain retailership. These retailers own several retail outlets. Purchasing decisions and activities are carried out centrally for these various outlets. Food World and Pantaloons are examples of chain retailers. Franchising is another form of retailing based on ownership. This is explained in greater detail in a later part of this chapter.

In leased department, another form of retailing based on ownership, a retailer takes a portion of a major store or outlet on lease or rent and is responsible for decorating his section of the store. In return for the leased or rented space, the retailer pays an amount equal to a percentage of his sales to the store owner. Big Bazaar, a major retailer in India, leases out space to other retailers. At its Hyderabad outlet, it has leased out space to Big Shoppy, another small retailer who deals in electrical and electronic appliances. Similarly, for other categories of products, it leases out space to other retailers.

Other types of ownership-based retailers are vertical marketing units and consumer cooperatives. A vertical marketing unit comprises all the levels of independently owned businesses along a channel of distribution. In vertical marketing unit, all the three functions of business – manufacturing, wholesaling, and retailing – may be owned by a single person, and comprise a fully integrated system. When the three functions are owned by two persons, it comprises a partially integrated system, and when owned by three different individuals, they are called independent systems. Consumer cooperatives are retail outlets that are owned and operated by a group of consumers. The representatives of these consumers look after the day-to-day operations of the retail outlet. In India, Anand Milk Producers’ Union Limited (AMUL) and Delhi-based Mother Dairy are examples of successful milk cooperatives. Mumbai-based Anand Bazaar, which has outlets in several other cities of India, is another example of a consumer cooperative.

The Extent of Product Lines Handled

Based on the extent of product lines handled, retailers can be called as general merchandise retailers, this category of retailing includes specialty stores, departmental stores, discount stores, supermarkets, and hypermarkets. Sometimes, there can be an overlap in these categories. For example, a retailer can be classified as a supermarket as well as a discount store. Hence, these categories are not mutually exclusive.

Specialty stores

Specialty stores offer a wide selection of specially chosen goods pertaining to a single product line. Thus these stores provide a narrow product line but a wide assortment of choice within this product line. These stores normally target selective and small segments of the market for sales. The stores are manned by personnel who are knowledgeable about the product line. An example of specialty stores in India are the Health&Glow stores that have been set up in recent times by the Goenka Group and offer solutions for better health in the form of Ayurvedic products.

Department stores

Department stores are the general merchandise retailers with considerably large retail space with separate sections allocated for toiletries, food stuff, body care products and so on. Thus they offer a wide selection of products to consumers. Generally the quality of goods sold in department stores ranges from average to very good quality. Westside, Pantaloons, Shoppers’ Stop and Lifestyle are examples of department stores in India. They have branches in the major cities.

Discount Stores

Discount stores are similar to the department stores, except that these stores offer products at less than the retail price. The purpose of doing so is to obtain profits on large volume sales. Discount stores are normally targeted at middle and lower-middle class customers, who are price conscious. Big Bazaar and Giant Hypermarket are examples of discount stores.

Supermarkets

Supermarkets are retail outlets that are based on the concept of self-service. The customers can pick up products on their own, from a wide variety of brands displayed on the shelves. Food World and Trinetra are examples of supermarkets in India.

Hypermarkets

Hypermarkets are a recent phenomenon in India. These are very large supermarkets with the shop floor area ranging between two lakh to three lakh square feet. These stores also offer a wide variety of products ranging from needles to household equipment. Giant Hypermarket set up by the RPG Group in Hyderabad was the first of its kind in India with two more to come up in Mumbai and Kolkata in the future.

Retailing Based on the Service vs. Goods Retail Strategy Mix

Retailing business can also be classified into goods and services. In goods retailing, physical products are sold such as groceries. In services retailing, the consumer does not get ownership of a product. However, he has access to a service such as travel agents. There are other retailers who offer a combination of both goods and services. For example, a video parlor rents video CDs as well as sells them. Strategies for services retailing differ from those for retailing of goods. The service sector is growing faster than the goods and manufacturing sector globally. Most economies including India are dependent on the service sector for their growth. Service retailing can again be subdivided into rented goods services, owned goods services and non-goods services. Hertz car rental is an example of rented goods services. In this case, the consumer pays a fee for the time he uses the car but does not own it.

In owned goods service retailing, the service provider does not own the goods he services. Annual maintenance contracts for PCs and printers are examples of this category. A company or an individual who provides maintenance services does not own the equipment (PCs and printers).

In non-goods service retailing, personal services are provided. No physical goods are involved; only the time and expertise of the person who is going to provide the service is bought for a fee. Stockbrokers, tutors, personal trainers, real-estate brokers, etc are examples of this category.

In services retailing the following factors have to be taken into consideration. The buyers are called clients not customers; services are perishable and therefore, cannot be stocked; mass-production of services is not possible; and the experience of each service client is different from that of the other.

Non-Store based Retailing

Non-store retailing involves selling products in ways other than via conventional retail stores. Non-store retailing can be in the form of direct selling, direct marketing, and automatic vending.

Exhibit 18.1

Eureka Forbes – The Direct Marketing Pioneer

In 1999, Eureka Forbes Ltd. (Eureka Forbes), the leading vacuum cleaner and water/air purifier equipment company, announced a major policy change that came as a surprise to the Indian corporate world. The company, regarded as the pioneer of direct marketing in India, was planning to focus more on the retailing business in the future. Commenting on this decision, S Goklaney, Managing Director, Eureka Forbes, said, “Direct sales permits us to exploit only the top end of the market.”

This move was in accordance with the company’s plans to increase the visibility of its products. The company planned to make its products available in retail outlets through its dealer network, comprising 2,600 dealers. With this move, Eureka Forbes also planned to increase the sales revenue generated by the retail division. Eureka Forbes’ Senior Vice-President, Sales and Marketing, Palekar, explained, “While the dealer channel contributes 10% to the overall sales turnover of the company, the direct sales route contributes 75%.”

Source: ICMR Center for Management Research.

Direct selling is a process of selling the products directly to the customers by meeting them personally in their homes, offices or other non-store locations. Products sold using this method include vacuum cleaners, water purifiers, milk, newspapers and magazines etc. Eureka Forbes (see Exhibit 18.1), Amway, Modicare and Tupperware are well known companies involved in direct selling.

Direct marketing is a process of exposing the consumer to the product or service, through mailers, telephone calls, cable, satellite television, or radio and subsequently soliciting a response from the consumer by asking him/her to contact the company through telephone, email, or post. For example, the United Tele Shopping & Marketing Company, popularly known as the Tele Shopping Network (TSN) promoted new products to customers by exhibiting them on television channels and invited direct response from the customers.

Automatic vending is a type of non-store retailing in which vending machines are used to dispense goods or services to customers without the involvement of a salesperson. When customers insert a coin or a card in a vending machine, it delivers the product or the service to the customer. For example, in automatic milk vending booths, a coin is inserted and the desired quantity of milk is collected by the customers. Public telephone booths are another example of automatic vending in which customers need to insert a one rupee coin or a telephone card to use the telephone.

Implications of Merchandising

Merchandising is becoming increasingly difficult for retailers. In spite of considerable efforts, retailers frequently confront customers who ask for products that are out of stock. They also face the problem of surplus inventory in certain product categories. Retailers try to reduce their stock holding costs by stocking only those products that customers demand and dropping from their inventory products that hardly move. Advanced software tools like Retek, JDA, and SAP help retailers manage their inventories efficiently. These tools help retailers to purchase, stock and price goods and also predict the future supply and demand of each item in the store.

FRANCHISING

Franchising is a contractual and legally binding agreement between a franchiser and a franchisee. A franchiser may be the owner of a trademark or a trade name, a producer of goods or a service provider. He gives the franchisee the right to do business using his trademark, trade name, product, or service. In running his business, the franchisee abides by the specifications laid down by the franchiser in a contract binding the two parties. This agreement is also known as a franchise or license agreement. The franchisee obtains the license to do business by paying the franchiser an initial amount and setting aside a definite portion of his monthly sales for the franchiser.

Business managers evaluate their options carefully before franchising their businesses. Research has been conducted by Scott Shane, the Leghorn Career Development Assistant Professor of Entrepreneurship at the Massachusetts Institute of Technology’s Sloan School of Management in Cambridge to study the performance of over 150 companies spanning a period of more than 10 years along 53 different dimensions like expanding the business geographically, the entry level and start-up fees for outlets, the ratio of the headquarters staff to the total number of outlets and so on. The study revealed that businesses that took the right decisions at the right time were successful while others failed miserably.

There are certain factors that companies need to consider before franchising their businesses. Companies have to establish their brands in the market before venturing into franchising. Companies that have high brand value are likely to be more successful as it is difficult for others to imitate the company’s product or service offerings. Franchisees should be chosen on the basis of their prior experience and local knowledge, so that they can serve the market efficiently. Securing the confidence of the franchisees is very important for the franchiser. A long-term contract with the franchisee is likely to result in greater success, as the franchisee would be more committed and would leverage the brand value for a longer period.

Major Types of Franchising

There are three major types of franchises – product distribution franchise, business format franchise, and trade name franchise. In a product distribution franchise, the franchisee is allowed to distribute, the manufacturer’s product in a wholesale or retail form. The terms of the franchising agreement do not allow the franchisee to make any changes in the product format and the product has to be sold in a specified geographical area. The franchisee utilizes the franchiser’s product, service and trademark for selling. Automobile dealers and dealers of petrol, gas and diesel are examples of product distribution franchises.

The second type of franchise is called business format franchise, where the franchisee has the freedom to modify or make changes to the franchiser’s product or produce a new product under the license of the franchiser. The franchisee uses the trademark of the franchiser along with his methods of production, quality control mechanisms, marketing plans, operational standards and so on. In this type of franchising too, the franchisees operate in a designated market area. Fast food outlets such as McDonald’s, and ice cream parlors such as Baskin Robbin’s are examples of business format franchises.

The third type of franchise is the trade name franchise, in which the franchiser allows the franchisee to use his trade name or license for the products manufactured at the franchisee’s plant. The franchisee after producing the products has considerable freedom to sell them in a predetermined market area. Soft drink bottlers are examples of this type of franchises.

Advantages and Disadvantages of Franchising

Franchising has several advantages and disadvantages for both the franchiser as well as the franchisee.

Advantages to the franchiser

Low capital and low risk: Franchising helps a franchiser to penetrate new markets. The franchiser can add on to his number of distribution outlets and improve his business on the basis of capital obtained from the franchisee. This allows the franchiser to utilize his capital to improve other aspects of the business, like enhancing the manufacturing capacity.

Speedier Expansion: The company grows faster, since new distribution outlets have been added in the form of franchisees. Such speedy expansion would not be possible for companies handicapped by limited capital.

Extended Market Penetration: The speedy expansion due to the addition of distribution outlets helps the franchiser to enter and capture new markets before its competitors can gain a stronghold in them

Motivation of the Franchisee: Since the franchisee invests capital in the business, the motivation of the franchisee to succeed is high. It has been observed that franchisee businesses have a higher success rate than company-owned or non-franchisee types of businesses. The success of the franchisee in the business directly affects the profits of the franchiser. Thus, the franchiser also benefits with improvement in the franchisee's business.

Controlling the quality: Quite often, when business expands, it becomes difficult for a marketer to focus on quality management issues. This results in poor quality output of products and services. However, in franchising, the franchisee takes care of the day-to-day operations of the business, leaving the franchiser with enough time to concentrate on issues related to quality and standardization of products and services.

Disadvantages to a franchiser

Business Control: The franchiser runs a risk by agreeing to do business with the franchisee because any negligence or failure in maintaining quality standards on the part of the franchisee will have an adverse impact on the franchiser's business or brand image. Moreover, the franchising agreement made with the franchisee should be devoid of any loopholes or flaws that would benefit the franchisee. Failure to have a strong franchising agreement can lead to the franchiser's loss of control over his business.

Expenses Involved: Franchising involves a lot of expenses for a franchiser such as expenditure pertaining to legal documentation during the agreement process, expenses of conducting a certified financial audit of company records, advertising expenses to attract potential franchisees and, at times, expenses incurred to fight legal battles against the franchisee. Keeping in view these expenses, franchising may not appear to be a viable option for marketers with a limited capital. Hence, before deciding to enter into a franchising agreement, a marketer has to carefully weigh these costs against the benefits that will be accrued in the form of market expansion, franchisee success rate, and so on.

Lower Profit Potential: Since the franchiser only licenses the franchisee to do business and the actual operation of the business is carried out by the franchisee, the franchiser gets a narrow profit percentage as royalty from the franchisee.

Having discussed the advantages and disadvantages of franchising to the franchiser, let us now discuss the advantages and disadvantages of franchising to the franchisee.

Advantages to a franchisee

Reduced Business Risk: The business risk involved in franchising is very low for the franchisee. Moreover, the franchising business has a higher success rate than that of smaller independent businesses. Smaller independent businesses have a success rate of just about 24 percent, whereas the success rate of franchisee business is about 85 percent.

Operational Advantages: Franchisers help franchisees by providing them tested and proven operational methods of doing business. This minimizes the potential business errors for the franchisee. Another major advantage to the franchisee, is that the franchiser constantly provides management support to ensure business success.

Easy Financing of the Business: Due to the high success rate of franchising, banks and financial organizations are more willing to sanction loans to franchisees than to small independent business units. In addition, the loans given by these organizations to franchisees carry a lower interest rate than those given to independent business units.

Entrepreneurial Benefits: The risks of entering a new business are always high. Moreover, it has been observed that more than 70 percent of new businesses fail. In contrast, the failure rate of franchised businesses is significantly lower at less than eight percent. The advantage to a franchisee is that he can reap the psychological advantages of being an entrepreneur without having to undertake the risk of introducing a new business concept.

Resale of the Business: A franchised business can be sold very easily as the buyers are generally aware of the success rate of franchised businesses. Quite often, the franchiser himself will help the franchisee in selling the business, which turns out to be a major advantage for the franchisee.

Disadvantages to a franchisee

Limited Freedom: A franchisee has to operate according to the standards set by the franchiser. These standards may sometimes cover all aspects of the business right from business hours to book-keeping methods. The necessity to abide by these standards restricts the franchisee’s creativity and flexibility which he could have otherwise used in an independent business.

Fee Payment: A franchisee has to pay a substantial sum of money to the franchiser to purchase the franchise business. This may be in the form of a one-time payment or recurring payment in the form of royalty on sales achieved by the franchisee.

Nonperformance of the Franchiser: Sometimes, it may so happen that the franchiser loses out on the business front. As a result, he may not be able to provide any assistance to the franchisees, which is crucial for the success of the franchisee. The success of the franchisee to a large extent is dependent on the success of the franchiser.

STRATEGIC ISSUES IN RETAILING

Strategic issues in retailing involve an overall set of plans that help the retailer to effectively conduct his business. A retail strategy has six major elements as described below.

1. Situation analysis: This involves developing an organizational mission, evaluating the ownership and management alternatives, and selecting a product or service type to engage in retailing.

2. Setting objectives: Objectives are set in areas such as retail sales, profits, customer satisfaction and the store image.
3. Identification of target markets and consumers: Prospective target markets and consumers are identified and a suitable marketing process is determined which may be in the form of mass marketing, concentrated marketing, or differentiated marketing.
4. Developing an overall strategy considering the controllable and uncontrollable variables.
5. Developing specific activities on the basis of the day-to-day operations and also the business environment.
6. Finally, suitable control strategies for control have to be devised by evaluating the deviations and correcting them to attain the retail organization’s objectives.

Before venturing into the business, a retailer must conduct a situational analysis to assess the current position of his business and what direction it must take. This should include a sincere and thorough evaluation of his strengths and weaknesses. Developing an organizational mission helps a retailer differentiate himself from the competition and gives him a strategic advantage. Evaluation of ownership and management alternatives is another stage in the situational analysis. While ownership alternatives include deciding whether to start the business on a sole proprietorship, partnership, or a corporation basis and whether to invest in an entirely new business, buy an existing business, or start a franchise, management alternatives include the proprietor himself managing the business or employing a professional and decisions regarding whether the business is to be conducted in a centralized or a decentralized way. Further, the good/service category chosen for retailing should match the financial resources and personal capabilities of the retailer.

The retailer, after doing a situational analysis, should set objectives and specify long-term and short-term targets. A retailer can set sales objectives that include an overall growth in the sales, stability in sales and profits, and achievement of a higher market share. Likewise, the profit objectives that can be set include the range of profits expected, return on investment and the operational efficiency. Objectives to achieve customer satisfaction, meet the expectations of the stockholders and enhance the image of the store also have to be established.

The next strategic issue that the retailer needs to address is the identification of the target market and the selection of an appropriate marketing technique suitable for the target market. The retailer can choose between mass marketing, concentrated marketing, and differentiated marketing. He can choose mass marketing when he has to sell his products and services to a large number of customers. Concentrated marketing technique can be adopted if the products and services are targeted at a specific group of customers. Differentiated marketing can be adopted if the products are targeted at two or more distinct groups of customers.

Identification of the target market and selection of an appropriate marketing technique should be followed by the design of an overall strategy. This is done by taking into account two types of variables – controllable and uncontrollable. The controllable variables are the elements that can be controlled by the retailer, such as, the working hours, investment capital, location of the outlet, advertising and promotional strategies, and so on. Uncontrollable variables, on the other hand, are those elements that cannot be controlled by the retailer and to which he has to adapt himself. For instance, the uncontrollable elements in retailing may include technological advancement, competition, government regulations and so on. Designing the overall strategy needs to be followed by specific activities involving store location, pricing of the products, and communicating with the customers. This is discussed in the following section. Finally, an effective control and feedback mechanism has to be in place for the smooth functioning of the retail business. This can in the form of a detailed retail audit that may be conducted on a half yearly or annual basis.

Location

Location of the store is of significant strategic importance for a retailer because it can provide him with a competitive advantage. A retailer can adapt himself to the changing market conditions by changing his product, price, promotion or distribution strategy but changing the location of the store is very difficult and can impact the business in the long-term. Therefore, the retailer has to put considerable effort in choosing an appropriate location that will be relevant even if there are future market changes. Substantial scientific research has been conducted and models have been proposed regarding the choice of a suitable location for a retail outlet. The various models proposed are the analog model, the spatial choice model along with the gravity model. In the analog model, a retail outlet that is similar to the proposed outlet is identified. Next, the researchers study the capability of the store to attract the customers from different geographic locations. This is followed by an analysis to estimate the sales that the proposed retail outlet can generate. In this way, a location that will generate the maximum sales can be selected. The drawback of the analog model is that it does not take into consideration the competitive environment.

The spatial choice model with the gravity model, however, considers the competitive environment. This model proposes that a customer's choice of store location should depend on the utility it provides compared to the sum of utilities provided by all other competitor stores. The utility of a store is dependent on its size and the geographical distance between the customer and the location of the store. Additional factors taken into consideration in this model include the store image, the number of billing counters, the number of aisles etc. However, these models only benefit retailers who want to have a single store. Other considerations that have to be taken into account in the choice of location for a retail store include the presence of a substantial population base, easy accessibility of the store, the presence of good transportation facilities, and the closeness of the store to suppliers. The strategic issues of a multiple retail chain differ greatly from that of single retail outlet. A multiple retail chain should also consider the future implications of its business, besides the current situation.

Store Image Decisions

Research has shown that the store image is an important factor influencing the consumer's choice of the store. A proper store image is very essential for a retailer as it can build or destroy his business. An appropriately created store image will attract customers to the store and make them return for a repeat business. This will automatically lead to an increase in sales. It is important for a retailer to understand how the impact of store image differs across the consumer segments. Studies have shown that age plays significant role in the customer's perception of a retail store image. Researchers studied the aging patterns of consumers in three different perspectives – biological, social, and psychological. They have different effects on their perceptions. Generally older customers in the age group of 30 to 60 years are not readily influenced by the aspects pertaining to store image as their younger counterparts are. Younger customers below the age of 30 are readily influenced by aspects like the aesthetics of the store, the responsiveness of the sales staff, and the quality of the merchandise. Normally, older customers like to associate with those store that have evolved with the times along with them. Hence, they are averse to retail store images that display the latest store formats. On the other hand, younger customers are more likely to be attracted to retail stores with trendy store images. Therefore, a retailer has to first decide which customer segment he wants to cater to and then create the appropriate store image to match the preferences of the segment. However, if a retailer wants to cater to all the segments, then he may have to strike the appropriate balance in the store image, which is a difficult task to achieve.

The image a retailer creates also depends on the type of business he is dealing in. For example, if the retail store is targeting a mass market, then the store's appeal should be balanced so as to attract as many people as possible. For instance, conventional retailers like petrol pump dealers who had never given a thought to their store image are now increasingly considering the store image options as they have come to realize the crucial role it plays in the success of a business. Exhibit 18.2 describes how BPCL enhanced its store image keeping in mind the change in the retail scene.

Exhibit 18.2

BPCL's Petrol Pump Retail Revolution

Petrol pumps in India have come a long way from being dusty, poorly lit places manned by shabbily clothed and indifferent personnel, to the shopping malls of the early 21st century. Bharat Petroleum Corporation Ltd. (BPCL), a leading player in the Indian petroleum industry, received wide acclaim for having brought about this change in the Indian fuel retailing business.

In the mid 1990s, the oil industry felt the need to establish strong brand identities. Until then, the industry seemed to have adopted an indifferent approach towards customer service. With the deregulation of the oil industry in April 2002, Indian players realized that they needed to become more customer focussed. BPCL's pioneering efforts in creating brand awareness for its products were thus a welcome change. BPCL's first foray into petrol pump retailing was through Bharat Shell Ltd. (Shell). The store, offering eatables, soft drinks, stationery, newspapers, magazines, frozen foods, light bulbs, audio cassettes and CDs, came as a pleasant surprise to Indian consumers.

By July 1999, 35 of BPCL's retail outlets across the country had the 'Bazaar' stores running successfully. In October, 2000, BPCL pioneered another revolutionary concept by launching a McDonald's fast food outlet at a petrol pump near Mathura (UP) on the Delhi-Agra highway. The 4,000 sq.ft., 180 seat outlet was set up at a cost of Rs 40 million. McDonald's paid a fixed rent, besides a percentage of its sales to BPCL, for using the facility. The outlet was expected to pull in foreign and domestic tourists headed to and from Agra, besides the residents of surrounding areas.

In January 2001, BPCL further upgraded the 'Bazaar' stores and, a month later, launched the 'In & Out' stores at around 40 outlets in Bangalore, Mumbai, Delhi, Kolkata, and Chennai. To offer enhanced services to its customers, BPCL tied up with various companies from a number of different industries: fast food, photography, music, financial services, ISPs, e-commerce portals, document centers, ticketing, greeting cards, ATMs, and courier services.

Source: ICFAI Center for Management Research.

MARKET DECISIONS

A retailer has to understand the nuances of marketing by understanding his customers. Every retailer has to primarily identify his target market and the needs and expectations of that market and subsequently try to meet those expectations with efficient service. There are certain principles that have to be followed by retailers, for their business to be successful. The first and the foremost principle calls for retailers to offer adequate and appropriate solutions to the shopping problems faced by customers. For instance, there might be customers who walk into the outlet to quickly buy something and leave and there may be others who may want to spend some time in the store. However, if the retailer treats both types of customers in the same way, he might lose some potential customers. The second principle cautions retailers to treat customers with utmost respect. A customer who has not been treated well or has been ignored in a particular store will never visit that store again. The third principle calls for retailers to relate with the sentiments of their customers. The retailers should offer services in a way that match customer expectations and do not hurt their sentiments. The fourth principle is that the products have to be priced honestly. The fifth principle requires retailers to realize that the customers' time is precious and should not be wasted. Abiding by these principles would help a retailer handle his business effectively and successfully.

The marketing decisions that have to be taken by a retailer pertain to product assortment and procurement, service mix and retailing environment, price, place, promotion and store image.

Product Assortment and Procurement

In product assortment decisions, a retailer decides which categories of products he would like to display in his store. The product assortment can vary from wide and deep to narrow and shallow. While the width of product assortment refers to the number of categories of products, the depth refers to the number of product varieties in each product category.

In the narrow and deep product assortment strategy, a retailer stocks fewer product or service categories but offers a wide range within that limited number of product categories. For example, bookstores such as Odyssey in Hyderabad offer limited categories of products such as stationery, books, and greeting cards, but within these product categories, a wide variety of choices are offered.

In a narrow and shallow product assortment strategy, a retailer offers a limited number of product categories and a limited range in these categories. Small time retail outlets offer such services.

In a wide and shallow product assortment strategy, a retailer provides many categories of products/services but with a limited number of varieties within each category. For example, the In & Out stores of Bharat Petroleum offer many categories of products but with a limited variety.

In a wide and deep product assortment strategy, a retailer offers many categories of products/services as well as a large variety in each of these categories. For example, shopping malls like Big Bazaar offer several categories of products and also a wide variety within each category.

Once a retailer decides his product assortment strategy, the next step would be to decide the quantity of products to keep in stock and the duration for which the stock would have to be displayed on the shelves. The decision regarding how much of stock to keep should not be taken in isolation, but should be decided after a detailed analysis of how competitors are stocking their products and also by checking the availability of the products in the market. After evaluating how much stock to keep, the next step for a retailer would be to decide the frequency at which the inventories need to be replenished and the minimum level of inventory that would have to be maintained at all times. Finally, the retailer has to allocate enough store space to stock these items.

Service Mix and Retailing Environment

Price

Pricing is a vital aspect of any retail strategy. Customers are gained or lost based on this major attribute of retail strategy. Pricing should be value driven especially in countries like India where consumers want to derive the maximum value for the price they are paying. Before implementing the pricing strategy, a retailer should consider macro environmental factors such as pricing strategies of the competitors, government regulations, technological advancements and so on. The retailer should then develop a stage wise pricing strategy. In the first stage, pricing objectives should be developed. This may involve pricing for market penetration where the price is kept low to attract maximum number of customers, or pricing for market skimming where the price is fixed high or at a premium level to attract customers who do not pay attention to price and are concerned with other attributes like product quality, customer service, etc. In the second stage, a broad framework for the price policy is developed. This would involve deciding whether to price the products low, on par with or higher than the products offered by competitors. In the third stage of the pricing strategy, the retailer has to decide whether to price the products on the basis of customer demand, costs involved or on the basis of the competition. The fourth stage involves implementation of the pricing strategy. In this stage, the retailer adopts a pricing strategy based on various methods such as customary and variable pricing, flexible pricing, odd pricing, leaders pricing, etc.

In customary pricing, a retailer tries to maintain a set price for an extended period of time. In variable pricing, the prices are altered based on the changes in costs and customer demand; In flexible pricing, the consumers are allowed to bargain; In odd pricing, the price ends with odd numbers like Rs. 299/- and so on.

The fifth stage involves price adjustments. It helps the retailers adapt to the pricing patterns by reducing or increasing the prices owing to changes in the market dynamics like competitive price changes, demand fluctuations, seasonal changes, and so on.

Place

The retail outlet should be located at a place where its visibility is maximum. It should be easily visible to both vehicular and pedestrian traffic. The type of retail business is also an essential factor in determining the location of the outlet. If the retail outlet is a grocery or departmental store, then it would be advantageous for the retailer to be as close to the residential areas as possible. Similarly, stores located on a corner site of a shopping area have the advantage of offering more space for window display and thus have higher visibility and capacity to attract customers. Such locations are therefore best suited for products that have to be prominently displayed to catch the eyes of the customer, such as garments and jewelry.

Promotion

The promotional strategies adopted by a retailer include different forms of communication to attract customers to the retail outlet. This may be through advertising, sales promotions, public relations, or personal selling. To begin with, the objectives of the promotional strategy have to be developed. For instance, the objective of a promotional strategy may be to increase short-term sales, to generate greater customer attraction, to enhance the store image, to generate awareness among customers, or to promote private brands. After developing the objectives, the retailer can use various methods of budgeting to allocate financial resources for the implementation of the strategy. The budget can be determined on the basis of affordability of the retailer, and it can be increased as and when required in the future. The budgetary allocation may also be competitor-based, where budgetary amounts equal to that of the competitor are allocated. It may amount to a certain percentage of the expected sales, or the budgetary amount allocated may be in accordance with the tasks that have to be achieved.

GLOBAL TRENDS IN RETAILING

The face of the retailing industry has undergone significant global changes over the past two decades. Understanding these changes will help us assess the future of the industry. Retailing has evolved from a small time local merchandising business to its present global state that involves e-tailing (e-tailing is a term for retailing on the Internet). The effectiveness of e-commerce and its influence on the retail industry has been a subject of constant debate among marketers. Retailing has always focused on offering the best quality products to customers. Every retailer wants to offer the customers the right products at the right time at the right place and at the right price. However, the way in which retailers try to fulfill this mission changes continuously because of the development of disruptive technologies. These help retailers innovate new business models that change the economics of the industry.

The primary disruption in retailing took place when departmental stores came up. Local merchandisers, who initially ruled the retailing business, offered high quality service to customers by giving them tailor made solutions. They maintained huge inventories and offered extended credit periods to customers. The benefits given by the local merchandisers to the customers reduced their growth rate and left them with no choice but to charge high prices for their products. With the mushrooming of departmental stores, a transformation took place in the retailing industry in the 1980s. These departmental stores stocked more items compared to the local retailers. This was convenient for customers as they could find many products at one place. Moreover, the superior customer service offered by these stores was also instrumental in creating a tough competition for the conventional retailers.

This disruption in the retailing industry was followed by others such as the origin of catalogue retailing, discount department stores, and Internet retailing. Although catalogue retailing was initially targeted at rural customers, it eventually became a successful business model for the entire retailing industry.

The subsequent disruption in the retailing industry was seen in the form of discounted departmental stores. These stores offered significant discounts on products throughout the year. The retailers were able to afford these discounts by establishing their retail outlets at places where real estate prices were low. As people became increasingly mobile, access to such stores was no longer difficult.

The fourth and the final disruption took place in the form of online retailing. Online retailing offers a wide variety of products spanning from hair pins to heavy industrial goods. The products can be offered at substantially lower prices due to the absence of the middleman's margin and negligible stock holding costs. Customers also get the convenience of shopping from anywhere and at any time. However, online retailing has its drawbacks. It does not facilitate immediate delivery of the product to the customer. Products, which customers want to feel and touch, are not suitable for online business.

Companies like Amazon.com, and auction sites such as e-bay have made significant changes in the e-tailing industry. These businesses may generate tough competition for traditional retailers in the near future. Businesses across the world are investing heavily to leverage the benefits of e-tailing. Although the future of retailing cannot be accurately predicted, analyzing the past trends in retailing helps retailers arrive at the conclusion that to a certain extent, the Internet is poised to make structural shifts in the competitive advantages derived from retailing.

Online retailers are rapidly changing their business processes into departmental store formats. Not only are they offering online consumers specialized goods but also a wide variety of products. For example, Amazon.com not only offers books but a wide variety of products and services in association with other e-tailers. In doing so, online retailers are increasingly gaining acceptance since online customers find it more comfortable to visit one well-known site for all their shopping needs rather than browsing through various specialized sites.

Disruptive technologies of such kind may alter the economy of an industry, but they cannot change the profitability patterns of retailers. The success of retailing can be broadly attributed to the profits it can produce and the inventory turnover ratio. A departmental store may generate profit margins of about 40 percent with an inventory turnover of about three times a year. Similarly, a discount departmental store generates profit margins up to 9.3 percent and an e-tailer like Amazon.com may produce 5 percent profits.

Retailing is most likely to expand through e-commerce, where people start shopping online. There is a possibility that most of the retailing would be conducted online in the near future. Retailers offering their products with adequate information and with advanced computing technologies, where the customers can get the feel of the product without physically seeing it, will be successful. Retailers offering branded products with a differentiation are most likely to succeed. They can also compare their products with those of their competitors by way of video and audio clips which will enhance the quality of their offerings.

TRENDS IN RETAILING IN INDIA

The Indian retail industry remained a largely unorganized sector till the eighties. Corporate houses like Raymond’s, Bombay Dyeing, and Titan stepped into retailing after recognizing the vast potential of this sector. The retailing industry in India has been attracting major manufacturing firms and is poised to grow at 28 percent per annum over a five year period starting from 2001-02. There are several factors contributing to this growth in the retail sector. There has been significant economic growth over the past few years with the gross domestic product figuring above 7 percent. The government is trying to improve this further to 10 percent in the next few years. Besides the economic growth, India is the second highest populated country in the world and has also been recently ranked as the fourth largest economy in the world. Other reasons leading to the growth of the retailing industry in India are increased urbanization, growth in the demand for newer and varied products by consumers, branded goods penetrating the market on a large scale and a fall in the cost of real estate.

Retailing provides the highest employment after agriculture in India. This trend is poised to grow further, with customers ready to spend higher prices for the products, if the retailers can provide high quality service quality with increased efficiency, convenience, and a wide product range. With 12 lakh retail outlets, India is now one of the countries with the highest number of outlets per capita in the world. These retail outlets contribute over Rs.14,000 crore to the GDP (Gross Domestic Product) of the country. In the year 2000, retailing of home appliances and consumer electronics increased along with fast food outlets. The major segments of retailing are consumer durables, followed by furniture, healthcare, garments, food and services. Retailing of personal care products, apparel, music, and books is on the rise too.

As competition is increasing, retail outlets are vying for better techniques of store differentiation. One of the major and most beneficial differentiation strategies adopted by retailers is to focus on better store layouts. The layouts are designed so as to derive maximum returns per square foot area as well as attract the maximum number of customers. Some retailers like Raymond’s in Margoa have designed their stores to reflect the culture of the area in which it is located. The store has been designed using bricks, wood, and wrought iron and the interiors are decorated to reflect Portuguese culture.

The application of information technology in the retailing sector has been increasing over the past few years. It has significantly improved the effectiveness of various activities like operating the stores, merchandise management, inventory management, sales forecasting, etc. Technological advancements have also prompted retailers to focus on television shopping and online shopping. In television shopping, customers are shown the product demonstration along with its features and benefits (Refer Exhibit 18.3) and asked to place an order for the product by calling a toll free number. All the above developments are likely to transform retailing into a fully organized sector a few years from now.

Exhibit 18.3

The Teleshopping Business in India

Teleshopping networks as a phenomenon became a part of the lives of Indian TV viewers by early 2000. Day in and day out, customers were swamped with images of models showing off their ‘fabulous flat abdomens,’ ‘blemish-free skins,’ selling disease-curing teas, wondrous kitchen and household equipment, on almost every TV channel.

Though teleshopping networks became operational in the country in the mid-1990s, their presence was never felt as strongly as it was during the early 21st century. A majority of these infomercials were dubbed versions of English (or other foreign languages). Many consumers found it extremely amusing to see foreigners mouthing chaste Hindi (and other regional Indian languages) while advertising these products. However, it was the nature of the products being offered by these networks that attracted the maximum attention.

Most of the infomercials featured products that claimed to provide miraculous results. There were products, which could help one reduce weight and get into shape without exercise or dieting. There were other products that promised to make people give up smoking and improve body posture. The range of products included creams, potions, toys, etc.

Source: ICMR Center for Management Research.

The unorganized sector in retailing does not provide advanced and technological facilities as provided by the organized sector. However, it thrives on offering customized solutions to its shoppers. But the changes in customer preferences helps organized retailers to provide a wide variety with state-of-the-art display and stocking capabilities. The retailers in the organized sector are setting up stores on a large scale with different kinds of products. This allows them to bargain with their suppliers thus giving them the advantage of lower costs and supply chain efficiencies. These advantages combined with a highly trained staff increase productivity and lead to competitive pricing of the products. Organized retailing is 1.2 percent of the total retailing in India and is set to grow to about 1.9 percent by 2005. Investment in this area is poised to reach Rs.35,000 crore by 2005. Big industrial houses like the Tatas, Rahejas, Piramals, the RPG group and several others have entered the organized retail sector in India. Organized food retailing is also making rapid progress, and has already attracted multinational firms like McDonalds to enter the retail food business in India. The issue of foreign direct investment in retailing has been pending for very long the government’s decision not to allow it has been supported by the recent FICCI report stating that the majority of the people in India oppose FDI in retailing.

SUMMARY

Retailing involves selling of products/services to customers for their non-commercial individual or family use. Normally, retailing is the last stage of the distribution process. The Indian retail market has seen immense transformation in the post-liberalization era. With the vast increase in the availability of product varieties and the purchasing power of consumers, companies achieving economies of scale with superior supply chain management and a world-class customer service, the Indian retail market is witnessing tremendous growth. However, in India, the government is still protecting the retail sector and foreign direct investment is not allowed. However, once this sector opens up to foreign competition like other sectors, it will witness substantial changes and the Indian consumer will be the benefited the most. Generally retailers are classified based on ownership, the extent of product lines handled, the service vs. goods retail strategy mix, and non-store based retailing. Retailing based on ownership is segmented into independent retailers, chain retailership, leased departments, vertical marketing units, and consumer cooperatives. Based on the extent of the product lines handled, retailers are categorized as general merchandise retailers and include specialty stores, department stores, discount stores, supermarkets and hypermarkets. Non-store retailing involves selling products in ways other than via conventional retail stores. Non-store retailing can be in the form of direct selling, direct marketing, and automatic vending.

Franchising is a contractual and legally binding agreement between a franchiser and a franchisee. A franchiser may be the owner of a trademark or a trade name, a producer of goods or a service provider and he gives the franchisee the right to do business using his trademark, trade name, product, or service. There are three major types of franchises – product distribution franchise, business format franchise, and trade name franchise. There are advantages and disadvantages of franchising for both the franchiser as well as the franchisee.

Strategic issues in retailing involve an overall set of plans that help the retailer effectively conduct his business. A retail strategy has six major elements. Situation analysis, setting objectives, identification of target markets, developing an overall strategy considering the controllable and uncontrollable variables and finally, developing suitable strategies for control by evaluating the deviations and correcting them to attain the retail organization's objectives.

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Part V
Management and Delivery of Marketing Programs

Chapter 19

Communication Mix in Marketing

In this chapter we will discuss:

- Communication and promotion process
- Types of communication channels
- Promotional tools
- Developing a communication program
- Marketing communication mix
- Marketing communication integration and coordination
- Future of marketing communication

Marketing communications or promotion helps marketers communicate information to potential customers about the product's existence, value and the benefits that can be accrued from it. It comprises one of the four elements of the marketing mix. Designing an effective marketing communication mix helps marketers to attract, persuade, urge and remind customers of the company's brands.

Compared with the communication options available to marketers in the past, there are now a larger number and greater diversity of communication options available. Thus, the design, implementation and evaluation of communication programs in the current business scenario pose a significant challenge to marketers. The marketer has to integrate these various communication options to derive the maximum benefit for the company. Designing and integration of these communication options can be compared to how a composer combines various musical instruments in an orchestra. Even though the use of a single instrument may suffice, the use of a combination of instruments improves the quality of the rendition. Thus, by integrating the various communication options, a marketer develops an integrated marketing communication program.

COMMUNICATION AND PROMOTION PROCESS

In the marketing communication process, a sender sends the encoded message through a medium for a receiver to receive and decode. Normally, the marketing communication process has some form of feedback. We all know that advertising is a form of marketing communication. In advertising, the source of the communication process is the company or its representative, which is an advertising agency. The medium through which this message is communicated can be a newspaper or the television and so on. The receiver is the reader of that newspaper or the person watching the television. Feedback from these receivers will be in the form of their response to the products.

Coming to the marketing communication process, the words promotion and advertising, both of which are extensively used in the marketing communication mix, have originated from Latin. In Latin 'pro' means forward and 'movere' means to push. Thus, promotion means to push forward. Similarly, advertising means 'to turn towards.' So, these two terms stand for pushing forward the product and turning towards the customers. But it is important to note that the marketing communication mix has evolved over the years. It encompasses various other elements besides advertising and promotion, like public relations, personal selling, direct marketing, etc.

The Communication Process

The communication process consists of the following components:

- Communication source
- Receiver
- Coding process
- Medium of transmission
- Decoding process
- Noise
- Feedback

Communication source

The communication process starts when an individual, group of individuals or an organization wants to communicate some message to the target audience. Therefore, the sender of the message is the source of communication. The sender sends the message to a communication destination through a medium. The communication destination in the communication process is called the receiver. Communication can take place in many ways ranging from simple face-to-face communication to communicating through electronic media such as television, the Internet, radio or the print media. It is essential for the sender to communicate in such a way as to ensure that the message is perceived by the receiver in the way it was intended to be. While communicating, the sender might have his own perceptions about the message but these may not necessarily match the perception of the receiver. However, for an effective message, the perceptions of sender and receiver should match. This is especially important in marketing communication since a wrongly communicated message may result in the failure of a product in the market despite it being superior in terms of features and quality.

Receiver

The receiver, the destination of the communicated message, receives the message transmitted by the sender. The manner in which the communication is received is dependent on the perception of the receiver.

Coding process

The coding process involves selection of the right amount of information, the type of information and the organization of information that has to be sent to the receiver. The sender has to ensure that the right amount of information is communicated to the receiver. Too much information may confuse the receiver and too little may not serve the sender’s purpose in communicating it.

Medium of transmission

The medium of transmission is the interface between the sender and the receiver. It acts as a carrier of information from the source to the destination. The marketing department of an organization must choose the medium of communication on the basis of the type of information that has to be communicated, the location of the receiver/s, speed of the medium, etc. The media available for communication in this technologically advanced age are large in numbers, and range from direct marketing to cell phone marketing. SMS will soon become a powerful medium for advertising. Exhibit 19.1 gives a brief outline of how corporates are changing their media mix plans because of the popularity of SMS as a medium for communication.

Decoding process

Decoding is the process in which the receiver analyzes or interprets the information that has been sent by a sender. The decoding process is successful only when the receiver interprets the message as it was intended to be interpreted by the sender.

Noise

Noise is the disturbance or interference caused during the coding, transmission and decoding process. Noise may spoil the entire communication process. It disturbs the intended message, which therefore may not be perceived by the receiver accurately. It can be a technically caused noise when the message gets distorted during transmission due to a technical defect like an improper telephone connection.

Exhibit 19.1

SMS Advertising – A New Media Mix Tool

In the early 21st century, the cellular telephony revolution had radically transformed the global telecommunications industry. Cellular phones offered a whole new experience to people desirous of keeping in touch with their close ones any time, any where. Cell phones (or mobile phones) became more popular, largely due to the emergence of the Short Messaging Service (SMS) facility. The popularity of SMS took even industry experts by surprise, as the service had always been looked down upon as a 'low-end' option offered by a cell phone.

According to Strand Consult[1], the global market for SMS doubled from USD 7.5 billion in July 2000 to USD 15 billion by December 2001, and was still growing at a scorching pace. The firm expected the revenues from SMS advertising to soon exceed those from Internet advertising. Considering this huge pool of mobile-savvy customers, marketers could not ignore the potential that advertisements directed towards SMS senders had. Thus was born the concept of SMS advertising, which grabbed the attention of many companies and influenced their media mix plans.

The huge user base encouraged corporates to tap the medium for advertising. SMS advertising was soon seen as the 'hot' new tool for media mix planners. The concept is rather simple. It is all about combining electronic and mobile commerce methods to capitalize on the exponential, worldwide growth of the mobile phone market. Generally, a company that wishes to advertise its products on a mobile network, ties up with a service provider, who allows the company to use his SMS centers to send out advertisements to subscribers of the network. Realizing the potential of this service, the companies involved finally devised methods to formally offer SMS as a service and set up a billing mechanism for it. When SMS was made a paid service, the user base across many networks declined initially. However, as using an SMS still worked out to be much cheaper than a voice-call using cell phones, the momentum picked up again, and the usage and popularity of SMS kept growing.

Source: "SMS Advertising – A New Media Mix Tool," ICFAI Center for Management Research.

The noise can also be physical like children in the family making noise while the receiver is watching television advertisements. There are other noises as well, such as social noise and psychological noise. Social noise causes disturbance in the message transmission due to social imbalance; for example, a team of experienced scientists may not listen to a young scientist's new discovery. Psychological noise arises because of emotional state of an individual. For example, when a customer is angry for not receiving a courier from Blue Dart within twenty four hours, he will not listen to courier person for the reasons of delaying it.

Feedback

Feedback is an important step in the communication process, as it helps in the continuation of the communication process. The feedback given by the receiver forms the basis for further communication. The feedback also helps in analyzing the way in which the receiver interprets the information and thus helps the sender take corrective action, if necessary.

TYPES OF COMMUNICATION CHANNELS

Communication channels are classified into personal and non-personal channels.

Personal Channels

Personal communication channels include face-to-face interactions, telephone conversations, communicating through mailers, e-mails, etc. The message can be personalized to the audience's tastes and preferences.

Non-Personal Channels

Non-personal communication channels are electronic media, print media and outdoor advertising. The electronic media consists of television, the Internet, mobile phones, and radio. The print media consists of newspapers, magazines, journals, etc. The outdoor media consists of hoardings, sign boards, banners, etc. The feedback and response rates are difficult to estimate in non-personal channels of communication.

PROMOTIONAL TOOLS

The promotional tools that are widely used by organizations for their marketing activities include advertising, sales promotion, publicity, public relations, personal selling and direct marketing. These tools deliver the intended message at different levels and through different formats. The marketing department of an organization, therefore, has to choose the most effective promotional tool.

Advertising

Advertising is a paid form of non personal presentation of goods or services by an identified sponsor. It can be done using any form of media like television, radio, print media, etc. A firm has the flexibility of choosing the target market while advertising. It can advertise its product/service in the local newspaper to reach a small geographical area. If it is looking for national reach, the firm can advertise its product/service on the television through a national channel like Doordarshan or any other television channel depending on the target audience. Advertising allows firms to communicate with the intended audience in the most interesting format using actions and dramas. It helps in generating faster response in the form of increased sales. However, the interactivity with the audience is negligible and their feedback is indirect.

The major advantage of advertising is its ability to reach a large audience at a very low cost. It helps marketers reach the maximum number of potential customers at a very affordable cost. Moreover, the different channels available if the marketers choose to advertise on television helps them significantly in reaching the most appropriate target audience. Advertising is primarily used to reach consumers and is suitable for marketing low cost, and low involvement products. In case of higher priced products or in case of products that require considerable amount of explanation to be given by the marketer, advertising plays a supporting role to personal selling.

As markets have become competitive, marketers are trying every possible tactic to attract the attention of customers. Customers are treated with the utmost courtesy and products are provided with excellent service. However, marketers need to concentrate on ‘Retromarketing (Stephen Brown 2001).’ Retromarketing is a form of marketing where the customers are delicately teased by the deliberate holding back of supplies or by teaser advertisements where the customers are kept in suspense about the product’s identity. The logic behind the concept of retromarketing is that customers get bored with the conventional style of marketing, where marketers pamper the customers and use the same appeals to push their products. So marketers should keep the customers guessing and interested by launching advertising campaigns that puzzle, tease and arouse the interest of customers.

Exhibit 19.2

Baron's Sales Promotions

After the Baron group entered the Indian consumer durables market in December 1994, the markets were never the same again. Over the next few years, at the corporate offices of competitors like Videocon, Philips and Mirc Electronics, it was the same story – all were making frenzied attempts to hold on to declining market shares.

Baron’s initial product offering, an Akai color television (CTV), was priced at Rs 13,000 – while the market price was Rs 16,500. This was clubbed with an exchange offer on old music systems and TVs and free-gift schemes whereby 14-inch CTVs, mobile-phones, refrigerators and Bajaj Sunny mopeds were offered free on the purchase of a 21-inch CTV. These moves, combined with Baron’s full-page advertisements that appeared regularly in the national media, lured buyers all over the country. The move changed the CTV market share pattern very soon, with Akai’s sales increasing from 2500 CTVs in 1993-94 to 4.29 lakh CTVs in 1997-98. In December 1998, Baron repeated the success story with the Aiwa brand in the hi-fi audio systems segment.

Besides putting in place a well-developed marketing and distribution network, Baron conducted a careful study of CTV sales, which revealed that of the estimated 1.7 million units that were sold in 1995-96, over one fifth were ‘exchange’ sales. Also, a major portion of the sales (1.1 million units) was made to people upgrading from a black-and-white to a color model. Based on these findings, Baron decided to build Akai’s brand equity on the basis of exchange schemes and attack every possible segment.

Baron’s efforts to comprehend the Indian consumer’s psyche resulted in identifying the customer’s need for attractive consumer durable replacement offers. Baron adopted a combination of ‘3 products for the price of 1’ offers, exchange schemes with huge price-offs and free bundled software to raise the value of the product without charging more for it. The group made the consumers believe that they were striking a good bargain on these high-value products.

Baron’s exchange schemes were launched with great fanfare all over the country. Offers of a free cellphone, alone with a connection on its 21” CTV in Hyderabad (April 1997) meant that the effective price of the Rs 23,490 TV was about Rs 11,000. In other parts of the country, Akai’s offers ranged from a Rs 20,000 off exchange scheme for a new 29” model to a free 14” CTV with every 21” CTV. Interest free instalment schemes with no down payment were offered in association with Countrywide Finance. Akai’s sales soon jumped from 75,000 to 180,000 and it became the largest selling brand with a 17.7% market share in just four years reaching the third slot in the market.

It was not only the other marketers of consumer durables, but also the consumers who were also completely taken aback by Baron’s modus operandi. In a bid to regain lost market shares, almost all the major players such as Videocon, BPL, Toshiba, Kalyani Sharp and so on have adopted the Baron method and began offering discounts, free gifts and exchange offers.

Source: “Baron - Rewriting Indian Consumer Electronic Goods Marketing,” ICFAI Center for Management Research.

Sales Promotion

Sales promotion is a form of attracting the consumers by offering them various benefits in the form of incentives or by adding value to the products (Refer Exhibit 19.2). Sales promotions are generally aimed at resellers and final consumers. The various kinds of sales promotional tools include coupons, discounts, rebates, samples, etc. Most often organizations spend more money on sales promotions than on advertising. Although sales promotion is often considered a short-term tool to achieve immediate benefits in the form of increased sales, sales promotional activities like event sponsorships, trade shows and such are used for attaining long-term benefits in the market.

Exhibit 19.3

Importance of PR for an Organization

Public relations management is an effective managerial tool that can be used for effective communication to various stakeholders of an organization. It should not be used just for press releases or advertisements in major media spots. Normally, the top management does not give the PR department its due importance. They feel that this department's duty is restricted to issuing press releases and making sure that they appear at appropriate places of the newspapers. However, the PR department does much more than that. It bears the responsibility of enhancing the company's image in the market. Effective crisis management is another job of the PR department. There are certain companies like Coca-Cola, Microsoft, Yahoo, Intel, etc. who have used PR very effectively and it has played a significant role in their success. But, the reality is that only certain companies understand the benefits of utilizing the PR department properly for the communication process.

Every department in an organization should be made to understand the value of public relations and its contribution to its bottom line. Public relations should be made part of the company's corporate strategy. Finally, management schools across the country should incorporate public relations management in their curriculum.

Adapted from Prema Sagar, "Looking beyond the Press Releases," Business Standard, August 05, 2003.

Publicity

Publicity is a non-paid form of communicating information about the company or the product or both as a news article in newspapers or television or radio. Studies have shown that people attach a lot of importance to news articles and read them with greater attention as compared to advertisements in newspapers. Also, people give much more importance to the product or service details given in a news report than in an advertisement, because they perceive news report to be more credible. Efforts like generating repeated exposures will also help marketers effectively communicate the desired message. Therefore, managing the marketing communication mix with appropriate and timely publicity through newspaper articles, coupled with attractive public relation campaigns helps marketers to a great extent.

Public Relations

Public relations is essentially a function of an organization, where it tends to develop and manage its goodwill in the market. The primary aim is to create a suitable environment for the firm. Public relations helps organizations create a positive opinion about the firm in the market through appropriate communications. An organization can develop its public relations with several member groups such as suppliers, customers, employees, the government, shareholders, distributors, members of the public, etc. In the current market scenario, customers look forward to having business dealings with companies that are good corporate citizens. Therefore, companies should not neglect public relations because though it does not induce any immediate customer action, it produces positive results for an organization in the long-run. Exhibit 19.3 discusses the importance of public relations for an organization.

Personal Selling

Personal selling is the form of selling a product or a service directly to the consumer by explaining or demonstrating the features of the product to him/her. Personal selling is highly specific, with regard to the target audience. The costs involved are high as the salesperson has to personally meet every potential customer.

Exhibit 19.4

Amway's Direct Marketing

Privately held by the DeVos and Van Andel families of US, Amway, short for American Way, was set up in 1959. Amway and its publicly traded sister companies supported 53 affiliate operations worldwide. About 70% of Amway's sales were outside North America. With over 12,000 employees around the world, Amway was renowned for its strong R&D centre in Michigan, which had 24 laboratories. Amway was present in over 80 countries and its manufacturing plants were located in the US, Hungary, Korea, China and India. The company had over three million distributors across the world. Besides its direct selling portfolio of 450 products, Amway promoted around 3,000 products through catalog sales as well.

In India, Amway's operations fell into five areas – personal care, homecare, nutrition, cosmetics and home tech. The company introduced India-specific products, in pursuance of its go 'glocal' philosophy. Also, for the first time in its history, Amway utilized media advertising to promote its products.

The most significant of Amway's Indian initiatives were its 'Indianization' efforts. The company started printing a Hindi slogan 'Hamara apna business' (our own business) on its stationery. The company's first product line, Persona, was created specially for Indian consumers. Amway even named its expansion drives 'Operation Gaadi' and 'Operation Ghar.' Operation Gaadi was launched in east Uttar Pradesh where a store, mounted on a truck, made trips to different regions on different days. The project was later extended to West Bengal as well. Operation Ghar was primarily designed to provide better service to the customers as well as to its large family of distributors. Involving an outlay of Rs 15 crore in its Phase I, Operation Ghar eventually covered 19 state capitals. Operation Ghar was designed to provide five Es - ease of ordering, ease of paying, ease of receiving, ease of returning and ease of information/operations. Amway also utilized the Internet and electronic kiosks to hook up with its distributors and give them information.

By 2004, Amway planned to become a Rs 1000 crore company with a physical presence in 198 centers across India. As part of its plans to tap unexplored markets, Amway announced an ambitious expansion of its distribution infrastructure in Andhra Pradesh, which included setting up a warehouse. Once the marketing business in urban areas was strengthened, Amway planned to turn its attention to untapped rural areas as well.

Source: "Amway's Indian Network Marketing Experience," ICFAI Center for Management Research.

Personal selling has a high impact on the consumers and the feedback is also almost immediate. This form of marketing is the most effective way of communicating a company's marketing message, because it involves direct interaction between the marketer and the customer. It helps the marketer receive immediate feedback from the customer. Being a high cost marketing tool, personal selling is usually implemented for high cost products and services that need detailed demonstrations of product usage and have limited target markets. Personal selling is normally done for industrial products and is used as a support activity for advertising in consumer goods marketing.

Direct Marketing

In direct marketing, organizations communicate directly with the customers through mail or telemarketing or marketing through the Internet. This is a popular form of communication for certain types of services like real estate. Amway is the global giant in direct marketing with a product portfolio of 450 products and operations in over 80 countries. Amway's direct marketing efforts are discussed in Exhibit 19.4. In direct marketing, there is a non face-to-face interaction with customers, to persuade them to immediately respond to the marketing effort and initiate an action. Direct marketing activities such as telemarketing, mailers, catalogs, etc. Have been gaining popularity over the years. The greatest advantage of direct marketing is that it is highly cost effective and gives the maximum mileage. Unlike other marketing tools like advertising, the response can be easily measured with accuracy in direct marketing since it persuades the customer to take immediate action. So, the success or failure of the marketing effort can be immediately known. Direct marketing tools are used to communicate with both consumer markets and industrial markets through telemarketing, mailers, catalogs, etc.

DEVELOPING A COMMUNICATION PROGRAM

As described above, there are various promotional tools available that organizations can use to promote their goods and services. However, they cannot use all the tools every time because adopting such a strategy will not be cost effective. Therefore, they need to select the best possible tool so that the desired communication reaches the right audience, at the right time, and at the right place. And the selected promotional tools should help an organization maximize its sales.

Target Audience Identification

Identifying the target market and its needs accurately, while striving to serve those needs according to customer expectations will help the firm gain a competitive advantage. The success of a marketing communication program is dependent on identifying the target customers accurately. To identify the target market, attributes like age, gender, occupation, and income will not by themselves suffice. Lifestyle and psychographic segmentation should also be used.

Every customer has individual tastes and preferences and can be classified as a distinct target audience. The tastes of two customers will never exactly match. So, it is not feasible for manufacturers to customize products to suit the requirements of each and every customer. It is imperative for marketers to identify groups of customers who have similar attributes so that they can be targeted more effectively. Marketers need to design products that satisfy the needs of more than one group so that it becomes economically feasible for them to offer their products. The following series of steps help identify the most appropriate target audience.

Step 1: Involves selecting a sample from the total potential market to identify the individual needs of the customers. It helps reveal the divergent needs of the customers representing a specific market.

Step2: Involves grouping the customers into homogeneous segments i.e., segmenting the customers on the basis of their common needs. These different groups again differ from each other. In other words, though each group is homogenous in itself, there is heterogeneity among different groups. For instance, a company involved in manufacturing of motorcycles can design a product that satisfies the needs of two distinct groups. One of the groups may ask for mileage and other can ask for power.

Step 3: Factors influencing the various need-based subgroups should be identified. These may be the geographic and demographic factors, or the lifestyle and consumption patterns of the customers. The underlying needs of the customers should be carefully evaluated, since it is these needs that give rise to segments.

Step 4: The target audience has to be selected for developing a specific marketing communication program. This audience should offer the highest profitability under given market and competitive conditions.

Step 5: After selecting the target audience, the product and services should be appropriately positioned. Positioning a product or service is done to give it a special place in the minds of the customers so that they perceive it as better than that of the competitors.

Image analysis

An image is a perception or belief held by an individual about another individual or object or organization. Companies conduct an image analysis to know how the customers, suppliers, distributors and the public perceive them. This helps the companies take effective measures to improve their image in the market. For instance, if the image of a company is negative in the market, it can take measures to boost its image. If people are unaware of the company, then it can undertake awareness campaigns.

Determination of Communication Objectives

The marketer must know exactly in what stage the consumer is. The marketer will then be able to develop communication objectives by deciding what type of communication should be used at what stage. These objectives should be in tune with the company's marketing strategies for the product or service. A communication tool is selected depending on the objective, because every communication method cannot satisfy all organizational communication needs. The marketing communication objectives of a company involve creating awareness and knowledge about the company's product or service, and enhancing the image of the product/service by developing suitable positioning strategies.

Awareness

Often, companies communicate with customers to create awareness about a new product or the upgrades for an existing product. This is especially true when companies enter into new territories. For example, if a company enters India and the people in India are not aware of its products, the company's communication objective could be to make people aware about its products and services in 15 states in India.

Knowledge

If customers are aware of a product but have little or no knowledge about it, the company's communication objective could be to increase the knowledge of potential customers about the products and services.

Liking

If customers are aware of a company's products, the company can try to find out their liking for the products. If people do not like them, the company has to take steps to rectify the problem and redesign the communication stressing on the enhanced quality of the products.

Preference

Sometimes, it happens that customers may like a product but do not prefer to buy it. One of the common reasons for this could be the higher cost. The marketer's communication objective in this case could be to develop the preference of potential customers for its products. The marketer can focus on the quality, performance, value, etc of its products in its communication messages.

Conviction

Sometimes, customers may prefer a product, but may not have the conviction to buy it. A marketer's objective then would be to build up this conviction among potential customers. A product sample could be given at this stage to the consumer by supplementing it with suitable promotional activities.

Purchase

The customer at this stage has to be exposed to reminder advertising which will reinforce his purchase decision to an extent.

Stimulate demand

It is imperative that all the communication and promotional activities stimulate the demand for the product and lead a potential customer to take the final step, i.e., purchase the product.

Developing Marketing Communication Budget

It is generally difficult for organizations to develop a marketing communications budget, as it is not easy to estimate the exact amount of finances required for communication purposes. Companies usually follow certain procedures for allocating marketing communication budgets. They are the objective and task method, competitive parity method, percentage of sales method, and affordable method.

Objective and task method

In the objective and task method, a company first determines the objectives to be achieved through the communication. After determining the objectives, the tasks necessary to achieve those objectives are arrived at. Subsequently, the finances required to perform such tasks are evaluated and accordingly, a comprehensive budget based on the amount required for all the tasks to be performed is allocated.

Competitive parity method

Some companies adopt the competitive parity method in which the marketing communication budget is developed on the basis of the budget allocated by the competitors for such purposes. In this method, the budget allocated is almost equal to the amount allocated by the competitor for his marketing communication process.

Percentage of sales method

The percentage of sales method is a process in which the current and future sales of a company are estimated and some percentage of the sales figures is allocated as the budget for the marketing communication process.

Affordable method

Some companies adopt the affordability method in which the marketing communication budget is assigned on the basis of the company's affordability. Irrespective of the amount the sales promotional activity requires, the company allocates a budget according to what it can afford.

Factors Influencing the Designing of Communication Message

The factors influencing the design of the communication message are message content, message structure, message format and message source.

Message content

The content of the message specifies what is to be conveyed to the audience through advertising or any other communication process. A message has to use an appeal to be effective. There are three types of appeals that can generally be used to convey the message:

Rational appeal: When companies use rational appeals in their advertisements or other communications, they assume that customers make logical and rational decisions after information processing. When using a rational appeal, a company highlights the benefits and value associated with the product and tries to convince the target audience that the product delivers these benefits. Thus, the company hopes to attract the customers on the basis of their rational perceptions. It is believed that rational appeals are more appropriate for goods than services. And rational appeals are more attractive to business and professional people because they need rational information for decision-making.

Emotional appeal: A company may try to use emotional appeal in a positive or negative manner to attract customers and persuade them to purchase the product. Negative emotional appeals depend on feelings such as shame, guilt, fear, etc.to persuade people to abstain from smoking and drinking, encourage them to lose weight, etc. Positive emotional appeals depend on feelings such as humor, love, pride and joy. An example of emotional appeal is that of Onida advertising for its televisions with the punch line – “Neighbour's envy, Owner's pride.” The advertisement tries to evoke a feeling of pride among the owners of Onida TV.

Moral appeal: Moral appeals try to encourage customers to tread on the right path and follow a virtuous life. Encouraging people to follow family planning; liquor companies persuading consumers not to drink before driving; oil companies urging customers to save oil; the government of India’s pleas to save water and electricity are examples of moral appeals.

Structure

The message structure determines how attractive it is to the target audience. Generally, the message structure is designed to prompt the audience to an action which ultimately turns into the purchase of the product. Some advertisements persuade the audience to frame an opinion about the product rather than giving them the company's opinion of the product. Sometimes, it is beneficial to describe the drawbacks of the product along with its benefits. The acceptance of a product can increase among customers if they know the limitations of the product as well as its benefits. Post purchase dissonance can also be significantly reduced. Another major factor affecting the message structure is whether to put forth the strongest points first or the weakest. When the company presents a one-sided argument, it is better to highlight the strong points first. The message structure, however, depends on the product to be advertised.

Format

The message format should be strong and supportive of the type of medium being used. If the radio is to be used to convey the message, then crisp, short and sweet words have to be used with clear pronunciation. If the print media is to be used, then the text of the message, and alignment and placement of the text and pictures should be appropriate so that the advertisement gains the maximum attention of the viewers. If television is used as a medium, it has the advantage of audiovisual effects, which have to be utilized to the fullest extent possible.

Source

The message source also carries immense significance. That is the reason why many companies opt for celebrity endorsements. Sachin Tendulkar advertising for Boost, dentists endorsing toothpastes like Colgate and Pepsodent, film actresses endorsing beauty products are all examples of celebrity endorsements. However, there should be some relevance in these type of ads. If Sachin Tendulkar were to be used to endorse Lux soap, for example it wouldn’t be appropriate.

MARKETING COMMUNICATION MIX

A marketer develops the communication mix considering factors like the product market type, pull push strategies, the product's stage in its the buyer readiness stage, life cycle, and effectiveness of advertising. According to Kevin Lane Keller, an associate professor (Marketing) at Stanford, for the marketing communication process to be successful, a marketer should ensure that two events occur in the consumer's mind. One is the communication result – How does the customer react to a specific ad to which he is exposed? And the second – Will he be able to recollect the ad when he is actually making the purchase decision?

Marketing communication mix can sometimes be compared to a music composer's orchestrating efforts. At times, a single instrument will give the expected output, like a single promotional tool and sometimes a combination of instruments give the desired output which is similar to an integrated marketing effort in communication. In a musical composition, a single instrument rarely produces the desired effect. But a combination of musical instruments does produce the desired effect and helps attract a larger audience. Similarly, a single marketing communication tool rarely gives the maximum mileage. A marketer should have a thorough understanding of how the communication tools work individually as well as in association, so that he can devise the most appropriate marketing communication mix.

Product Market Type

Product markets are of two types – consumer markets and industrial markets. Companies catering to consumer markets differ in their communication strategies in comparison to the communication strategies adopted by the companies catering to industrial markets. Consumer marketers invest highly in sales promotional activities followed by advertising, personal selling and public relations, whereas the industrial marketers' first choice in spending for communication is personal selling followed by sales promotion, and advertising and lastly, public relations.

Pull-Push Strategy

Companies can adopt either a push or a pull strategy or both to market their products. The communication and promotion program is dependent on which strategy they are following. In pull strategy, all promotional and communication efforts are directed towards customers. These efforts directly affect the demand for the product. As a response to these efforts, customers approach distributors and ask for the product. Distributors pull the product from the manufacturer.

In push strategy, all promotional efforts are directed towards intermediaries or members of the distribution channel such as distributors, wholesalers, etc. The intermediaries are motivated by providing huge discounts, recognition, special rewards, etc., for achieving or exceeding targets. Push strategy is adopted to sell the products to the intermediaries by aggressively focusing on product sales. This is particularly evident for impulse products where brand loyalty is low.

The Product Life Cycle

A marketer needs to identify in which stage of the product life cycle the product is to effectively communicate with the target audience. At the introductory stage, the marketer informs the target audience about the product through publicity or advertising or sales promotions or through salespeople.

When the product is in the growth stage, the marketer induces customers to purchase the product or service by differentiating it from that of the competitor/s.

When the product is in the maturity stage, the marketer adopts advertising strategies that focus on reminding customers of the product's presence in the market. Sales promotional activities such as discount schemes are usually adopted at this stage.

During the decline stage, measures such as cost cutting and decreased budget allocation can be considered.

Over the years, the product life cycle has lost its validity. It is felt that the marketing strategies suggested at various stages of the product life cycle are set to damage the company's growth rather than improve it. This is mostly true in situations where it is suggested that those products that have grown old are pruned and new products are concentrated on. During the 1960s, products were introduced heavily into the market due to the abundance of supplies and economic growth. But the situation has changed a lot in the new millennium; products have to be sustained irrespective of their stage in the life cycle. The top management has to identify ways and means of improving the performance of these products rather than just drop them thinking that they have reached the decline stage.

Effectiveness of Advertising

As buyers follow a typical purchasing process, the effectiveness of a communication program depends on the stage of purchasing process buyers are. Marketers need to understand the stage in which customers are and design the communication program accordingly. If we take the example of advertising as a promotional tool, there are a number of steps before people become actual customers. They are

- People are not aware of the existence of product or service.
- In this stage, though people become just aware of the existence of the product and service, they are nowhere near making a purchase
- In the next stage, people are aware of the functions of the product and may become customers in future.
- In the subsequent level, customers are inclined towards the product, i.e., they like the product/service being offered by the company.
- Customers who have developed a favorable attitude to the extent of preferring it, are in the next level.
- In the next level, the customers’ preference for the product is combined with the desire to buy and a feeling that their decision will be intelligent.

MARKETING COMMUNICATION INTEGRATION AND COORDINATION

Companies vying for maximum response to their communication strategy should focus on coordination and integration of the marketing communication process. In the current age of technological advancement, there are different tools available to facilitate better communication. Companies integrate these tools effectively so that they are optimally utilized to meet their communication objectives. Marketing communications audit and performance measures help companies integrate and coordinate their marketing communication process from time to time. Coordination between various communication activities can be achieved either when one person is in charge of all activities or through reporting relationship.

FUTURE OF MARKETING COMMUNICATION

In the current business environment, rapid changes are taking place in most conventional marketing communication tools. This is supported by the fact that there is a tremendous increase in the introduction of products across the world and existing marketing communication strategies no longer suffice. There is also a rapid change in customers’ shopping behavior where they are not willing to spend as much time on shopping as they used to in the past. With the increase in the number of products, it has become imminent for marketers to differentiate their products from those of others. This has given rise to techniques such as database marketing, micro marketing, etc. The convergence of technologies like telecommunications, computing and the television is set to bring about rapid changes in the way marketing communications will take place in the near future. In fact, some of them are already in place. For example, the use of touch-tone telephones that navigate the users through multiple information offerings, mobile and Internet banking facilities, teleshopping, teletext (an on-screen information source that can handle around 14 million requests per week), interactive advertising and interactive television programs are set to transform the way marketing communication will take place in the future.

Customers will start asking for products as and when they want them. With the advent of new technology, marketers will have to devise strategies to cater to customer needs as soon as the orders are placed. With the help of the digital media, pay-per-view programs will increase. Marketing communication may also become so personal that they will be broadcasted as news clippings to individuals interested in those products or services.

SUMMARY

Marketing is a societal process and communication plays a major role in marketing. Communication is the process of interaction between the sender (the source of the information) and the receiver (the destination of the information) through a medium. Communication carries immense significance in one’s social life. There are several steps in the communication process. The sender sends information in a coded format through a medium. This information is received and decoded by the receiver. The communication process is said to be complete if it does not involve any noise. Once the receiver receives the message, he gives a feedback, which enables the sender to further the communication process. Communication tools like advertising, sales promotion, public relations, personal selling and direct marketing are used in marketing.

Promotional tools have to be carefully selected by the marketing department so that they help maximize sales. The marketer must first identify the audience to which he intends to communicate. Identifying the product's stage in its life cycle is important to effectively communicate with the target audience.

Setting the objectives of a communication program is essential for its success. Objectives can depend on awareness, knowledge, liking, preference, conviction, and purchase. Companies follow objective and task method, competitive parity method, percentage of sales method, or affordable method to allocate the budget for marketing communications.

The factors influencing designing of the communication message are the message content, message structure, message format and message source. The communication channels are classified into personal and nonpersonal channels. Consumer markets and industrial markets are the product market types available. A company chooses push or pull strategy depending on the type of products it is marketing.

Companies vying for maximum response to their communication processes should focus on coordination and integration of the marketing communication process.

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Chapter 20

Advertising, Sales Promotion and Public Relations

In this chapter we will discuss:

- Benefits of advertising
- Developing an advertising program
- Evaluation of advertisement effectiveness
- Advertising agencies
- Sales promotion
- Public relations

According to the Institute of Practitioners in Advertising (IPA), the trade body and professional institute of advertising agencies in the UK, advertising is the means of providing the most persuasive possible selling message to the right prospects at the lowest possible cost.

In simple words, advertising is a paid form of non-personal presentation of goods or services by an identified sponsor to reach out to maximum number of audiences. Individuals and business firms promote their goods, services, ideas, issues, corporate messages and people through advertisements. Advertising messages can be conveyed to the target audience through a wide range of media.

Advertising helps organizations create an awareness of their products or services, or about the organization itself, among the target audience. It then induces interest, develops a desire and finally motivates consumers to take an action (in the form of purchase).

Organizations have been continuously increasing their advertisement budgets to attract more customers. According to TNS Media Intelligence/CMR estimates, the ad spend is going to increase by 7.8% percent to $140 billion this year in the US. The trend is quite similar all over the world. Exhibit 19.1 shows how the demand for advertising is on a rise in south India.

Government and non-profit organizations also indulge in advertising. The Government of India spends large sums of money to bring about a change in peoples' attitudes and values regarding the girl child, human rights, AIDS, primary education, eradication of polio and leprosy, family planning and even national integration. Non-government organizations (NGOs) like charitable institutions, hospitals and other organizations like CRY (Child Relief and You), Help Age India, and the UNICEF also indulge in advertising. It is important to understand who uses advertising, who their target is and why they use advertising.

For example, manufacturers use advertising to reach the individual customers for attaining the sales of a product, brand or a service. They also use advertising to reach resellers such as wholesalers and retailers to purchase their products and services and resell them to their respective customers. Manufacturers also use advertising to reach the general public, the government and social service institutions to enhance their public relations. Besides, retailers also use advertising to reach individual customers for increasing the sales of their retail outlets. Finally governments and non commercial institutions advertise to promote social welfare causes.

BENEFITS OF ADVERTISING

Some important benefits of advertising are:

- Advertisements create awareness, interest and desire for products and services in customers to buy them.
- Advertising is cost efficient as advertisements can reach a vast number of audiences simultaneously. For example, a colored advertisement on the first page – the solus ad (front page advertisement) – of Deccan Chronicle costs up to Rs.2,70,600 for the Hyderabad edition. On the basis of the readership of the newspaper (circulation of 2.14 lakh copies, with the readership rate of 9.4 lakhs people[1] per day), the actual cost of targeting a customer comes to Rs.0.28 (approx.)[2].

[1] Source: Audit Bureau of Circulation
[2] Source: advertising department of Deccan Chronicle Publication Limited

- The message can be repeated several times, thereby creating an impact on the mind of a customer. For example, “It’s the coolest one,” reminds us of Kelvinator refrigerators.
- Advertising a product in a certain way can add to its value. For instance, when Volkswagen introduced Beetle (its small car) in the US, the US automobile market was filled with bigger cars. To differentiate its product, Volkswagen developed an ad campaign highlighting the compactness of the car which was immensely liked by the people and helped the company in creating a customer base fast.
- It helps in boosting the sales of the company.
- Once a product/service is purchased, it (advertising) reassures the customer about the purchase decision, thus helping in reducing the post purchase dissonance, if any.
- Advertising helps in changing the customer's perception of a product.
- It supports the activities of the distribution network of the firm by creating demand and encouraging purchase through pull strategy.
- It helps in making the job of the sales force easier, by crating awareness among potential customers.
- Advertisements help in offsetting the competitors' advertisements. The company may defend its market share or position by responding to competitors’ advertising campaigns. The Coca-Cola's punchline in 1996 was, “The official soft drink of the world cup”, which was countered by Pepsi's “Nothing official about it.” Advertisements also help compare a company’s product features with those of the competitors. Sometimes, companies themselves compare the features of their products with those of the competitor’s product through advertisements. Quite often, television and automobile manufacturers (Hyundai, TELCO, etc.) advertise their products in this fashion.
- Advertising can be very expressive and therefore, can dramatize the whole concept. For instance, Kinley’s TV commercial with a baseline “*Boondh Boondh Mein Vishwas”* (confidence in every drop) is a dramatization of the purity of Kinley’s water.
- Advertisements also help in building a strong image of a product or brand, apart from increasing its sales.

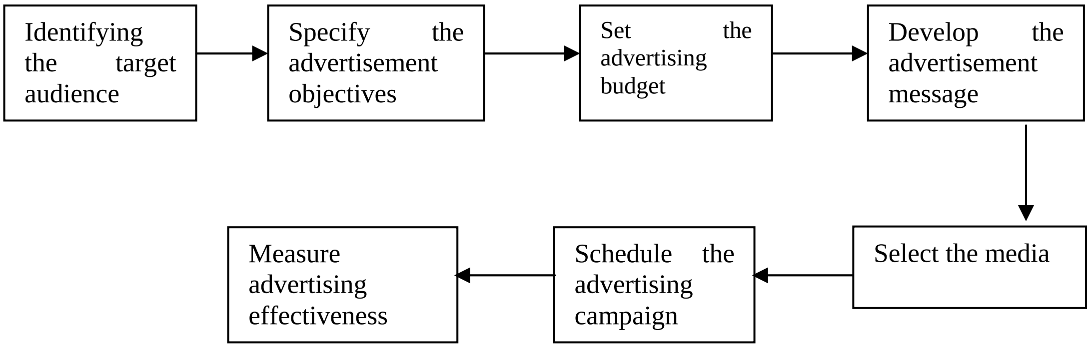
DEVELOPING AN ADVERTISING PROGRAM

An advertising campaign involves developing a series of advertisements and targeting them at the potential customers through different media like the print and broadcast media. Steps involved in an advertisement program, as seen in Figure 20.1, can be broadly classified as (a) identifying the target audience, (b) specifying advertising objectives, (c) setting the advertising budget, (d) developing the advertising message, (e) selecting the right media, (f) scheduling the advertisement and (g)measuring advertising effectiveness.

Identify the Target Audience

Identifying the target audience is the first step in developing an advertising campaign. The target audience is a market segment to which a marketer wants to communicate a product or brand message. Advertising can be targeted towards mass markets or towards niche markets. For instance, an advertisement of Amrutanjan pain balm is targeted at the mass market, while the advertisement of Mercedes Benz is targeted at a niche market of status conscious, high income group customers.

Figure 20.1: Advertising program



For Indian Defense Ministry, the youth is the target audience and it aims to attract them to join the armed forces. Therefore, it develops advertising campaigns to attract the youth of India. Exhibit 20.2 shows how the defense ministry attracts its target audience.

The composition of the target audience and their specific needs must be identified before developing an advertising program. Marketers must gather information on the geographic location, demographic variables (like age, sex, education, income level etc.) and consumer attitude towards the company products and competitor products. Certain other variables like the type of the product to be marketed, nature of demand for the product, characteristics of the target audience and the amount of competition are of equal importance for creating a desired advertising campaign. A marketer who pays little heed to information gathering system regarding the target audience, may find his advertising campaign to be a fiasco.

Exhibit 20.2

Spot This: They Want You

Indian Defense Ministry released a mix of advertisements both in the print media and the electronic media to attract the youth of the country to serve the motherland. This advertising campaign was launched with the help of Lowe & Partners Worldwide. The objective of the advertisements was to convince the target audience (the youth) to join the defence services. It reinstated the fact that a soldier leads his life with pride, respect and determination, with baselines like – "Be an army man. Be a winner for life."

Lowe created nine print advertisements for the defense ministry, which coaxed the youth with catchy baselines like "18 years. Take charge of your life. 23 years. Take charge of 30 lives," and "The only career where the perks include excitement, adventure, honor and glory." These advertisements also communicated the emoluments and other benefits provided to a soldier. Television commercials on the other hand tried to depict the fact that a soldier is respected by his fellow Indians.

Adapted from Gupta, Ritesh, "Spot This: They Want You," Ad Age Global, July 2002, Vol. 2, Issue 11.

Define the Objectives of Advertising Campaign

According to Russell H. Colley, "The objective of an advertising campaign is to achieve a specific communication task for a specific target audience during a specified period of time." It should be defined carefully with precision, as it provides the basic guidelines for an advertising campaign. The objective should be laid down in clear, precise and measurable terms so that the marketers can evaluate whether it has been accomplished by the end of the campaign. An advertising campaign can have different objectives and they are:

- Inform – A company can use advertising to (a) inform its existing and potential customers about the launch of a new product, (b) communicate the benefits of its existing products in the market, (c) inform about the services provided by the company. For example, MUL's TV advertisement on their wide network of service stations across India shows two guys searching for a food outlet in Ladakh. They can't find one, but come across a Maruti service station even at such a deserted and abandoned place. (d) inform a price change, (e) correct the false impression about a product and build the company's image, etc.
- Persuade – A company uses advertising to (a) persuade customers to purchase their product/service by announcing special offers or discounts, (b) persuade customers to take a sales call (phone call or a personal visit by a member of the sales force). For example, Eureka Forbes advertisements show a customer service or sales executive giving a demo at a customer's residence and giving a dial free number. (c) encourage customers to switch from other brands. For example, Eno's antacid advertisement makes a comparison between the company's product and liquid antacid medicine like Gelusil and digestion aiding tablets like Dabur's Pudin hara to highlight the effectiveness of the product.
- Remind – A company uses advertising to (a) remind customers that a product will yield benefits in the future. For example, insurance companies repeat advertisements to remind and convince customers that their products will yield benefits in the future, (b) retain a product in the customer's mind during the off-season (c) remind buyers where to find a product.

Set the Advertising Budget

After setting the objectives, the next task is to set the budget for the advertising campaign. Advertising budget is the amount of money allocated by a firm for its advertising campaigns for a specific period of time. It is influenced by various factors like the type of products advertised, the size of the market, the geographic distribution of customers within the market and the sales volume as compared to the competitor's sales volume.

Marketers believe that advertising helps in increasing the demand for a product in the market. The amount of money spent on an advertising campaign should be in accordance with the sales it generates. The budget of an advertisement varies depending on the stage of lifecycle of the product. For example, a new product may need a larger share of the advertising budget, as the advertising has to create awareness about the product and encourage the potential customers to buy it.

Setting an advertising budget is a difficult task because marketers cannot quantify the benefits accruing from an advertisement or determine the exact sales an advertisement has generated. Very often, businesses use some thumb rules (like advertising/sales ratio) to guide them set the budget. Some common methods followed by firms are (1) objective and task method, (2) percentage of sales method, (3) affordability method, and (4) competitive parity method. However, none of the methods is completely fool proof.

Objective and task method

Objective and task method is considered as one of the rational approaches to setting advertising budget. This method calls upon the advertisers to develop their advertising budget by (a) defining their specific advertising objective (b) determining the tasks that must be performed to achieve those objectives and (c) estimating the cost of performing those tasks. The sum total of all these costs determines the advertising budget. The major disadvantage of using this method is that marketers cannot accurately estimate or quantify the efforts required to achieve an objective. For instance, it is very difficult to set the advertising budget for PMCG (Packaged Mass Consumption Goods) products, since it is not easy to calculate the response rates to advertisements on soaps, detergents, toothpastes, and biscuit packets etc. Also, owing to a highly volatile competitive environment, it is difficult to allocate a set budget. For example, when a player heightens his advertising efforts, it would have an impact on the advertising efforts of other firms in the market.

Percent-of-sales method

Percent of sales method is used quite often by companies to determine their advertising budgets. The percentage of sales method can be expressed by means of a formula as shown below:

(Spending on advertisements in rupees/Sales in rupees) × 100.

The percentage of sales method can be developed by studying the past sales figures and relative budget allocations and understanding the pattern. Allocating the budget on similar lines without any major changes would be assuming a repetition of the past performance. However, it may be necessary to increase or decrease the budget to attain a projected sales figure. Projecting the product’s sales for the current year is very important and for doing so, understanding the market scenario and predicting competitor strategies is vital.

These projections can be made by observing the past sales records and assessing all the controllable and uncontrollable variables. The controllable variables include internal factors such as capacity of production, product development, sales promotional activities and so on, while uncontrollable variables include external factors such as government policies, economic status of the country, the consumer tastes and preferences and so on.

Affordability method

In this method, a marketer, after allocating all other expenses in his budget, allocates the remaining funds to advertising. This method does prevent a drain on cash flow, but it disregards the correlation between the advertising expenditure and the sales results. Moreover, during recession, funds are not available with the marketers and therefore, they reduce the advertising expenditure. Insufficient advertising further reduces future sales.

Although this is a method of choice for many small companies, the results are neither predictable nor sustainable. “Let's do something” (create a brochure or a web site, advertise or hire new sales team), becomes the battle cry. Though there's nothing wrong in using any of these media, the results might not usually be as productive as desired by the firm because the decision to advertise is dependent only on the financial capability. And that can sometimes result in the production of the wrong tool at the right time.

Competitive parity method

Companies sometimes determine their advertising budget by comparing with competitor’s advertising budgets. The advertising budget of a company may match with that of a competitor either in rupee terms or in terms of percent-of-sales. It is based on the fact that if a company follows this method, it is using the collective knowledge of the industry to arrive at a figure for its advertising budget. However, companies need to be careful when they allocate their advertising budget on the basis of competitors’ expenditure or budgets because their objectives and/or available resources may be totally different. If companies follow this approach blindly, they may end up spending too much or too little on advertising. In this method, it is assumed that the advertising budget reflects a company's expected sales, which many a time is not true. Another wrong assumption is that if two companies spend the same amount on advertising, their advertisements are going to be equally effective.

Advertisement budget in this method is allocated on the basis of what competitors have spent in the past. However, it cannot be ascertained that the competitors will follow the same strategy in the future also. Similarly, by the time a company comes to know about the expenditure that competitors have made on their advertising, there will always be a delay and the competitors would have already reaped the benefits.

Developing the Advertising Message

Spending a lot on advertising does not automatically guarantee success. Research suggests that the clarity of an advertising message is more important than the amount spent on it. Factors that affect the advertising message can be both product related and customer related. Product related factors are its features, usage and benefits. Characteristics of the target customers such as age, gender, their likes and dislikes, their habits, education, income and occupation also affect the content and form of advertisements. Other factors that can affect the message of an advertisement are its objective and platform. For instance, if a firm wants to create a brand image, its advertising message must focus on its logo and it should be repeatedly aired through appropriate media. And finally the advertising message must be carefully drafted and targeted to create the right impact on the target audience.

A successful advertising message should have the following characteristics:

- Meaningful – Target customers should find the message of an advertisement relevant and meaningful. Marketers must pay due attention to the message (what is said, who has said it and how it is said) delivered to make it more meaningful to the customer.
- Distinctive – An advertisement message needs to be unique so that it captures the customers' attention. For example, the Liril toilet soap advertisement combined a visual "a girl in the waterfall" with a unique sound track. The soap could create distinct brand image and maintained a leadership position in premium toilet soap category.
- Believable – The message should convince the customers about the features of the product. For example, 'Vim' bar advertisements demonstrate people cleaning the stained and greased vessels with a very small amount of the product. The clean and spotless vessels convey the effectiveness of the product as well as the ease of using the product. Another example is the Health Ministry's advertisement on 'oral re-hydration' (popularly known as 'ORS'). Making the customers believe the message is a difficult task because, in general most consumers doubt the claims made by the marketer in an advertisement.

Approaches to creating advertising messages

Advertisers can use a single approach or a mix of two or more approaches to create an advertisement message. Some of the important approaches are discussed below.

Comparative advertising: In this form of advertising, two or more brands of the same product category are compared with each other on the basis of one or more product attributes. The comparison can be implicit or explicit. In case of implicit advertising, brand names are implied, but the advertisement does not spell out the name of the competitor. For instance, the ad campaign of Tata Indica shows a small boy playing with a toy car (a look alike of Maruti 800), who then wants the bigger toy car (a look alike of Tata Indica) of another boy. The ad ends by saying that it's only human to ask for more (in this case, a bigger car). In this ad, Tata Motors compares Indica with Maruti on the attribute of its size but does not mention the brand Maruti.

Advertisement can show the competitive brands' packaging color or shape for implicit comparison. For example, Pepsi and Coca Cola ads normally try to show each other's packaging, color and shape.

Explicit advertising is one in which the names of the competing brands are openly used in the advertisement. For example, Hyundai normally advertises its small car Santro by comparing its features with those of other small car models in the market.

However, it is not legal in many countries to indulge in explicit comparison in advertising. The drawback of comparative advertising is that the company indirectly and unintentionally promotes the product of its competitors. This form of advertising can be harmful if the market leader indulges in comparing itself with other brands.

Inoculative advertising: Companies aim at retaining their customers by enhancing their resistance to withstand competitors' appeals. A company can highlight the weaknesses of a competitor's product to convince the customers that its product is superior to that of the competitor.

Refutation advertising: Companies which indulge in refutational advertising try to stimulate the buying behavior by motivating customers. The advertising message refutes the claims of competitors and contains information or argument in support of the company's product. Complan health drink's advertisement claim "not just any health drink but a complete planned food", approved by ICMR (Indian Council for Medical Research) is a good example for this form of advertising.

Creating emotions: These types of advertisements try to create an emotional bond with the brand. They try to establish an effective response for the brand using the emotions, moods and feelings of customers. A customer's attitude towards a brand can be based on either evaluation or simple liking. This liking, which cannot be explained on the basis of the knowledge or belief, is dependent on the attitude towards the brand and its exposure effects. Liking leads to preferences and preferences in turn lead to purchase decisions. Liking is relatively more in low involvement products where brand attribute information is not of much importance.

When an advertisement evokes positive feelings or emotions, customers make faster decisions. Therefore, advertisers use humor, fear and satire in their advertisements to evoke strong emotions. Fevicol ad campaign is a very good example for a humorous ad. In one of the Fevicol ads, a man tries to hang himself and almost the whole village comes to see this man committing suicide. But the chair on which this person stands breaks and he falls down. An old man peeping through the window says, *"Fevicol nai lagayo tharo ka kaam nai hoyo"* (You did not apply Fevicol, so you could not finish your task). And suddenly a log of wood from the ceiling falls on the man's head. The old man again says *"Fevicol nai lagayo tharo to kaam hogayo"* (Didn't apply Fevicol, so you are finished).

Similarly, fear can be created in the audience using advertisements. For instance, ads relating to income tax and service tax create a sense of fear in the people's mind by communicating to the intended audience that if they do not pay their taxes regularly, they may be arrested and sent behind the bars.

And satire can also be used to create strong emotions. For example, Amul butter's ad campaign uses satire and cartoons. On the latest Miss India World 2004 controversy in which the runner up crown given to Laxmi Pandit was taken away, Amul came out with a cartoon saying "Dismiss India".

Using endorser: In the words of Phil Knight (the CEO of Nike) "you can't explain much in 60 seconds, but when you show Michael Jordan, you don't have to. People already know a lot about him. It's that simple." Endorsers are people who create a positive impact on the mindset of customers and motivate them to buy the products. Companies (profit making as well as non-profit organizations) use films stars, sports personalities, beauty queens and public figures like politicians to endorse their products. Table 20.1 shows various brands and products that have been endorsed by various celebrity endorsers in India.

Table 20.1: The List of Celebrity Brand Endorsers and Associated Brands

Name of the Endorser	**Brand Name or Promotional Campaign**
Amitabh Bachchan	Dabur Chyawanprash, BPL, Government of India's eye donation campaign, eradication of polio (Pulse Polio Program), Pepsi, Asian Paints exterior emulsion, Parker pens, Reid & Taylor suiting, Cadbury’s.
Amitab Bachchan & Abhishek Bachchan	Maruti's Versa.
Shahrukh Khan	Pepsi, Bagpiper, AirTel, Omega watches and Santro.
Fardeen Khan	Provogue
Aamir Khan	Coca-Cola
Kareena Kapoor	Pepsi
Hritik Roshan	Coca Cola.
P T Usha	National integration
Kapil Dev	Mahindra & Mahindra tractors, Samsung, Rajdoot motorcycles and SET Max television channel.
Sachin Tendulkar	Boost, Visa cards, Fiat Palio, Pepsi, MRF, AirTel, Britannia, Adidas, NECC (National Egg Coordination Committee), TVS motorcycles.
Virender Shehwag	Johnson & Johnson's Band Aid, Britannia biscuits, Boost, Reliance mobile, Mayur suitings.
Rahul Dravid	Kissan jam, Britannia biscuits, Castrol, MRF, awareness on Tuberculosis.
Shatrughan Sinha.	Pulse polio advertisement of GOI
Atal B.Vajpayee and Murali Manohar Joshi	Primary education campaign
Najma Heptullah	National integration campaign
Maneka Gandhi	Ads on saving the environment and promoting vegetarianism.
Tabla maestro Zakir hussain	Taj Mahal tea.
Aishwarya Rai	Nakshatra jewellery, L’Oreal hair color, Pulse polio advertisement of GOI, Coca Cola, Omega watches, Lux soap.
Sonali Bendre	Omega watches, Nirma toilet soap.
Sunny Deol	Bagpiper, Sona Chandi Chyawanprash.
Imran Khan	Cinthol
Saurav Ganguly	Britannia, Sona Chandi Chyawanprash
Preity Zinta	Cadbury’s Perk, Pepsi, Godrej Pentacool refrigerator
Yuvraj Singh	Eveready Batteries, Westside, Pepsi.
Mohammad Kaif	Lays potato chips, Pepsi
Saif Ali Khan	Lays potato chips, Yamaha motorcycle, Pepsi
A.R.Rahman	AirTel

Exhibit 20.3

Can Television Advertising Influence the Purchase Decisions of Kids?

Buying behavior is largely influenced by reference groups. Marketers try to identify various reference groups. According to a study that covered over 700 respondents and was conducted in 13 countries by Media Consumer Insights division of communications services major, Group M, TV commercials play a significant role in influencing the buying decisions of children.

When compared to their counterparts in other countries, Indian parents are less inclined to give pocket money to their kids. Indian kids are also found to be relatively poor money managers. Interviews conducted during the study indicated that in India, parents strive more to reason with their children rather than simply refusing to purchase what their kids want. They are more concerned about their children understanding the value of money. Parents decide on their children's preferences and hence any proposition to the child should not overlook the parents' point of view. Marketers must work to satisfy both these consumer groups (parent as well as the child) and design the advertising message accordingly.

Adapted from "TV ads influence kids most," Hindu Business Line, December 9, 2003, 6.

Endorsing a brand is of mutual benefit to both the endorser as well as the company. Advertisers use endorsers to promote their products as (a) endorsers enhance the advertising readership/viewership, (b) they can evoke a positive response towards the product and the company and (c) the personal characteristics of the endorser can be easily associated with the brand. In turn, the endorsers charge huge amount of money from a company to endorse its brand.

Message structure

The structure, also known as the body of an advertisement, plays a vital role in promoting a brand. Advertisements help customers form their opinions of a product or a company. Messages can be one-sided, i.e. the marketers telling their part of the story, or two-sided, i.e. comparing their product with competing brands. Conclusion drawing messages raise issues or questions and then attempt to answer them.

Message format shows the level of creativity in an advertisement. In case of print media, advertisement copy consists of headlines/headings, body text, signature (logo, trademark or the firm address), punchline, baseline, color and graphics. In broadcast media such as the radio, the message should be informal and conversational and attract the attention of the target audience. The challenge lies in selecting the right words that can help customers interpret the message as desired by the company and relate the brand with the message easily. In addition to the message structure, communicating the message in a good and pleasing voice helps attract the attention of the audience. TV commercials can help in giving a demonstration of the product usage. And in television commercials, the quality of the film used, the audio sound, the visual used, the jingles, etc. also play a role in persuading the customers. Exhibit 20.3 discusses the various aspects that have to be considered by marketers who use the television as a medium for advertising.

Selecting the Right Media

Advertisers have a wide variety of advertising media to choose from. Before selecting the appropriate medium, the firm wanting to advertise has to find answers to four important questions. 1. Who are the target audience? 2. Where are they located? 3. What is the message that has to be delivered? 4. When do we run the advertising campaign?

Who should be reached?

Identification of the target segment is dependent on market segmentation. Segmentation on the basis of customer demographics, psychographics, social class, product usage and so on will help the media planner reach the maximum number of customers in those segments, within the budget constraints. However, there is always an amount of wastage in advertising, that is, these advertisements also reach those customers who are not in the target group.

Where are they located?

About 70 percent of over 1 billion population of India lives in more than 5,50,000 villages and the remaining lives in towns and cities. Advertising must ideally be targeted at places where most of the potential buyers are located. Differences in tastes and preferences exist for various products, based on the geographic location. For instance, demand for Tea is higher than for coffee in North India and the reverse is true for South India. Availability of a medium also has some geographic limitations. For instance, in print media, we have some newspapers and magazines that are limited to particular geographic locations. The advertiser should identify the location of his target audience and accordingly advertise in local or national media.

Which medium is appropriate?

The message that has to be delivered is very critical for the selection of the medium. A particular type of message requires a particular type of medium. If a new product is to be introduced in the market, a feeling of something new and exciting should be created and that can be effectively done by using the newspaper, the radio and the television. If the product or service needs a demonstration, then a television ad would be more appropriate than a print ad. If a high quality output in color is required, then multicolored magazines would do the job better when compared to newspapers. If there has been a controversy and the company wants to rebuild the lost confidence of customers in its brand or product, it can communicate its stand through the print media to show the proof or evidence (by a competent authority) certifying the quality of the product. If there is a need to build the brand image of a company on the basis of some personality traits, then they can be advertised during relevant programs on television or radio. For instance, ads relating to chocolates and biscuits are aired on cartoon network, ads relating to cosmetics are aired during primetime on television when soaps are being telecasted, ads relating to sports goods are aired on sports channels and so on. The advantage in following such a method is that these brands will be easily identified with the image the program is trying to create such as feminine, masculine, trendy, old fashioned and so on. Finally, the message should be relevant to the medium that is being used. For advertising IPOs (initial public offerings), for instance, media related to financial world would be most appropriate, such as CNBC on television, Economic Times or Business Standard in newspapers and so on.

When do we run the advertising campaign?

Advertising messages can be aired any time during the year depending upon the product or service. Normally the timing of the ad can be decided on the basis of seasons, months, weeks, days and even minutes and seconds. For example, marketers of woolen clothes advertise during the winter season when the demand for their products is the highest. Similarly, cool drinks', air conditioners', air coolers', and refrigerators' ads are normally run during the summer season. Apart from seasonal products, there are a host of other products that would benefit from differently timed advertisements. For instance, Britannia's 50-50 biscuit ads are aired on the television during cricket matches when the decision of the third umpire is pending. MRF ads are aired when Sachin Tendulkar, its major endorser is batting. While deciding, when to advertise, the type of audience also plays a significant role.

To select the right type of medium, media planners need to have a good knowledge of the different media that are available to reach the target audience. Information regarding the media is available in government and private publications, audit bureau circulations and so on.

Table 20.2 gives an outline of who uses advertising, for what purpose, targeted at whom and desiring what objective.

Table 20.2: Advertisers and various aspects of selecting the right medium

Users of Advertising	Target audience	Media	Objective
Manufacturers of products and/or services	Individual Customers	Newspapers, Magazines, Journals, Mailers, Brochures, Pamphlets, Yellow pages	For attaining sales for the product, brand or service
	Individual consumers, governments, social groups and its employees	Print media and broadcast media	To maintain good public relations
Manufacturers of products and/or services for resale.	Retailers and wholesalers	Trade magazines, Newsletters and Direct mail	For attracting wholesalers and retailers to stock the products and then promote them to end users
Wholesalers	Retailers	Print media, newsletters, direct mail	For attracting retailers' continuous patronage
Retailers	Individual customers	Regional newspapers, Television, magazines, hoardings, transit and direct mail	For attracting customers to a particular retail outlet or a chain of outlets
Individuals	Other individuals	Newspaper classifieds, posters, cable television	For selling individual property, used vehicles, matrimonial, etc.
Governments & social groups	Individual customers, other social groups and government departments.	Radio, Television, newspapers, outdoor media	For creating awareness about social, environmental, health and family issues and so on

Adapted from C.H. Sandage, Vernon Fryburger and Kim Rotzoll, "Advertising Theory and Practice," All India Traveller Book Seller, Eleventh Edition, New Delhi, p 70.

Evaluation of Advertising Effectiveness

Advertisers primarily evaluate the effectiveness of an advertisement because firms spend crores of rupees on advertising. And no marketer would like to spend such huge amounts without having any clue about the resultant effects of such expenditure. However, one might raise a question about the necessity of advertising itself. Although a marketer can perform his business activities without advertising, he will definitely lose the opportunity of increasing his sales.

Therefore, to measure the effectiveness of advertisements, marketers use several methods like intermediate measures. They are called intermediate measures because the target audiences are tested after they are exposed to the ad and before they take any action (purchase). In this method, the researchers question the respondents to analyze their receptiveness, their comprehension of the ad and their response towards the ad.

Receptiveness: Whether the audiences have clearly received the message.

Comprehension: Whether the audiences have understood the message.

Response: Whether the audiences have accepted the message.

Other intermediate methods include recognition and recall tests, where the audience is put to test on whether they can recognize and recall a particular ad. In case of the recognition test, the interviewer shows a copy of the advertising message to the customer and asks whether he recognizes it? If the answer is positive, the advertiser asks further questions with regards to the advertisement. Recall test can be either an aided or unaided recall test. In an unaided recall test, the respondents are not shown any copy of the advertising message and are simply asked what they have seen recently. Whereas in an aided recall test, respondents are shown a list of products, brands, company trademarks, logos, etc. to test their memory of the ad.

A persuasion test is another method where the respondents are asked whether they have been influenced by a particular advertisement, rather than asking them whether they remember the ad.

ADVERTISING AGENCIES

A company can handle an advertising campaign on its own or it can hire the services of an advertising agency. But the advertising job has become so complex that almost all businesses prefer to engage advertising agencies. An advertising agency is a firm, which specializes in developing and running advertising campaigns through various media. They usually charge a percentage of the total cost of running a campaign as a commission for their services.

A small firm depends on smaller agencies or local newspapers and broadcasting stations to develop its artwork and in media scheduling, whereas some large firms have an advertising department with in-house copywriters, artists, legal advisors, media personnel, etc. These firms can either opt to develop their own campaigns or hire the services of advertising agencies, depending on their specific needs. The advertising agency and its client (company) develop the advertising campaign jointly; the contribution of each party depends on the working relationship between them.

Ad Agencies in India

Everyday, more than 10,000 brands are advertised in India through various media. For example, the newspaper industry alone has more than 990 publications that are widely circulated in more than 18 different languages[3]. Hence, the growth and availability of media alternatives and various media vehicles has paved the way for growth of advertising. Many firms take the help of advertising agencies in developing and running their advertising campaigns. Table 20.3 gives a few examples of advertising agencies and their clients in India. Ad agencies in India usually charge something between 10-15% of total cost as a commission for their services.

[3] Indian Newspaper Society

Table 20.3: Advertising agencies and their clients

Category	Company & Brand	Advertising Agency
Food	Amul	DaCunha
Media	NDTV 24x7	St.Luke's
Automotive	Hero Honda – Karizma	JWT
Automotive	Mitsubishi – Lancer	Mudra
Textile and Apparel	ColorPlus	Rubecon
Textiles and Apparel	Park Avenue	Ambience Publicis
Automotive – Tyres	Apollo tyres	Everest
Automotive	Carmy	Dentsu

Source: <http://www.agencyfaqs.com/advertising/newcamps/index.html> December 10, 2003.

Advertising agencies in India have matured both in terms of number and the quality of service they provide to their clients as they have acquired greater skills in terms of production and research. Agencies cater to a variety of needs like media planning, execution of advertising campaign and evaluation of the campaign through media research and consumer research. They have multiplied in number in the recent past and many of them are working in collaboration with international agencies in pursuit of enriching their professional skills. International advertising agencies have also entered the Indian market either through tie ups with Indian agencies or by setting up their own outlets. The success of Leo Burnett India proves the feasibility of operation of international agencies in India. In fact, Leo Burnett India has been awarded the "Leo Burnett-World wide agency of the year" for 2003. It was one of the only two Indian advertising agencies to be shortlisted in the TV ads category at Cannes and was also the only Indian agency to have reached the final category at D&AD[4].

SALES PROMOTION

"In a specific sense, sales promotion includes those sales activities that supplement both personal selling and advertising and coordinate them and make them effective, such as displays, shows, demonstrations and other non-recurrent selling efforts not in the ordinary routine." – This is the definition of sales promotion as given by the American Marketing Association (AMA).

In simple words, sales promotion can be defined as an activity taken up to boost the sales of a product. It can include a host of activities like running advertising campaigns, handling public relation activities, distribution of free samples, offering free gifts, conducting trade fairs, exhibitions and competitions, offering temporary price discounts, launching door-to-door selling and telemarketing, etc.

Compared to any other element of the promotional mix, sales promotion is more action oriented. It helps in stimulating the customers to buy a product. Increasing concern for value for money among customers has brought sales promotion to the center stage, as customers have become more responsive to promotional offers, discount/gift coupons and point of purchase displays.

[4] UK-based Design & Art Direction (D&AD) is an educational charity organization whose purpose is to set creative standards in advertising and design. It confers D&AD awards on advertising agencies and individuals to inspire and promote good advertising and design.

Purpose of Sales Promotion

The main purpose of sales promotion is to boost the sales of a product by creating demand, i.e., both consumer demand as well as trade demand. It improves the performance of middlemen and acts as a supplement to advertising and personal selling.
Sales promotion also helps in achieving the following purposes:

- Encourage the customers to try a new product. For example, Eenadu, a leading Telugu daily in AP, distributed free copies of the newspaper, for a month when it was launched in Hyderabad. Another interesting example is of Brooke Bond India; the company used to distribute free tea to every household in the 1940s, to promote tea culture in Hyderabad.
- Attract new customers. For example, when HLL extended its Rin detergent bar brand to detergent powder, it distributed free sachets to households.
- Encourage the customers to use the product or service and make them brand loyal. For example, Henko detergent introduced scratch card scheme in which customers usually received discount coupons so that customers buy the same product (Henko detergent) again.
- Counter a competitors' promotional activities

Importance of Sales Promotion

Sales promotion plays a vital role when:

i. Sellers introduce new products or new brands in the market. This calls for the companies to indulge in sales promotion activities by providing extra incentives to the customer to make the customer aware of their offerings and to increase sales.

ii. When an economy is going through a recessionary phase, customers become more price sensitive. Sales of different companies come down drastically as markets underperform. Marketers can tackle this problem with the help of promotional tools like offering gift or discount coupons, gifts, contests, sweepstakes, etc to the customers.

iii. The seller aims at triggering the impulsive buying behavior of the customers. For example, supermarkets and big retail stores display items like candy, cigarettes, magazines, etc. at their sales counter or check out stands to promote impulsive buying.

iv. A company seeks to obtain greater cooperation from its retailers. For example, companies offer to train the staff of its dealers/distributors with regard to their products to get a better shelf positioning and extra shelf space. It helps in earning the goodwill of dealers and distributors.

Decisions in Sales Promotion

Product characteristics like size, weight, cost, durability, etc. and the target audience characteristics like their geographic location, demographics, etc. play an important role in helping the company choose the most desirable sales promotion method. Other factors that influence the promotion decisions can be the size of the market, the distribution network of the firm, the political and legal environment in which the firm operates, etc.

Sales promotion can be directed either at consumers in the form of consumer sales promotion or at distribution channels in the form of trade sales promotion.

- Consumer sales promotion: This type of sales promotion is targeted at the end consumers. Customer sales promotion is a "pull strategy" and encourages the customers to make a purchase.

- Trade sales promotion: This type of sales promotion is targeted at the distribution channel. It is a "push strategy" and encourages the channel members to stock the product. This is usually known as "selling into the trade". This form of promotion is usually not advertised, as it is an internal affair between the company and its distribution network partners.

Consumer sales promotion methods

Marketers use sales promotion to introduce a new product or brand, or promote the existing brand. On the other hand retailers use sales promotion to attract customers to their stores. They can use a number of sales promotion tools to boost their sales.

Price promotions: Price promotions are also commonly known as "price discounting". They offer either a discount on the normal selling price of the product or more of the product at the same price. This type of promotion must be used with care as the increase in sales is gained at the cost of a loss in the profit. Also, too much of discounting can have a negative impact on the brand's reputation.

Coupons: Offering coupons is the most widely used customer sales promotion technique. It is yet another way of offering a discount. A coupon is a certificate that offers a price reduction for some specified items to the holder. Coupons are distributed with magazines, newspapers, etc.

A few examples of coupon distribution can be

- A coupon pasted on a package, or placed inside a package to encourage repeat purchase
- Coupon books sent out in newspapers, or offered with the purchase of an item, allowing customers to redeem coupons at a retailer within a defined time period.
- A cutout coupon as part of an advertisement in a newspaper/magazine that can be redeemed at select outlets.
- Coupon printed on the back of receipts.

Free gifts/samples: Free samples of a new product are usually given to customers, when it is launched in the market. "Gift with purchase" is a very common promotional technique. It is also known as a "premium promotion" as the customer gets something in addition to the main purchase. For example, if a customer buys a Colgate toothpaste, he gets a Colgate toothbrush free. Offering free gifts or samples is the most expensive form of sales promotion. Marketers use this technique to increase their sales volume in the early stages of the product life cycle. For example, L'Oreal India distributed free hair conditioner with its hair colorant in the initial months of its launch. It still offers a pack of free shampoo and a small gift like a nail clipper or a mirror with this pack.

This type of promotion is widely used for

- Subscription-based products (e.g. magazines).
- Consumer luxuries (e.g. perfumes, vehicles, etc.)

Banks and other businesses also offer free gifts like calendars, diaries, penholders, etc. to their regular customers.

Money refunds and rebates: In case of money refund, the customer receives a specific amount of money (refund) after he submits a proof of purchase to the manufacturer. Manufacturers devise the strategy such that the customer qualifies for a refund only when he makes multiple purchases. However, in some cases, marketers refund cash to customers on making a single purchase. These schemes are often viewed with some suspicion, especially if the method of obtaining a refund looks unusual. The customers might even doubt the manufacturer's reason for offering rebates and refunds. This can lead to a degradation of the brand's image, if the scheme is not handled properly.

Frequent user incentives: Repeat purchases may be stimulated by frequent user incentives. Hence, firms offer incentive schemes to reward their loyal customers. The best example of this is the frequent flyer scheme offered by airlines.

Point-of-purchase (POP) displays: POP displays are believed to serve as a silent sales force. They include window displays, wall displays, display racks, danglers, balloons, outside signs, counter pieces and innovations such as sniff teasers that spread a product's aroma in the store, etc. These items, often supplied by the manufacturer, encourage the retailer to store the product in his store, attract the attention of a customer and inform him about the product. Research on customer buying behavior in retail stores suggests that a significant proportion of purchases result from displays that customers come across in the store. Attractive, informative and well-positioned point-of-purchase displays therefore form an important part of sales promotion.

Installment offers: Manufacturers as well as retailers offer products at a down payment and allow the customers to pay the remaining amount on an installment basis. Marketers of consumer durable and white goods use this type of promotional method.

Consumer contest: This method of sales promotion is carried out when a marketer aims at increasing the retail sale of a product. Customers take part in small competitions on the basis of their creative and analytical skills. Such contests attract customers' attention. However, marketers should take care in designing a contest as dissatisfied customers can stop purchasing the firm's product or speak negatively about the company to their reference group. And at times, they may even resort to litigation. The Times of India regularly organizes such contests for its readers. Some time back, it organized Tambola and recently organized the Name Game.

Consumer sweepstakes: In this type of sales promotion, customers are required to submit their names to be included in a draw for prizes. Sweepstakes are more profitable in comparison to contests, as the chances of lawsuits are minimal and they attract a vast majority of customers. Sweepstakes can help in generating customer interest in the product and also lead to short-term increase in sales.

Trade shows: A group of retailers or manufacturers conduct exhibitions and trade shows to make the customer aware of the products offered by various firms. Industrial shows and annual industrial exhibition, exhibition of home appliances, consumer goods or gym equipment, etc. are examples of this type of sales promotion.

Trade sales promotion methods

Manufactures use special trade promotion methods to encourage resellers like retailers to promote their products. They might use a number of methods to attract the middlemen, including a few of the above discussed methods like trade shows, premiums, sales contests, etc., directed only at them. Let us discuss a few commonly used methods of sales promotion directed at middlemen.

Buying allowance: Buying allowance is a temporary price reduction offered to the retailer for purchasing a specific quantity/units of the product. Such an offer acts as an incentive to stimulate short-term profit of the retailer and promote new products for the company. But the limitation of this method is that retailers might indulge in buy forward, i.e., they can buy a large stock, which will be carried over a couple of months. Also, competitors can also reduce the price of their products for the retailer, which affects the profits of the entire industry.

Buyback allowance: In this kind of sales promotion, the channel members are offered a monetary incentive for each additional unit purchased after the initial deal. This method aims at stimulating the channel members to purchase additional quantities of stock that is over and above the normal stock, as the monetary incentive they receive is proportional to the amount of additional stock they purchase.

Merchandise allowance: In this form of trade promotion, a manufacturer agrees to pay the reseller certain amount of money for promoting the company's product through advertising or displays. Middlemen are usually required to show the proof of the advertisement carried out by them. .

Free merchandise: Free merchandise is a sales promotion technique in which an additional amount of the product is offered without any additional cost, as an incentive to purchase a minimum quantity. The incentive is typically offered for a limited period of time.

Dealer loader: A dealer loader is a reward or gift, which is usually a part of the display kit given to the retailer, to encourage him to display the merchandise. Retailers obtain gifts only when they buy specific quantities of goods and retain the gift when the promotion is over. Marketers use this technique when they use new distributors or they want to push products to retailers. For example, a silver tray to display a product. When the event is over, the retailer is allowed to keep the silver tray.

Dealer listing: Dealer listing is a technique in which the advertisement of a company identifies and acknowledges its retailer/retailers. Dealer listings help in persuading the retailer to carry the product and also encourage the customers to buy the product at a particular dealer's outlet.

Scan back allowance: A scan back allowance program is aimed specifically at retail outlets. Retailers are rewarded on the basis of the number of units that moved through their scanners or hand-held wands during a specific time. In order to participate in scan back programs, retailers indulge in reducing the retail price or offer special prices on a given product for a specific time period.

PUBLIC RELATIONS

According to the Institute of Public Relations (UK), public relations is "the planned and sustained effort to establish and maintain goodwill and mutual understanding between an organization and its public". A firm's public includes its employees, stakeholders, trade unions, general public, customers (past, present and future), charities, media, government and politicians, etc.

An organization needs to communicate with the public both internally as well as externally. As the attitude of the public influences the sales of an organization, enhanced public relations work to enhance the overall image and create goodwill for the company. Hence, organizations need to communicate with one or all members of its public regularly.

The role of public relations is to:

- Identify the relevant public
- Influence the opinions of the public by

  a) Reinforcing the favorable opinions

  b) Transforming neutral opinions of the public into positive opinions

  c) Changing or neutralizing hostile opinions

Publicity, a function of PR, is a communication about an organization and/or its products to the public. It is usually carried out in the form of a) a news item, a press release or an article in a newspaper or a mass medium like the TV b) an interview or speech delivered by the company executive at a press conference or c) a one to one communication with the target audience; for example, a company representative might talk to a legislator or any government official with an intention to lobby for the company.

Use of publicity has its own advantages like a) the public believes the credibility of the information as the media is not paid for but still publishes the article/news item, b) stories and articles projecting the company as a responsible corporate citizen are carried out in various media and c) the overall cost of publicity is much lower than the cost of advertising.

Marketing and PR

In small firms, the marketing manager might assume the advertising, sales promotion, sales, and public relations responsibilities. Large firms that offer numerous products nationally or even globally have different managers to handle different activities like advertising, promotions, marketing, sales, and public relations. In such big firms, the role of a marketing manager and PR manager are totally different.

Functions of a marketing manager

The role of a marketing manager is to develop the firm's detailed marketing strategy. The marketing manager determines the demand for products offered by the firm and those offered by its competitors. He monitors the trends and predicts the demand for the existing products. He also handles new product development with the help of the sales manager and the production manager. In addition, he identifies the potential markets like other business firms, the wholesalers, the retailers, the government, or the general public. Marketing managers develop the pricing strategy with an aim to maximize the firm's profits, while ensuring that the customers are satisfied. They also work with advertising and promotion managers to promote the firm's products and to attract potential customers.

Functions of PR manager

Public relations is but a part of marketing and therefore, the PR managers concentrate only on the PR aspect of the firm. These managers direct publicity programs to the target audiences. They often specialize in a specific area, such as crisis management. They make use of all possible communication media to win and maintain the support of the public. For example, public relations managers may justify the firm's point of view on environmental issues to the general public. Public relations managers also evaluate the advertising and promotion programs of a firm for compatibility with public relation efforts. They observe economic, political and social trends that might affect the firm and also make recommendations to enhance the firm's image on the basis of those trends.

A public relations manager works in close association with other managers like finance manager or industrial manager to prepare internal communications like newsletters about employee-management relations, company’s annual reports, financial reports, etc. PR managers assist the executives in drafting speeches, arranging interviews, and maintaining other forms of public contact and respond to information requests. PR managers also create tools like logos, business cards, stationery, etc. In addition, they sometimes handle special events like sponsorship of races, parties for launching new products and other activities that a firm supports in order to gain public attention.

Major Decisions in PR

Like any other marketing activity, PR needs to follow a systematic approach of setting objectives, selecting the message and media vehicle, plan implementation and finally conduct evaluation.

Setting objectives

A company can have a number of objectives like:

- Build awareness: It can publish stories/articles in the media or take part in social activities to attract the attention of the customers towards its products.
- Build credibility: This can be achieved when the news regarding the company is carried in the editorial section of newspapers/publications or when the news is carried out as a news item in the broadcast medium.
- Motivate sales force: Companies can motivate their sales force by publishing stories about a new product in various media before actually launching the product. Thus, they can create an interest about the product in the sales force as well. This also stimulates other channel members like the retailers to stock the new product, which reduces the lead time.
- Cut down promotional cost: Publicity and PR can help the firm in cutting down its promotional cost to an extent.

Selecting the message and media vehicle

PR managers must identify and develop interesting news and stories for the media. They must conduct news events or sponsorship programs that can serve the dual purpose of conveying the message as well as help in developing the message in the course of the event.

An organization has little control over what is said by the media in a news item or an article, as it is not paid for. PR department of a company does not have control over the timing, duration or the slot allotted to the messages. Hence, messages should be developed with care and precaution. They should be timely, interesting, accurate and in the public interest.

Messages can be carried out in various media like the newspapers, newsletters, the TV, the Internet, intranet, radio broadcast, etc. in the form of news release, news item, a captioned photograph, etc. Hence, marketers should take care in selecting the right media and the media vehicles.

Implementing the plan

Implementing the PR activities of a firm requires care and diligence. PR managers seek to develop healthy relationship with the media personnel to get a good mileage for the company's PR activities.

Major Tools of PR

Firms can use a number of PR tools to communicate with the public and create a positive image for themselves in the society. A few examples of the PR tools are given below.

- PR managers prepare brochures, newsletters, logos, in-house magazines, annual reports and news releases.
- PR managers use publicity, which is an unpaid form of communication in media to enhance the image of the company. It can be used to provide information about new product launches, mergers, research and development carried out by the firm, acquisitions by the company and so on. Publicity can be used as an effective tool because people believe the credibility of the news. Some firms develop special films and copies for various media that carry out the publicity for them. Examples of publicity based public relation tools can be

    a) News release: A news release is usually a single page copy containing not more than 300 words. Apart from the news, it may include the company's name, address, contact numbers, and name of the contact person.

b) Feature article: A featured article is prepared for a specific publication and can contain up to 3000 words.

c) Captioned photograph: A captioned photograph contains a photograph with a brief description of the picture's contents. They are commonly used for launching new products or for talking about the improvement in or the addition of new features to the product.

d) Press conference: A press conference is a meeting of the press personnel, called by the company to announce a major news event. The company hands out written material, photographs, video and audiotapes to different media. However, at times, the firm might prefer to send a letter to the editor or a written editorial to the publication house.

- PR managers can also sponsor a social event. An event sponsorship is an agreement where the company pays for a part or the whole event like a tournament, a product launch, a stage show, or a race, etc. For example, The Hindu sponsors the Deccan Derby race of Hyderabad Race club every year. Event sponsorship helps the firm increase its brand recognition. It also provides free media coverage for the firm. Similarly, the Sahara Parivar shirts worn by the Indian cricket team provide publicity for Sahara India whenever the Indian cricket team plays a game, as it is aired by various sports channels across the globe.

Techniques for PR

There are many techniques available to influence public opinion. Some techniques are more appropriate in certain circumstances than others. Let us see how a firm can communicate with some of its important targets.

Consumer communication: Companies use a variety of communication tools like customer press releases, promotional videos, consumer exhibitions, competitions and prizes, product launch events, celebrity endorsements, web sites, etc.

Business communication: A company can communicate to its business associates and other publics through a) Company and product videos, b) Direct mailings, c) Trade press releases, d) Web sites, e) Trade exhibitions, f) Articles. It can also use a host of other external corporate communication channels like a) Company literature like annual reports, brochures, videos, etc., b) Community involvement programs, c) local, national and international media relations, d) shareholder meetings (including the annual general meeting) and e) meetings with stock market analysts, fund managers, etc.

Employee communication: Employee morale is strengthened if the firm is perceived favorably by the public. Hence, firms use various techniques to communicate with its employees like a) in-house newsletters and magazines, b) internal/employee communication channels, c) Intranet and email, d) notice boards, e) company get-togethers and picnics, f) employee conferences etc.

Evaluating PR

It is actually quite difficult to measure whether the key messages have been communicated to the target audience, because the number of techniques used in PR to reach various target audiences is quite large. In any case, measuring the effectiveness can be quite a costly affair, as it would involve a large amount of regular research. However, the main measures of effectiveness concentrate on the process of PR and they include

- Monitoring the amount of media coverage obtained: In the case of press media, a company can maintain press cuttings to know how many times its news items appeared in various print media. Organizations can hire the services of a clipping service (a firm involved in clipping news releases and sending to the parent organization). In case of television telecast, the firm can request the television channel to record the date and time of telecast.

- Measuring attendance at meetings, conferences, etc.
- Measuring the number of inquiries or orders received in response to specific public relations efforts. The company must try to measure these before and after the public relations campaigns.

Dealing with Unfavorable PR

A company might have to face unfavorable PR due to various reasons like a) an accident, for example, the Bhopal gas tragedy that occurred on the 3rd of December 1984 at the Bhopal plant of Union Carbide India Ltd., b) controversial activities of its employees, for example, Infosys faced negative publicity, when one of its top exectuves, Mr Phaneesh Murthy was accused of sexual harassment and illegal termination of a former employee, Ms. Rekha Maximovitch, c) products/activities unsafe to the environment, for example, HLL faced charges framed by the Green Peace India and Palni Hills Conservation Council alleging HLL of illegally dumping mercury-bearing waste glass in Kodaikanal and d) other negative events or/and situations.

Unfavorable PR can have a quick and dramatic effect. A company's public image can be drastically marred in the event of unfavorable PR. Organizations can reduce the effects of negative PR through safety measures, effective quality control measures, inspections etc. at the plant level to avoid accidents, which are usually the major cause of unfavorable PR. Organizations should take a proactive approach and chalk out plans to handle unfavorable PR. They must establish policies, rules and regulations and implement them effectively to manage crisis and curb controversies. Seeking the media's help can aid in reducing the impact of negative publicity to a firm.

SUMMARY

Advertising is the paid form of most widely used personal mass communication. It can be in oral, written or visual form and is sponsored by an identifiable source. Advertising is carried out in various mass media like the TV, radio, newspapers, magazines, out door displays, the Internet, etc. It is highly flexible in nature and can reach a large target audience. Hence, commercial organizations, non-profit organizations and government agencies use it widely.

Developing an advertisement program requires (i) Identifying the target audience of the firm and their specific needs. (ii) Specifying the objectives - the objectives of an advertising program can be (a) to inform the customers about new products, benefits of the existing products, new prices, etc., (b) to persuade the customer to make a purchase, take a sales call, etc., and (c) to remind the customer about the product and its availability at various sources. (iii) Setting the advertising budget: Marketers can use various methods like objective and task method, percentage of sales method, affordability method and competitive parity method to set the advertising budget. (iv) Developing the advertising message. (v) Selecting the media – marketers need to study the feasibility of the media used. The factors that determine the choice of media are reach, frequency and media impact. (vi) Evaluating the advertising effectiveness.

Sales promotion is an activity taken up to boost the sales of a product. It includes a host of activities like advertising campaigns, public relation activities, distribution of free samples, offering free gifts, conducting trade-fairs, exhibitions, competitions, offering temporary reduction in price, launching door-to-door selling, conducting demonstrations at schools, telemarketing, etc. It is used to (a) encourage the customer to try new products, (b) attract new customers, (c) counter the promotional activities of the competitors and (d) make the customer brand loyal. Sales promotion can be directed to customers and other business associates like distributors and retailers. Consumer sales promotion methods include (a) price promotions, (b) coupons, (c) free gifts and free samples, (d) money refund and rebates, (e) point of purchase displays, (f) installment offers, (g) consumer contests, (h) consumer sweepstakes and (i) trade shows. Trade sales promotion methods include (a) buying allowance, (b) premiums, (c) buy back allowance, (d) merchandise allowance, (e) free merchandise, (f) dealer loader, (g) dealer listing, (h) scan back allowance and a host of other activities.

Public relations is a planned and sustained effort to establish and maintain goodwill and mutual understanding between an organization and its public. The role of PR is to identify the relevant public and influence their opinion. Publicity is a sub function of PR that acts as a bridge between the organization (its products) and its public. Publicity is usually carried out in the form of a) a news item, press release or an article in a newspaper or mass medium like TV, b) it can be in the form of a interview or speech delivered by the company executive at a press conference or c) a one to one communication with the target audience. PR managers follow a systematic approach of setting the objectives, selecting the message and media vehicle, plan the implementation process and evaluate the PR program's effectiveness. Major PR tools of a firm include brochures, newsletters, logos, annual reports, news releases, feature articles, captioned photographs, press conferences, event sponsorships, etc. Organizations should avoid negative public relations. They should device policies and procedures to deal with uncalled for and unfavorable personal relations.

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Chapter 21

Personal Selling and Sales Force Management

In this chapter we will discuss:

- Nature and importance of personal selling
- Types of salespersons
- Personal selling process
- Improving personal selling efforts
- Sales force management

Marketing is the lifeblood of an organization. It supports a host of operational functions, including selling. Marketing differs from selling in many respects. In marketing, the focus is on the customer whereas in selling, the focus is on the product. Marketing involves meeting the needs and wants of the customer while selling involves pushing the product in the market without any consideration for the customer's needs and wants. A third difference between the two is that marketing is concerned with producing the product that the customers want whereas selling involves trying to make the customer want what the company has to offer. However, the ultimate aim of all marketing and selling activities is customer satisfaction. Therefore, a salesperson can also be regarded as a micro-marketer.

Personal selling is one of the elements of promotional mix. Some companies depend exclusively on personal selling as their promotional tool while others use a combination of promotional mix elements such as advertising, sales promotion, direct marketing, public relations and personal selling.

NATURE AND IMPORTANCE OF PERSONAL SELLING

Since the beginning of the manufacturing era, companies have relied on their sales force to personally sell their products. Because of personal selling, products of various kinds enter customers' households as well as offices. Would we be using innovative products like vacuum cleaners, microwave ovens, printers and photocopiers if it weren't for the salesperson who sold these to us? The promotion and sale of these convenience goods by salespersons has also helped make our lives more convenient. Thus, personal selling is responsible for helping people attain a certain standard of living. Personal selling plays an important role in increasing sales volumes and helps generate profits for firms. Thus, personal selling helps in the growth of the economy.

Personal selling takes place when a seller or salesperson, in a face-to-face interaction with a potential buyer, tries to persuade him to purchase the product or service he is promoting on behalf of a company. Personal selling takes place at a personal level and involves a personalized transaction. The salesperson communicates the product's benefits to the customer in an attempt to inform him and convince him to make a purchase. Personal selling provides the salesperson with immediate feedback and helps him adjust or modify his sales proposition to suit the requirements of the buyer. For example, when a customer walks into an automobile showroom to look at the models that are available, the salesperson during his interaction with the customer, tries to explain to him, the features of each model, its price, additional accessories that would be required, and the various finance options available. Depending on the requirements and the budgetary constraints of the customer, the salesperson suggests the customer a suitable model.

Personal selling is a more effective promotional tool when compared to advertising. It gives a salesperson the freedom to develop and deliver a unique selling proposition to each individual customer depending on the latter's requirements. The salesperson can observe and interpret information from the verbal cues (paralanguage) and non verbal cues (kinesics) of the customer and customize his proposition accordingly. However, personal selling has its own limitations. Since companies maintain a large sales force to promote their products, cost per sale can be quite high in personal selling.

In personal selling, the salesperson has to meet certain goals. These include:

- Finding new prospects,
- Convincing the prospects to purchase the company's product, and
- Keeping the customers satisfied and indirectly influencing them to provide a positive word-of-mouth publicity about the company.

Importance of Personal Selling

Personal selling is important for the sales and revenue growth of an organization. It can be described as a handy tool in the hands of marketers for the following reasons:

- Personal selling gives marketers the freedom to make adjustments in the promotional message to satisfy the information needs of customers.
- Unlike advertising, publicity and sales promotion, it allows the marketers to target their promotional message with utmost precision at the most promising leads.
- It provides the marketer with more information about customer preferences and also serves as a means of obtaining feedback about the company and its products.
- Personal selling facilitates a two way flow of information and improves interaction between the customer and the company.
- The interaction between salespersons and customers helps the company identify the strengths and weaknesses of their new products. It helps the company take necessary corrective action.
- Personal selling helps marketers obtain necessary feedback to improve their new product development and customize the product to suit the requirements of individual customers.
- Effective sales force also helps a company build and improve relationship with customers.

TYPES OF SALESPERSONS

Sales personnel try to identify customers' needs and match these needs with their product offerings to satisfy them. They provide information regarding the features of a product and its usage and the service support to the customer, and persuade him to purchase it. A salesperson's job is not to push the product but to solve problems and help customers make buying decisions. Apart from the above tasks, sales personnel also perform a host of other tasks such as monitoring competitors' strategies, keeping a close eye on the new products introduced by the competitors, studying the competitors' sales efforts, etc. Some examples of sales personnel are stockbrokers, manufacturing sales representatives, retail sales representatives, real estate brokers, etc. On the basis of the nature of functions they perform, sales personnel can be classified as order-takers, order-getters and support personnel. However, it is neither necessary nor financially feasible for companies to maintain three different types of salespersons. Mostly, a single salesperson performs all the tasks performed by the three different types of salespersons.

Order Takers

Order takers are the sales personnel who handle routine sales orders and repeat orders. They anticipate customers' needs and take steps to fulfill these needs. Thus, they ensure that sufficient quantity of the product is available to the customers whenever and where ever they need it. The responsibilities of order takers include arranging product displays, restocking the products, answering phone calls and taking orders. Since they do not require making extensive sales efforts, they receive very little training and low compensation when compared to other two types of salespersons. Order takers generate the bulk of a firm's sales. The monotonous nature of the job and the low compensation lead to a high turnover of these sales personnel.

Order takers can be further classified into two types:

Inside order takers: Inside order takers are the salespersons who operate from within the store and do not make any field calls. They help grow the business by interacting with the customers and taking orders on phone or through mail. Examples of such salespersons include telemarketing personnel, retail sales clerks, real estate agents, check-out counter clerks, etc. Inside order takers are usually hired by retailers and wholesalers, motor vehicle dealers, furniture and home furnishing stores, etc.

Field order takers: Field order takers are the salespersons who require to make field calls to promote sales. They go to the customer and take the order for their products. Examples of field order takers include sales agents for pharmaceutical companies, insurance sales agents, and sales people who promote the sales of hardware, office supplies, etc. to retail stores. Field order takers share a relationship of mutual dependency with the customer. While the salespersons depend on the customers to obtain repeat orders, the customers depend on them to take their orders and deliver the goods as well. Advances in technology, especially use of laptop computers and the intranet, have been of great assistance to these sales personnel as they facilitate tracking of inventory, orders etc., even while they are away in the field.

Order Getters

Order getters are the sales personnel who are responsible for the growth of a company by getting orders from new customers and increasing sales from the existing customers. They achieve this by means of the creative selling process comprising of eight steps – pre-customer contact, prospecting, initial contact, presentation of merchandise, handling objections, closing the sale, suggestion selling, and sales follow-up. These salespersons are usually under tremendous pressure to achieve targets. Therefore, they are required to be continuously trained and motivated. Products, which are expensive (for example, fancy clothing), complex in nature (for example, computers) or are being introduced in the market for the first time, require to be promoted by this category of salespersons.

The process of order getting involves achieving two types of sales: current customer sales and new business sales.

Current customer sales: Sales from current customers can be increased by successfully convincing them to purchase more products and obtaining more sales orders from them. Current customers may also serve as a source of new business leads for order getters.

New business sales: These involve sales to new customers. In new business sales, the task of the order getter is to identify prospective customers and convert them into buyers. It is a difficult task when compared to current customer sales because converting a prospect into a buyer is a complex process. It also takes a longer time for the salespersons to make new business sales. References from existing customers and door-to-door marketing are the two commonly used methods to generate new sales.

Support Personnel

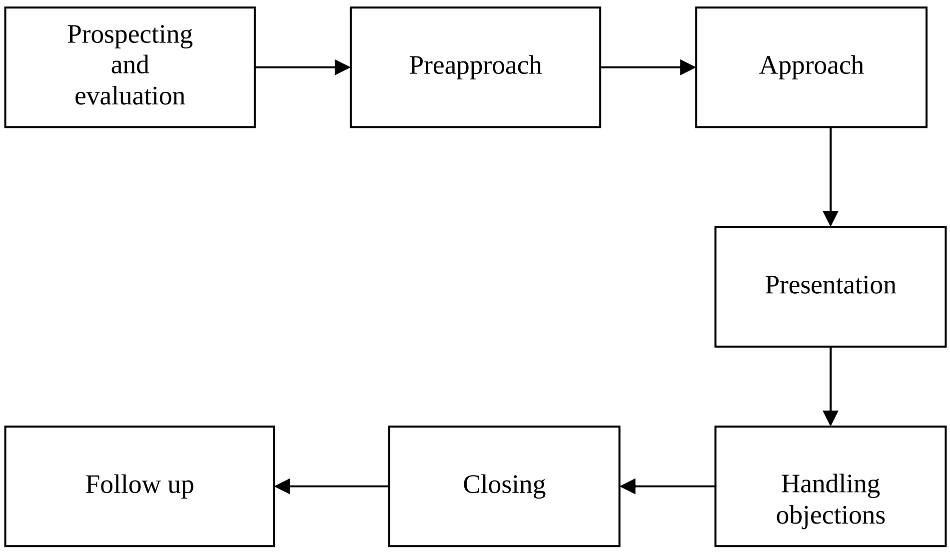
Support personnel are not involved in actual sales of the product but facilitate the selling function. Their responsibilities include identifying prospective buyers, educating them about the company’s products, building goodwill for the company and providing after sales support to the buyers. Support personnel are usually involved in promoting the sale of business-to-business (B2B) products or organizational products.

Support personnel can be categorized into three types: missionary sales people, trade sales people and technical sales people.

PERSONAL SELLING PROCESS

The objective of the personal selling process is to enhance customer satisfaction and build a long-term relationship with the customer. The selling process differs from one salesperson to another and also varies with the selling situation. However, a typical selling process usually consists of (i) prospecting for and evaluating the potential customer (ii) preparing before approaching the potential customer, (iii) approaching the prospect, (iv) making presentations to the prospect, (v) handling the objections raised by the prospect, (vi) closing the sale and (vii) following up after the sale. This process is diagrammatically represented in Figure 21.1. Some selling situations warrant that the salesperson follows all the seven steps, whereas in some selling situations, a few of these steps can be avoided. For example, a salesperson who sells the same product to the same customer every time, be it an individual customer or a corporate customer, can avoid the prospecting and preapproach stages. In such cases, the previous sales history provides the necessary data regarding the customer. Likewise, a long-term relationship between a salesperson and a customer allows the former to skip the prospecting and evaluating stages.

Figure 21.1: Personal Selling Process



Prospecting and Evaluating

Prospecting is the process of finding and evaluating potential customers. For qualifying a person as a potential customer (prospect), the salesperson must identify whether the customer (individual or organization) has an immediate or a distant need to be satisfied. The salesperson must also identify if the potential customer has the willingness, ability and authority to buy the product. At this stage, the salesperson does not generally come into contact with the customer. The amount of time and effort put in by the salesperson in prospecting depends on the nature of the product and the marketing goals of the company.

Prospecting involves a) generating sales leads, b) identifying prospects and c) qualifying prospects.

Generating leads

A sales lead (potential prospect) can be in the form of an individual or an organization that might need or buy the company's product. Salespersons use a variety of sources to generate leads such as:

(a) People: This category consists of the existing customers, suppliers, former customers, dealers and other salespersons of the company, or the salesperson's friends, relatives, and other people in his reference group, who may provide the lead.

(b) Events: The salesperson can come into contact with the potential prospects at any social event, seminar, conference, trade show or exhibition.

(c) Published information: Salesperson can take the help of newspapers, telephone directories, trade directories (e.g. yellow pages), business cards, coupons, sales records, computer databases, public records, mailing lists, organizational directories, etc. to identify potential sales leads. This published information usually helps in making cold calls.

(d) Associations: Salespersons can be members of professional bodies (e.g. National Association of Sales Professionals, Sales & Marketing Executives International), trade associations, chambers of commerce, etc. Sales leads can be generated and identified at various programs, meetings and seminars conducted by such professional bodies.

Identifying prospects

A prospect is a person or an organization that indicates a need for a product. A salesperson can identify a prospect by writing to him, or by making a phone call or through telemarketing. Salespersons make phone calls, which is also known as cold calling, in order to contact a prospect. In a cold call, a salesperson either visits or calls up people whom he does not know. The salesperson may visit a potential customer either by taking a prior appointment or without it. However, adopting the latter approach might be both costly and time consuming and also does not promise to generate a customer. Telemarketing is yet another tool to identify prospects and this utilizes the services of specialized sales people to contact potential customers over the telephone.

Qualifying prospects

After identifying a potential lead (prospect), the salesperson qualifies whether the prospect can afford to make a purchase or not. It is not worthwhile to invest time and effort in all the prospects because some customers may not have the need or the financial capacity to make the purchase. There may also be some prospects who lack the authority to make the purchase decision. Therefore, it is important for the salesperson to first evaluate the capacity, willingness and authority of the prospect to make a purchase decision. To obtain this information for consumer products, the salesperson inquires the prospect about his or her occupation, place of residence, etc. If the prospect is a corporate entity, the salesperson can evaluate its credit rating and annual reports before qualifying it as a potential customer. On the basis of the information gathered from the prospect, the salesperson can qualify the prospect as a cold lead (a prospect who cannot turn into a customer), a warm lead (a prospect who has a latent need to buy the product) or a hot lead (a prospect who is willing to make the purchase).

Pre-approach

After having identified the hot leads, the salesperson plans and prepares for making a sales call on them. The pre-approach stage of personal selling process involves further sub-stages such as creation of the prospect's profile, deciding on the approach, establishing the objectives of the sales call, and preparing for the presentation.

Creation of the prospect's profile requires the salesperson to be involved in certain information-gathering activities. For developing a profile, a salesperson tries to gather information about the personal characteristics of the prospect, his specific product needs, brands that are currently being used by the prospect and the prospect's opinion of other brands. While selling to an organizational buyer, the salesperson might also need to collect information about the key decision makers in the organization. Information pertaining to the credit history of the organization, history of the particular sales account and problems associated with the account, and that of the product needs of the organization also help the salesperson develop an effective sales presentation. The salesperson can also update his knowledge by obtaining and reading relevant literature on the product. By following such a thorough approach, the salesperson can communicate better with the prospect which helps him understand the prospect's needs better, so that he can offer a suitable product to meet those needs.

After developing the profile of the prospect, the salesperson needs to decide on how to approach the prospect with his sales proposition. The salesperson can make a cold call to the prospect over the phone or in person. If the prospect is an existing customer, the salesperson can pay him an unannounced visit or take an appointment to visit the person. The salesperson can also initiate a contact with the prospect by sending him a letter.

After having decided the approach, the salesperson must establish the objectives of the sales call. The salesperson needs to realize the fact that the prospect's time is valuable and that he would expect the salesperson to justify the time given to him for making the sales presentation. Therefore, framing of clear objectives by the salesperson is essential for the success of a sales call.

The last activity to be performed by the salesperson in the pre-approach stage is to prepare for the presentation. The salesperson develops his presentation on the basis of the information gathered earlier. The salesperson updates himself with relevant information, and assembles together all the material like visual aids that would be necessary to make an effective presentation.

Approach

Approach is the stage in the personal selling process in which the salesperson makes an initial contact with the potential customer and tries to find out his needs. At this stage, creating a favorable impression on the buyer is more important to the salesperson than pushing the product. An effective salesperson will utilize the approach stage to lay the foundation for a successful presentation later, by attracting the prospect's attention, building a rapport with him and generating an interest in him for the product.

Personal characteristics of the salesperson like his appearance and his mannerisms are also important factors that affect the outcome of the sales call. For instance, a well-groomed and well-dressed salesperson will create a favorable impression on a prospective buyer unlike a shabbily dressed and unkempt person.

A salesperson may use various methods of approach. The method used depends on the salesperson's choice, the personal characteristics of the prospect, the type of the product, and the resources available with the firm. The first method – referrals – involves the salesperson approaching the prospect by giving the reference of an acquaintance. The second method, cold canvassing, involves the salesperson approaching the prospect without obtaining his prior consent. The third method of approach is through repeat contact and is applicable for the existing customers of the company.

Presentation

The sales presentation is the most important step in the sales process. The aim of a sales presentation is to attract the prospect's attention, stimulate his interest and stir a desire for the product, so that he takes appropriate action. Sales presentations are based on the AIDA (Attention, Interest, Desire and Action) concept according to which, marketers first attract the attention of the potential customer, create interest and stimulate a desire for the product or service, which directs the potential customer to take action to fulfill the desire. The salesperson can create interest about the product by allowing the prospect to touch, hold and examine it, while he delivers the sales talk or the presentation.

Although presentations can take many forms, their main aim is to communicate the product's benefits effectively to the prospect and convince him to purchase the product. A good sales presentation speaks not only about the benefits the customer is looking for, but also convinces him about the additional benefits of the product.

Salespersons can use a number of approaches like the canned sales approach, formulated sales approach and need satisfaction approach to make the presentation.

- **Canned sales approach**: In this form of presentation, the salesperson delivers a memorized sales talk. The same message is repeated/delivered to all the buyers interested in a specific product. This style of presentation is based on the stimulus-response process i.e., the buyer is passive and can be stimulated to buy the product. This approach is also known as stimulus response approach.

  Canned sales approach is used when the product is not very technical and/or when the salesperson is inexperienced. It is extensively used in door-to-door selling and in telemarketing programs. The main disadvantage of this approach is that it does not give the buyer an opportunity to raise questions, which can be frustrating for him.

- **Formulated approach**: This approach is also based on the stimulus-response process. The salesperson identifies the buyer's needs and his buying styles and then uses one appeal after another, hoping to hit the right chord. In other words, he formulates the presentation in such a way that it explains and convinces the customer how the product can satisfy his needs.

- **Need satisfaction approach**: This approach is based on the principle that each customer has a different set of needs. The salesperson is required to identify the customer's needs by gathering information about him. For this, the salesperson has to develop the habit of listening to the customer. The salesperson is also required to think from the buyer's point of view and then plan his presentation accordingly. This approach calls for customizing the sales presentation to cater to the needs of individual customers. Therefore, this is better suited for experienced and sophisticated sales personnel as they are well versed with the art of communication and persuasion. The limitation of this approach is that it consumes a lot of time and requires an experienced salesperson for the presentation to be effective.

Handling Objections

Salespersons need to clarify any doubts or objectives that the customer may have. In fact, the conspicuous absence of objections can be an indication that the customer is not interested in buying the product. An objection brings out the latent concerns of the prospective buyer and needs to be addressed. It should be viewed as a request for further information regarding certain aspects of the sale or product. An effective salesperson considers the objection as an opportunity to satisfy the customer and restrain him from switching to a competitor. Therefore, the salesperson needs to probe into the objection to understand the true nature of the problem and try to solve it.

Some common reasons why prospects raise objections are:

- The prospect may not have enough time to talk to the salesperson.
- He or she may not have money and/or authority to make a purchase.
- The product may not suit the needs of the prospect.
- The prospect might not have had a good experience with the salesperson during the presentation stage.
- The prospect may raise objections to gain more information about the product.
- The prospect might raise objections out of sheer habit.

The most common type of objection is the price objection. Price may be a genuine concern for the customer, but at times, it may only be a shield for other concerns. Therefore, when a salesperson faces price objection, he needs to probe further to ascertain whether the customer is objecting to the price only to conceal the other hidden concerns. Apart from the price of the product or service, other aspects on which the customer may raise objections pertain to product quality, reputation of the company, etc.

Ways to overcome objections are:

- Listening to the prospect, asking questions and responding to his objections.
- Being clear and straight forward in answering queries. The customer should not get the feeling that the salesperson is being evasive.
- Agreeing with the customer's objection and coming up with a feasible solution to resolve the objection. This method is also known as yes-but method; it avoids contradictions and confrontations that mar the sale.
- Sometimes, the salesperson may not be sure of the answer to a customer's query. In such a situation, the salesperson needs to reassure the customer that he will get back to him with the answer as early as possible and should keep his word.
- The salesperson should anticipate the objections that are likely to be raised by the prospect and should counter them even before the prospect can raise them. But this can be risky, as the prospect may not have considered raising such objections at all.

Closing

The stage in which the salesperson asks the potential customer to make the purchase is known as closing. In the closing stage too, customers may raise objections due to various reasons. For example, the financial position of the customer may not be good or the customer may not be mentally prepared to purchase the product. The salesperson should refrain from duping the customer into buying the product, but should try earnestly to clear the objections and then attempt to close the sale.

Salespersons can attempt to make a trial close at several points during the presentation by enquiring about the financial terms and conditions suitable to the customer, the preferred mode of delivery, etc. The response of the customer to such questions will help the salesperson know how close the customer is to placing an order.

The most popular techniques for closing a sale are:

- Silent close: The salesperson makes the presentation and waits quietly for the customer to make the purchase decision.
- Direct close: The salesperson asks directly for the close of the sale. For example, the salesperson may ask the potential customer the question – "Are you ready to place an order?"
- Assumptive close: The salesperson assumes the customer's consent for the close. The salesperson just says "I have completed all the necessary paperwork. All you need to do is read through and sign the papers."
- Alternative close: The salesperson seeks to close the sale by providing him different alternatives. For example, questions like "Would you prefer this color over that?" Or, "Would you like the product to be shipped?," etc. indicate an alternative choice.
- Concession close: The salesperson can offer to give some concession to the customer and tempt him to make the purchase decision.
- Cautious close: The salesperson becomes careful in inquiring about the close. He can ask the potential customer if he would like to ask anything before closing the deal.

The salesperson must try to spend a few minutes with the customer after closing the deal as it reassures the customer that he has made a wise decision and makes him feel good. The salesperson may also leave a small gift/ memento with the company's name/logo on it, or invite the customer to contact him whenever a need arises. The salesperson may seek to develop friendly relations with the customer by remembering to greet the customer on important occasions such as his birthday, the New Year, etc.

Follow up

The objective of every salesperson is to ensure repeat sales. This can be achieved by enhancing customer satisfaction. The follow up stage is the last stage in the personal selling process wherein the salesperson aims to develop a long-term relationship with the customer. This stage plays an important role in showing that the company and the salesperson are genuinely interested in nurturing a long-term relationship with the customer, rather than just making a sale. Follow up after closing the sale also helps reduce cognitive dissonance. (Cognitive dissonance or post purchase dissonance has been covered in detail in Chapter 5.)

As part of the follow up, the salesperson can call upon the customer to enquire if the order was delivered in time, whether the customer faced any problem after installation, or whether the customer is satisfied with the product or not, etc. Calling on the customer after the sale also helps the salesperson determine the future needs of the customer.

The follow up stage aims to accomplish four objectives. It helps the company gain customer satisfaction and prevent cognitive dissonance in the customers. It also helps to generate new referrals for the salesperson and in the long run, repurchase orders.

IMPROVING PERSONAL SELLING EFFORTS

Personal selling requires a great deal of knack on the part of the salesperson. Not all salespersons can convert a hot prospect into a customer. The reasons could be many, one of which may pertain to the selling skills of the salesperson. Thus, it has become vital for companies to improve the success rate of their sales personnel by training them to enhance their selling skills. The effectiveness of personal selling efforts in a company can be further improved through professional training, negotiations and relationship marketing.

Professional Training

High performing companies treat their people as assets that are chosen with care, thoughtfully treated, generously rewarded and vigilantly monitored. Not all sales personnel hired by a company generate good revenues. Training is considered as an effective tool for improving the performance of poor performers and enhancing the performance of good performers as well. Therefore, companies spend millions of rupees on training their sales personnel.

The purpose of imparting training to sales force helps them convert prospects into customers. There are two basic approaches for training salespersons. These are the sales-oriented approach and the customer-oriented approach.

Sales-oriented approach: The sales-oriented approach is based on the assumption that customers are not likely to make a purchase decision unless they are pressurized, that their decisions can be influenced by presentations and that they are not likely to complain after making the purchase. Therefore, the salesperson has a couldn't-care-less attitude regarding customer satisfaction and regarding maintaining after-sales relations with the customer.

Customer-oriented approach: This approach aims at training the sales people to solve customer problems. It is based on the assumption that every customer has unique and latent needs. The salesperson must consider these needs as opportunities to serve them. He must be able to identify the needs of the customer by asking probing questions to gather more details about the customer. This helps the salesperson come up with a feasible solution to fulfil those needs. This approach also assumes that customers welcome constructive suggestions from the salespeople and will trust those salespersons who give them the right advice. This approach emphasizes on the customer orientation skills of the salesperson and not his presentation skills.

Negotiations

Negotiation is a process where two parties discuss an issue, bargain and then agree upon some terms and conditions to close the deal. Negotiations are usually carried out for a better deal in price, quality and quantity of goods, services offered, credit terms, order processing, delivery time, etc. The salesperson or the sales manager usually keeps a margin for negotiations, anticipating that the buyer will demand a better bargain. This margin provides the seller, room for further discussions and negotiations. Also, this helps satisfy the buyer, who sometimes expects a concession for the purchase, especially when he makes a down payment.

Negotiations also depend on the bargaining power that a seller enjoys either because of the superior quality of product or because of his product satisfying the buyer needs better than competing products, and the negotiating skills of both the parties (i.e. salesperson and the customer). Salespersons are trained to develop skills like ability to think clearly under pressure and uncertainty, ability to persuade, listening skills, etc., which can be quite effective during negotiations. Negotiation skills help sales-personnel strike deals that earn adequate profits for the company and make the buyer feel that he has got the best deal.

Relationship Marketing

In the past, marketing focused only on attracting new customers. However, it was soon realized that it is far more profitable for a company to retain the existing customers than to attract new ones. Thus, marketing gradually transformed into a field that involves working closely with the customers to achieve mutual benefits for both the customer and the marketer. This forms the essence of relationship marketing, wherein the objective is to build lasting relationships with customers and enhance the quality of future interactions.

Relationship marketing, due to its focus on customer satisfaction, has become a proven method of increasing the sales of a company. The author of ‘SPIN selling’, Neil Rackham, recommended that salespersons should try to identify and investigate the real problems and needs of the customers by gathering preliminary information from them, and should then come up with a solution that reinforces the customer’s choice of the product. This allows companies to display their superiority over their rivals.

Salespersons are the people who come into direct contact with the customers. Hence, adapting relationship marketing to selling is a strategic choice that companies have to make. Relationship marketing is based on mutual trust between the buyer and the seller by delivering long-term value-added benefits to buyers. Companies have realized that the focus on customer satisfaction results in long-term profits, even if it means a loss in the short-term. This emphasis on customer satisfaction by companies has resulted in instances where the sales personnel of a company recommended the product of a rival company to a customer because of its ability to satisfy the customer need better. Such a focus on customer satisfaction helps build a mutually beneficial and satisfying long-term relationship based on trust.

Marketers use various means to obtain long-term commitment from the customers and build lasting relationships with them. Some of them are:

- Sending a thank-you note to the customer for placing the order and for providing referrals.
- Providing articles or information on a customer’s competing business.
- Sending the customer, information about the launch of a new product, with a note on how it can benefit the customer or his business.
- Sending the customer, information on an upcoming sale or special offer, including coupons for customer discounts.
- Sending reminders to the customer of his pending order or reorder.

Although businesses need to seek new customers, they should not make the mistake of ignoring the potential of old customers because it is far less expensive to sell to old customers than to new customers. Selling to existing customers eliminates the need for prospecting, building a rapport and gathering information, thereby saving the time and effort of the salespeople. Management must understand that relationship marketing calls for a more focused and continual attention by the salesperson. Companies should train their sales force in team building and other soft skills to develop long-term relations with the customers.

SALES FORCE MANAGEMENT

Management of personal selling requires planning, implementation and evaluation of sales force strategies. The first step in sales force management involves setting the sales goals and planning the objectives of different sales activities of the sales executives. Then, arises the need for designing the sales force to achieve the predetermined goals. In the final stage, the sales manager evaluates the performance of the individual salespersons as well as the sales team as a whole.

Establishing Sales Objectives

Similar to other promotional objectives, sales objectives are statements of what the sales team expects to achieve in a specified period of time. Personal selling objectives differ from one firm to another. They depend on the overall objectives of the firm, the nature of its product, the channels of distribution, the target market and the nature of competition in the market.

The most important objective of a salesperson is to create an interest in the customer, convince him about the product and convert his interest into a sale by persuading him. Sales objectives can be set either for the individual salesperson or for the sales team as a whole. They provide the direction and purpose for the functioning of a sales team. They also act as a standard for evaluating the performance of the sales persons and the sales team. Sales objectives for the entire sales team are usually stated in terms of the sales volume, the market share and overall profit to the organization, whereas sales objectives for an individual salesperson, also known as sales quotas, are stated in terms of his unit sales volume, his average order size, the average number of calls in the specified time and the ratio of orders generated in that time. Sales managers have realized the need to determine explicit, feasible and measurable goals. Hence, they set the sales objectives in consultation with the salespersons. They discuss, identify and jot down the KPAs (key performance areas) and then set the sales objectives.

Fixing the Sales Quotas

After establishing the sales objectives, each salesperson is assigned a sales quota on the basis of the number of potential customers in that territory. Sales quotas are quantifiable objectives set for measuring and appraising the effectiveness of sales personnel. Quotas are the targets that specify the desired performance required from each salesperson or sales region to achieve the organizational sales target. When the sales quotas are determined and communicated, they act as a motivational factor for the sales personnel to achieve the desired goals.

Sales quotas should reflect the firm’s selling objectives, its overall sales plan, size of the sales force and the nature of the sales territory. Sales quotas include the number of sales calls to be made, the dealers to be contacted, the displays and the demonstrations to be conducted by the sales personnel and the number of new accounts to be created in a specific time. Sales personnel are encouraged by the sales managers to forecast the demand and help determine their sales quotas.

Designing the Sales Force

Every company is different in terms of the product line, the nature of the customer base and the type of sales personnel required. Thus, sales force is organized differently in different companies. The most common bases for organizing sales personnel are geographic territory, customers, product or a combination of these.

1. Geographic territory: Organizing by geographic territory is the simplest and the most commonly used method of structuring the sales force. A particular geographic area is assigned to a salesperson to sell the products and services of the company. A geographic territory can be as small as a part of a city or as big as an entire country. Most pharmaceutical companies in India structure their sales force on the basis of geographic territories. A well designed sales territory is one in which the market is homogenous in nature. Well designed sales territories make the process of planning, implementation and control much easier for the sales manager. Advantage of organizing on the basis of territories is that a) salesperson can familiarize himself and learn more about that particular market, b) salesperson can minimize travel time and expenditure by operating from the center of the territory, and c) it helps the salesperson build and maintain relationships with his customers. The disadvantage is that geographic division of the market is not suitable in case of complex products that demand specialized knowledge by the salesperson.
2. Customer: Organizing sales force on the basis of customers is in turn based on the fact that different customers have different needs and requirements. For example, Eureka Forbes has divided its sales force on the basis of institutional customers and individual customers. The disadvantage of this type of organization of the sales force is that the selling cost goes up as more than one salesperson covers the same geographical area.

3. Product: In this form of organizing, the sales force is organized on the basis of the principle that salespersons should have specialized knowledge regarding the product. The advantage here is that each salesperson can concentrate on a particular product line or brand. However, the disadvantage of this approach is that different salespersons contact the same customer for different products of the company. For example, HDFC Bank has different sales teams for each of its product, due to which different salespersons contact the same customer for selling different products such as credit card, debit card, personal loan and home loan etc.

Determining the Sales Force Size

After formulating the objectives and the structure of the sales force, a manager needs to determine the number of people needed in each sales team. This is a crucial decision because if the manager hires more people to cover the market adequately the costs would go up and consequently, the profit volume of the company would come down. On the other hand, if less sales people are hired, the workload on each salesperson would increase, making it difficult for them to meet the deadlines. This will in turn lead to low morale and productivity of the sales force, eventually leading to a decline in sales volumes. It is almost impossible for a sales manager to determine the exact number of sales personnel he would require. Therefore, an optimum number of sales people should be hired to carry out the selling activities of the firm. The two common methods employed by the sales manager to determine the size of the sales force are equalized workload method and incremental productivity method.

Equalized workload method

Equalized workload method is based on the assumption that every salesperson should have the same amount of workload. Each salesperson must make approximately the same number of sales calls over a given period of time. In this method, the customers are divided into groups based on the volume of purchases made by them. Then the sales manager calculates the number of sales calls required to satisfactorily serve the customers in each group.

In order to determine the size of the sales force, the sales manager needs to multiply the number of customers in each group with the number of sales calls required to be made annually, to serve the customers in the group satisfactorily. This gives the total required number of annual sales calls. This figure is then divided by the average number of calls to be made by each salesperson to obtain the desired size of the sales force. This figure can be represented in the form of an equation, total annual sales call requirement/average annual sales calls = number of sales people.

For example, say a manager estimates his potential and current customers as 4000 in total and if each customer needs to be called at least 10 times in a year and each salesperson can make 1000 calls in a year, then the number of salespersons required would be $(4000\times10)/1000 = 40$.

If the customers are divided into two groups, A and B, then the number of sales people = (total annual sales calls for group A + total annual sales calls for group B)/average annual sales calls.

This method cannot be taken as an accurate method to predict the sales personnel requirement of an organization because

- The sales call requirement might vary from one customer to another depending on their individual needs and problems.
- The geographical distance between the accounts of one salesperson might not be equal to that of another salesperson. Hence, the time taken to travel and the number of accounts covered by one salesperson cannot be the same as the other salesperson.

Incremental productivity method

Incremental productivity method is considered the most appropriate method to determine the size of the sales force. It is based on the assumption that the addition of a salesperson is justified when the additional sales generated by him exceed the cost of hiring him. Sales managers continue to increase the size of their sale force as long as the value of the sales generated by the additional personnel is greater than the cost incurred in hiring them. Before opting for this method, the sales manager therefore needs to estimate the future sales, the selling costs and the cost of hiring an additional salesperson.

Recruiting and Selecting Salespeople

The first step to develop an effective sales team is to recruit the right kind of people. Recruitment is an ongoing process of selecting job applicants, whose profile matches the company's requirements. The HR department maintains a pool or database of all the applicants to an organization, for their future requirements. Recruitment can be either internal recruitment or external recruitment. Internal recruits can be the company's own sales people (for higher job positions), employees from other departments, etc. The company recruits from external sources through references from its customers, suppliers, professional associates or through job fairs, advertisements, placement consultancies, in-campus student recruitment, employee referrals, etc.

Managers need to establish a set of required qualifications and characteristics for the sales personnel before they begin to recruit. They prepare a job description that lists the specific tasks a salesperson needs to perform.

Selecting the sales team is a simple task, if the manager knows what qualities he is looking for in a salesperson. Selection procedure can vary from a simple informal interview to a structured process consisting of a written test and an interview, followed by a physical examination. Written and oral tests evaluate the applicants' abilities like aptitude, intelligence, language skills, problem solving skills, etc. Personal interviews evaluate the applicants' desire to work, their level of maturity, ability to work under stress, etc. Organizations choose applicants based on their performance in the written test and interview. People who are native to a place find it easier to sell to their own people, as they are familiar with the language and the customs of the place. For example, it would be a wise decision to hire a South Indian to sell a product in the south rather than hiring an Assamese or a North Indian. However, this need not be true always. Managers take utmost care in selecting salespersons because it costs a lot to recruit and train them. Apart from this, the firm also faces a decline in sales by hiring the wrong people. Further, if the salesperson quits the company after being trained, the company has to once again bear the cost of hiring and training a new salesperson along with the cost of loss of sales. Hence, companies cannot afford to have a high turnover and therefore take utmost care while recruiting and selecting sales persons.

Routing and Scheduling

The sales manager must specify the sales territory, the number of customers and their geographic distribution within the territory before routing and scheduling the sales calls to be made by the salesperson. He should then set the frequency and duration of the sales calls, and the mode of transportation to be used during the sales call. But schedules set in advance by the sales manager might not always work out perfectly as some customers might request for a different date (of appointment) or require an additional visit in a short span of time. However, in some organizations, the sales personnel themselves set the routes and schedules. The main aim of routing the sales calls is to maximize the productivity and minimize the time and expenditure invested in each sales call.

Training Sales Personnel

Sales training aims at helping the sales personnel (both old and new) to perform their job satisfactorily. It supplements experience, as sales personnel learn varied skills over a period of time. Sales training improves the overall efficiency of the salespersons. Even in the absence of training, it is possible for salespeople to learn the required skills. However, this comes from personal experiences and requires a longer time. Therefore, salespersons who are trained reach higher levels of job performance faster. Training also helps in bringing down the cost of recruitment, selection and the rate of attrition. Xerox spends over $300 million a year on training its employees. Likewise Motorola, FedEx and Singapore Airlines spend a minimum of 3% of their payroll cost per annum, on training.

There are several reasons for imparting training to the sales force. Sales training helps the salespersons learn more about the market in which they are operating and about the customers and their preferences. Sales training also helps the sales persons acquire knowledge about the product they are to sell as well as the competitors' products and strategies. It also helps in enhancing the salespersons' knowledge about the company. Most important of all, training helps the sales persons develop personal selling skills, time management skills and sales forecasting skills.

Sales training can be directed at the entire sales team or a few select sales personnel, or it can be customized for individual trainees. Managers can use different programs to train different sales personnel. For instance, while new sales personnel require induction training (i.e., knowledge about company's policies and procedures, company's products and other product related aspects such as warranties, sales terms, promotion and distribution), seasoned sales personnel may need to be trained on new

Exhibit 21.1

Role Play Your Way to Sales Growth

"Tell me, I forget

Show me, I remember

Involve me, I understand,"... goes an ancient Chinese proverb. But how many of us actually pay heed to such sagely words?

Managers have been using various training techniques for ages, to train and retrain their staff in order to increase customer satisfaction. One such technique is role-play. Role-play can be used to impart any skill to the employees, especially soft skills. This type of training is considered the most effective for training salespersons.

In this method, two or three participants are selected from the group of trainees and asked to enact various roles. For instance, a participant might be asked to enact the role of a salesperson, while another participant may be asked to enact the role of a customer. The others in the group might be observers who give their comments after the enactment. There is a trainer to coordinate the group's activities. The rate of learning is high in role-play as the group takes an active part in the session due to peer pressure. After the enactment, the leader asks the salesperson (in the enactment), if he is satisfied with his performance and if not, what else could he do to improve it. He also asks the observers about the best features of the enactment. The observers give valuable suggestions as to how the salesperson could have been more friendly and helpful to the customer. Eventually the trainer or coordinator concludes the role-play session by summarizing the points.

The role-play session continues until every member of the group gets to perform on various issues of customer interaction.

Adapted from Robinson, Larry JB, "Role Playing as a Sales Training Tool", Harvard Business Review, May/Jun87, Vol. 65 Issue 3.

products, change in company policies, advanced selling techniques and better time management. Training can be formal (e.g. a day or a two-day long training session), or informal (e.g. on-the-job training or self-learning sessions in case of customized training). The choice of the training program depends on the number of sales persons required to be trained in a training session, the contents and complexity of the program, length of the training session, the budget allocated for training, venue of the training program and the trainer's preference of the material and method of training. It can be imparted using various tools like class room lectures, on-the-job methods, role plays, case study method, gaming or simulation, mentoring or coaching, self-paced learning, e-learning and using instructional material (manuals books, training aids). Exhibit 21.1 gives us a snapshot of role-play method, a simulation technique, for sales training.

Organizations can conduct the training of employees at different places. Commonly used venues for training are discussed below.

- The field – most salespersons learn on the field. This gives them an opportunity to learn while on-the-job, i.e., when they make sales calls.
- Educational institutions – companies sponsor their employees to learn new skills at specialized training institutions. For example, Singareni Collieries has tied up with Institute of Public Enterprise (IPE), Hyderabad to train its employees.
- Company facilities – most companies have come up with their own learning centers to facilitate training. This gives an opportunity to the employees to learn at their own pace and at their own convenience. For example, Hyderabad-based Dr. Reddy's Lab has its learning center 'Ankur' to host all the training activities of the company. The center provides recreation apart from training to its employees and its location eases the problem of traveling long distances. This strategy by the company has helped it curb the attrition problem. Some companies have even come up with innovative ideas like setting up training centers to train not only their internal employees but others (outsiders) as well for specific skills. For example, BM Khaitan Group's "Eveready Academy of Sales Training" plans to impart training to salespersons (Refer Exhibit 21.2).

Evaluate training

A training program is incomplete without evaluation because evaluation helps determine the effectiveness of the training program. It helps determine whether there has been the desired change in the behavior/learning of the sales personnel. Companies use various methods to gauge the effectiveness of their training programs. For example, some companies use the sales records of an individual salesperson before and after training, to measure the effect of training on his performance. Some others conduct a written test before and after the training. However, the shortcoming of this method is that some salespersons may be good at theory but might not be able to implement it in practice. Some companies even indulge in sending observers to the field along with the salesperson, to evaluate the effect of training on his performance in field. Evaluation helps improve the effectiveness of the training programs as well. It plays a vital role in reviewing performance of trainees and provides data for validation of a particular training technique.

However, it is not possible to precisely evaluate the effectiveness of the training program and that of the techniques used in training because it takes days/months to actually measure the effect of training on the performance of a salesperson. Ineffectiveness of a training program/technique may also be due to its inadequacy, or the trainer's inefficiency.

Exhibit 21.2

Train Them Young

The training environment has a great impact on learning. Companies invest heavily on training their staff. In the recent past, various companies have set up their own training centers. A training or learning center can be used to impart training, i.e. individual training, group training, or self paced learning. It can also be used to conduct meetings and for recreational activities, etc.

'Eveready Industries India Ltd.,' the flagship company of the BM Khaitan group, plans to set up a training institution, 'Eveready Academy of Sales Training.' The institution will be the first of its kind kind in the nation to impart training to sales personnel. Having identified an acute shortage of trained sales personnel, there are plans to impart sales related training at the training institution to young men and women since most of the salespersons are fresh graduates. The trainees would be selected on the basis of an online psychometric test and group discussions and one year training would be provided to them. The course would comprise of classroom lectures in taxation, IT, salesmanship, distribution network, financing, sales planning, etc, apart from on-the-field training. In the on-the-field training, each student would be given a sales territory and a target to achieve.

Adapted from Kohinoor Mandal, "Eveready Setting Up Sales Training Institute," The Hindu - Business Line, 30 November 2003.

Compensation

Compensation is the reimbursement for the efforts put in by a salesperson. Every organization has its own compensation plan. Compensation encourages the sales personnel to put in the required efforts to meet the firm's objectives. A good compensation plan assures income and rewards for the performing sales personnel. Most common methods of sales compensation are a) straight salary compensation, b) straight commission compensation and c) salary plus commission compensation.

Straight salary compensation: A straight salary compensation plan provides a fixed amount of salary to the sales personnel at the end of the week or month. This provides a feeling of steady income and job security to them. Straight salary is the most attractive for new recruits who are not very confident of achieving their targets. It is also helpful to the employer as the salary expenditure is predetermined. Straight salary is more economical and simple to calculate as against commission plans. However, a disadvantage of this method is that it does not provide a strong incentive for achieving sales targets.

Straight salary compensation was one of the most popular sales compensation methods in the past. Of late, this method is restricted to sales of industrial goods companies, where it takes a longer time to convert a prospect into a customer. Straight salary method has been losing its importance because other methods of compensation provide lucrative opportunities to sales personnel to earn more. Therefore, managers are also switching to a combination method for compensation.

Straight commission compensation: Compensation paid for achieving specific targets in a given time is known as straight commission compensation. A commission is usually a percentage of the sales or the profits generated by the salesperson. Commission is best suited for seasoned sales personnel. It acts as an incentive for them to aim at greater challenges. Experienced sales personnel have the confidence of achieving the targets as they have reasonably good skills and contacts. Commission acts as a motivational drive for a salesperson.

Salary plus commission: This is the most preferred type of compensation plan as it provides a guaranteed salary along with performance incentives. This method uses the best of the fixed salary method and the straight commission method and eliminates the disadvantages of both the methods to a great extent. It provides the security of a fixed salary and the drive to earn more through commission. Salary plus commission is highly flexible in nature because it provides an incentive to earn as much as the salesperson desires. It helps in motivating the sales personnel to improve their performance.

The disadvantage of this method can be a higher administration cost, as it needs to maintain detailed sales records. If a company fixes the commission very low, it hampers the productivity and acts as a demotivating factor. Sometimes, this method, if it is too complex, makes it difficult for the sales personnel to understand, reducing their drive to perform and earn more.

Exhibit 21.3

Techniques for Motivating Sales Force

A sales manager has to motivate his sales force by setting an example. He has to spend considerable time with the salespeople both on and off the field. The basic idea is to assess and tap the salespeople's actual capabilities by identifying their strengths, praising their positive aspects and pointing out the areas where they need to improve. After assessing the salespeople's capabilities in the field, the manager can give necessary coaching to the salespeople in the office.

Motivation and coaching of salespeople in the office can be done with the help of certain exercises described below:

Real-Play: A sales manager's objective is to see that his salespeople get more number of appointments. In the real-play method, the manager holds a meeting of the salespeople in the conference room with a telephone. Each sales representative needs to carry his own list of prospective customers. The manager then asks all the sales representatives to put some token amount (uniform for all the sales representatives) in a bowl placed at the centre of the conference table. Doing this, the manager then asks each one of the sales representatives to call their prospective customers one by one. The first representative who succeeds in getting an appointment wins the bowl of money. This acts as a motivator for all of them to make their best efforts to secure an appointment. And for those who could not get an appointment, the manager can highlight the positive aspects of their dialogue with the prospect and ask them to improve upon their shortcomings. The sales manager can further motivate his team through leading by example and making a few calls himself. This will also help them pick up a few tips on how to secure an appointment from a prospect.

Giving assignments: At every sales meeting, the sales manager can ask his most experienced sales representatives to make a presentation on some related topic in the next meeting or otherwise, he can even ask a representative who lacks skills in a certain area to prepare and make a presentation on that topic in front of his peers. The mere thought of having to make a presentation before the peers motivates the sales representative to make a thorough preparation on that topic which helps him to eventually master it. The sales manager can motivate him further by praising his efforts and appreciating his presentation.

Sales contests: Most salespeople get highly motivated by sales contests and attempt to win in these contests by performing exceedingly well.

Problem-solving: Sales managers have to encourage the salespeople to think on their own and find solutions to the problems they face. For instance, a sales manager can insist that the sales representatives come up with two alternative solutions for every problem they bring to him. The manager must insist on these solutions howsoever weird they may be. This exercise will help the representatives develop decision making capabilities.

By implementing some of the above mentioned approaches, a sales manager can be doubly sure that his sales team is highly motivated during all times.

Adapted from Barry J. Farber, "Sales Managers: Get Real!" Sales & Marketing Management, September 1994, Vol. 146, Issue 10.

Evaluating the Sales Force

Evaluation is the process of assessing the performance of the sales personnel. It helps in comparing the actual accomplishments of the salesperson with the established sales objectives. Evaluating the sales force is difficult because the manager cannot apply the same standards to all the sales personnel. A sales manager assesses the performance of individual salespersons through a performance appraisal, which is usually conducted at the end of a specific time period. It gives a true picture of the expected and achieved performance standards of the individual. Managers obtain useful data from call reports, customer feedback and invoices to appraise the sales personnel. In case of unsatisfactory performance, the sales manager needs to take corrective action for improving performance. This might call for modifying the performance standards, providing extra training and supervision or providing better compensation and motivational plans.

Motivating the Sales Force

Motivation is the inner drive that triggers people to achieve their goals. Motivation helps in achieving the desired performance levels and in maintaining them. Managers ought to motivate their sales personnel in order to attain the desired level of productivity in the organization.

It is not quite possible to monitor and guide the sales personnel as frequently as other function personnel because sales personnel are almost all the time away in the field, attending sales calls. This generally leads to their lacking a sense of belongingness and loyalty towards their team and the organization. Therefore, it becomes imperative for the sales managers to understand and appreciate the personal goals of the salespersons and attempt to create a link between the personal goals of the salesperson and the organization's goals.

Sales managers use financial incentives and non-financial incentives to motivate sales teams. Financial incentives include salaries, bonus and commission. Non-financial incentives may include job security, appreciation, training and education, flexibility, power and authority, prizes, recognition for achievement, promotion, etc. A small gesture of recognition like being publicly praised for an accomplishment or a pat on the back, can act as a perfect motivator for a sales person. A personal call from the top boss or a small personal gift can be the most memorable event. Exhibit 21.3 discusses some of the methods that sales managers use to motivate their team.

SUMMARY

Personal selling is the face-to-face interaction of a seller with a potential buyer wherein the seller tries to persuade the buyer to purchase the product or service he is promoting on behalf of a company. Personal selling helps a company build and improve lasting relationships with customers and is a handy tool in the hands of marketers due to various reasons. It gives marketers the freedom to make adjustments in the promotional message to satisfy the information needs of customers. It also allows them to target the promotional message with utmost precision and direct it at the most promising leads. The two-way flow of information and the interaction that it facilitates, allows marketers to obtain valuable feedback from the customers, that in turn helps them identify the strengths and weaknesses in existing products and improve new product development.

Sales personnel can be classified as order takers, order getters and support personnel. Support personnel are further divided into missionary sales personnel, trade sales personnel and technical sales personnel.

The objective of the personal selling process is to generate customer satisfaction and build a long-term relationship with them. Personal selling process includes a) prospecting and evaluating potential customers, b) preparing to approach, c) approaching the customers, d) making a presentation to the customer, e) handling objections, e) closing the sales deal and f) follow up.

Keeping in view the contribution made by the sales force to the revenue of any company, it calls for efforts on the part of companies to improve the personal selling efforts of their sales force through professional training, negotiations and relationship marketing.

Management of the sales force has become essential for companies to achieve the predetermined goals. Managing the sales force calls for i) establishing sales objectives, ii) fixing the sales quotas, iii) designing the sales force, iv) determining the size of sales force, v) recruiting the sales force, vi) routing and scheduling their activities, vii) training the sales force, viii) providing compensation, ix) evaluating their performance and x) motivating the sales force.

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Chapter 22

Developing and Managing Marketing Department and Organization

In this chapter we will discuss:

- Trends in business environment
- Marketing organization
- Linkages with other departments
- Strategies for organization wide marketing orientation
- Marketing implementation
- Evaluation and control

Marketing is an important function of an organization. Managing this function is a very difficult task. We discussed in previous chapters about the various planning and strategic issues of marketing. We will now focus our attention on how a marketing department in an organization is developed and managed. A lot of changes are taking place in the business environment, such as, companies stepping into the global market place and competing with firms across the globe with hitherto unheard of marketing strategies. Marketers are increasingly adopting online technology such as e-commerce to conduct business. The life cycle of products' has significantly reduced. Therefore, marketers need to reach the maturity level of their marketing efforts at the earliest. They need to design innovative strategies to attract customers faster than ever. In such a business environment, it becomes essential for managers to realign the marketing organization. Most organizations have realigned the company-wide perspective of marketing. Marketing is no longer seen as a separate department within an organization – present day firms expect every employee of the organization to contribute to the marketing efforts of the firm and help in achieving the organizational objectives.

Organizations with several layers of hierarchy are adopting measures like flattening and downsizing the structure, in order to reach the customers much more efficiently. According to experts, no organization needs more than five layers in organizational hierarchy. Also, firms are encouraging employees to work in teams and participate in the decision-making process. An integrated approach, in which members from different departments form a team and come together to achieve the organization's objectives, is best suited in such a competitive environment. In this chapter, we examine the recent trends in the business environment and how the marketing department can be organized, along with its linkages with other departments.

TRENDS IN BUSINESS ENVIRONMENT

Globalization and the emergence of advanced technological tools in information technology and telecommunications have forced companies to change their conventional business practices. Companies are now increasingly changing their business processes with the help of techniques like reengineering, outsourcing and benchmarking. They are collaborating with suppliers and building customer relationships, entering global markets through strategic tie-ups, mergers and takeovers, downsizing their organizational structures and empowering their employees. These measures are having a deep impact on organizational performance.

Reengineering

Reengineering is a process by which a company tries to enhance its efficiency by redesigning the existing processes. The general perception of managers is that reengineering involves radical redesigning of business processes and that for it to be successful, changes have to take place at a very fast pace. However, a study of the reengineering projects in over 40 companies suggested that even though the senior management considerably reduced the speed of the reengineering processes and altered the objectives due to various reasons, they did not get dramatic improvements but however they were able to reduce their process cost and cycle time and improve service delivery. Thus, whether a company adopts a rapid change process or a slower one, it is important for the company to achieve the planned objectives through the reengineering process without any deviations. Exhibit 22.1 describes the process of reengineering adopted at HPCL.

Exhibit 22.1

HPCL's Reengineering Process

The Hindustan Petroleum Corporation Limited (HPCL) ranks among the top oil refineries in Southeast Asia, on the basis of its operational capabilities. HPCL sought the assistance of the reputed management consultancy, Accenture, to reengineer its business processes. The online management system that was developed was not a standardized ERP (Enterprise Resource Planning) package adopted by most companies to reengineer their business processes, but a customized software solution to meet HPCL's specific requirements. As against the traditional maintenance process where a lot of paperwork was involved, the online maintenance and management system helped HPCL streamline the entire business process right from the generation of the work order to the vendor payment. The online system enabled the company to track work orders that could be generated from any where and any time. Jobs such as inventory management, stock reordering, purchasing mechanisms, evaluation of suppliers and the payment process were greatly enhanced by the reengineering process adopted by the HPCL.

Adapted from "Refined to Excellence," Business India, April 30, 2001

Outsourcing

The outsourcing business is expanding fast and affecting every industry. Companies buy goods or services from external suppliers. This enables them to focus on improving their core competency and to reduce the costs that are involved in in-house processes. For example, if a company's area of strength is strategic decision-making and manufacturing, but it lacks the requisite skills for marketing its products, it employs an outside agency that will do the marketing job effectively for it. While outsourcing helps the company enhance its performance and concentrate on its core activities (strategic decision-making and manufacturing), it also reduces its costs of marketing by using the services of an outside agency rather than pursuing it internally.

Economist Intelligence Unit, the business information division of The Economist Group, predicted that by the year 2010, the number of firms outsourcing a part or all of their IT activities will increase to 58%. The Gartner research group predicted a 60% increase in IT outsourcing from the year 2000 to 2005. It estimated that IT consulting, development, integration and outsourcing in the global market would reach $1.3 trillion in 2004 from around $369 billion in 2000, and that by 2004, 60 percent of the Fortune 1000 companies would outsource a major part of their IT services. India is rapidly becoming a prime destination for outsourcing for countries in the West. In India, business process outsourcing is growing at the rate of 50% per annum.

The rapid growth taking place in business process outsourcing is due to the fact that it provides benefits to the outsourcing firm much beyond the benefits that the firm is likely to reap if it tries to develop the capabilities in-house. Most outsourcing projects are driven by financial considerations. Outsourcing allows firms to focus on their core business activities and reduce process costs by leaving less profitable and non-strategic activities to external agencies. It also gives organizations an opportunity to enhance their innovative capabilities by providing them access to superior knowledge sources.

Although companies are outsourcing to reduce costs and focus their entire resources on enhancing the core business strengths of the organization, a number of recent studies have found that outsourcing initiatives are not delivering what they are expected to. There is an increasing level of dissatisfaction with the success of outsourced projects. As a consequence, a number of outsourcing projects have been aborted midway.

There are various reasons behind the failure of outsourced projects and the resulting dissatisfaction with outsourcing. The key issues that result in the failure of outsourced projects include companies' failure to achieve the expected cost reductions from outsourcing, poor service quality, breach of service agreements, lack of trust between the employees and the employer in the outsourcing firm, failure of companies to identify the exact reasons for outsourcing, and neglect of the human relations aspects involved in outsourcing. Also, companies tend to select a low cost service provider, ignoring the service provider's expertise and past experience.

To overcome these obstacles and to avoid failure of the outsourcing initiative, certain measures have to be taken by the outsourcing firms. The firms should first identify the exact reasons for outsourcing with the help of a cross-functional team comprising the Chief Financial Officer (CFO), people belonging to the function that is being outsourced, and representatives from other functions in the organization that will be affected by the outsourcing arrangement. The team can select a benchmark for comparison purposes to see where the organization stands in comparison to other players in the industry in terms of costs and how much of a cost reduction it can seek to achieve through outsourcing. This will help the firm decide whether it needs to outsource at all. Further, if the firm decides to outsource, it should also take care to address the fears of its employees regarding downsizing. Thus, rather than simply considering outsourcing as a management panacea or cure-all, companies have to carefully plan and implement the outsourced projects in such a way that they are successful.

Benchmarking

Benchmarking involves the process of identifying the companies that are the best in the industry and analyzing how these companies are performing the way they are, what are the practices of these companies that are making them so successful, and so on. After identifying such companies, the firm selects one of these as an ideal and tries to copy or imitate the best practices of the company. The goal of benchmarking is to follow the practices of a successful company and try to reach that position within a specified period of time. For instance, Tata Steel, one of India's most prestigious companies, adopted the process of benchmarking to improve its performance over the years. Ratan Tata, Chairman of the Tata Group, speaking about the benchmarking efforts, said "Tata Steel has benchmarked itself against the best of steel producers in the world. This has helped the company immensely by helping it keep its costs low. In pursuit of this objective, Tata Steel has acquired the status of lowest cost producer of steel in the year 2001. The company however feels that maintaining its benchmark position will be one of the greatest challenges for the company."

Collaborating with Suppliers

In today's competitive world, it is becoming increasingly difficult for companies to differentiate their products and services. Companies are, therefore, looking for cost cutting measures in the entire supply chain right from the stage of procurement of raw materials till their delivery to customers through the distributors. Managing suppliers is a three-pronged strategy, where the company can focus on reducing costs by maintaining the minimum number of suppliers, improving the business processes of these suppliers, and as a result, obtain quality inputs efficiently and effectively from its suppliers. This will in turn improve the company's overall performance. Experts have proposed certain guidelines for managers to manage suppliers more effectively. These include verifying the status of the relationship with each supplier, estimating the technological capabilities of each supplier at regular intervals of time, involving the suppliers in the product development process and finally, making significant contributions to the business processes of the supplier's organization.

Customer Relationships

As the marketing environment has become dynamic, organizations are realizing the need to develop a long-term relationship with their customers. Customer relationship marketing has gained tremendous significance over the years owing to increased competition. Marketers have been focusing on building strong customer loyalty using several techniques. This is known as relationship marketing (discussed in Chapter 20).

Mergers

Companies acquire or merge with other companies to gain a significant advantage through economies of scale or by having a synergistic effect in some business processes. By merging with another company, a company derives a substantial advantage in improving its business by leveraging itself on the specific skills of the other company. For instance, OrbiTech Solutions, the Citigroup's Rs 321 crore company, merged with Polaris Software Labs, a Chennai-based Rs 294 crore company and the merged entity (Polaris Software) had a value of more than Rs 600 crore. The merger gave rise to an employee base of 3,800 people for the merged entity. The objective of the merger was to make the combined company a potential leader in the banking, financial services and insurance sector (BFSI) by leveraging on the potential of both the merging companies.

Globalizing

Companies are expanding their markets beyond geographical boundaries. Operations are being extended across the countries to reach new customers and markets. More and more countries are opening up their economies to welcome international marketers to operate in their countries. After India opened up its economy in the '90s, significant changes took place in the Indian industry with several multinational companies entering the country to exploit the potential opportunities present. Companies are now realizing that to sustain themselves in the international markets, it is imperative for them to localize their offerings. Therefore, they have begun designing global strategies but are implementing them to suit local preferences.

Downsizing

As discussed in the introduction to this chapter, it has become very important for organizations to downsize and flatten their hierarchical structure to get closer to the customers. Flattening the hierarchical or organizational structure helps reduce centralization that hampers effective and timely decision-making in organizations.

Focus

Companies are under the constant threat of competition, with competitors ready to eat away their market share if they are not alert. So, it has become imperative for companies to constantly improve their core competencies, seek the assistance of management consulting firms to identify potentially viable businesses in their business portfolio and focus their resources on developing and building competitive advantages in these businesses.

Empowering

In their quest to remain competitive, companies are searching for newer ways of doing business. These days, the assistance of stakeholders of the organization such as employees, suppliers, and distributors is sought to identify lucrative new business opportunities for the organization. People who offer valuable business ideas are given responsible positions in those projects and rewarded for their efforts. However, it is essential for these people to offer such suggestions ahead of competition.

MARKETING ORGANIZATION

Marketing has undergone immense transformation from its earlier days to the present. Earlier, marketers only focused on the sales function and were always contemplating how to improve the sales of the company’s products or services. But now, sales comprise only a part of the marketing activity. Many complex decisions regarding sales, advertising, public relations, sales promotional activities, customer relationship management, brand management, product management, marketing research and a host of other activities have been integrated into the present day marketing department. Moreover, marketing is no longer being viewed as a separate function. Every department in the organization is linked to the marketing department and to marketing efforts in some way or the other.

Evolution of Marketing Department

There are about five stages that describe the evolution of the marketing department over the years. Let us study each of these stages individually.

Simple sales department

This department is normally headed by a sales manager or by a sales vice president. His functions are to manage the sales team and improve the sales of the organization. Whenever a company plans to undertake advertising or promotional activities, or when it needs market research to be carried out, these activities are also handled by the sales manager.

Sales department with auxiliary marketing functions

A sales department with auxiliary marketing functions is particularly important when an organization is expanding its activities. For instance, if a firm is planning to introduce a new product in the market, it needs to conduct market research. Subsequently, it has to advertise its product and design effective promotional campaigns. A sales department may perhaps have to employ additional marketing personnel to perform these marketing functions.

An individual marketing department

When the marketing activities of a firm increase to a stage where it is no longer viable for the firm to assign these activities to the sales department, a separate marketing department is established. The marketing efforts of a firm include market research, brand management, product management, etc. It was found that usually, a sales manager could not allocate sufficient resources and time to the marketing activities in his department. Therefore, organizations began to feel that only a separate marketing department would serve the purpose. Such a separation of the functions gives the top management an overall perspective of both the departments. Generally, the sales department works with a short-term perspective and aims at increasing the sales, while the marketing department aims at improving the company’s performance in the long run. Moreover, the marketing manager tries to improve the image of the company in the eyes of the customers by focusing on building customer loyalty, rather than immediate sales.

Modern marketing department

The marketing and the sales department are expected to work in coordination to achieve organizational objectives. But there is a general mistrust and lack of confidence between these two departments about each other. This is largely evident from the functions they perform. For instance, the sales team always looks to improve the sales and thus improve the profitability of the firm in the short run, whereas the marketing department always looks at the long-term objectives. The marketing department relies on market research for its decision-making while the salespeople depend upon their experience gained over the years. In order to overcome this lack of trust between these two departments, the top management might bring the sales department under the purview of the marketing department. This forms the basis of the modern marketing department where the sales manager works under the marketing manager.

Modern marketing company

The transformation from a pure sales department to the modern marketing department has taken rapid strides. The modern marketing company stresses the significance of the company-wide marketing philosophy. Every individual and every department in the organization is expected to contribute to the marketing objectives of the company. Marketing is no longer to be viewed as an individual activity, especially in the present day competitive environment. Only when marketing is developed into a company-wide philosophy, does a company transform itself into a modern marketing company.

The Designing of Marketing Organizations

The structural form of an organization plays a role in the way it plans, implements and monitors marketing activities. Generally, organizations develop their marketing department or conduct their marketing activities on the basis of four types of structural forms. These are functional, geographic, product and customer markets.

Functional organization

The marketing department of an organization is generally divided into different functional area specialists like the sales manager, marketing research manager, advertising and sales promotion manager, new products manager, customer service manager, and so on. These various functional heads carry on their marketing efforts effectively, as their area of operation is limited to the specialization. The idea behind establishing a functional marketing organization is to make its management simpler and also improve the efficiency. But there are two inherent fallacies in this method. First, the functional heads always try to dominate the other functional areas. Another disadvantage is that every functional manager strongly competes for higher budget allocations with other functional heads.

Geographical organization

Organizations arrange their marketing activities based on the geographical regions. A typical geographical organization set-up would comprise a national marketing manager in-charge of the entire country market, supervising four other regional managers one for each region, namely, north, south, east and west. Each regional manager will in turn, head six zonal managers. These zonal managers will head eight district managers, and each district manager will coordinate about ten salespeople. This kind of set-up is usually seen in pharmaceutical companies and helps the organization reach customers more efficiently. The national manager, in coordination with the regional managers, can coordinate the sales activities and formulate effective strategies for a specific city or district with proper feedback from the district manager and his sales team. The district manager will have a better understanding of his market and, therefore, will play a crucial role in suggesting suitable strategies to the regional and national managers.

Product or brand management organization

Most organizations that manufacture a lot of products normally have a product or brand management organization set-up. This set-up helps these organizations in efficiently managing their various products and brands. The product management organization has a product manager controlling all activities pertaining to a particular product. Some of the big organizations employ one manager for each product and s/he is responsible for all activities related to the product. A typical product manager has to perform various functions like planning, implementing and controlling the product strategies. Other functions include developing effective long-term strategies for the product, forecasting its sales, developing an effective marketing plan, coordinating with various functional departments, regularly collecting relevant information about the products from customers and markets, and making product modifications whenever required. Both consumer and industrial markets employ product and brand managers, but the way in which these two managers handle the products normally differs. A product manager who operates in a consumer market is mostly concerned about advertising and sales promotional activities and tries to understand the customer's perceptions by spending a lot of time with them. On the other hand, a product manager of industrial products is more concerned about the product content and design enhancements, and therefore, spends the maximum time with the research and development personnel.

There are both benefits and shortcomings of a product or brand management set-up. The most important benefit is that it makes it feasible for the most important part of any business – the product – to be taken care of by a specialist. Moreover, any changes in the needs of the market can be quickly identified and altered by the product manager and all the products and brands, however small they may be, get individual attention. This will benefit the company in the long run. There are also certain shortcomings of the product or brand management organization set-up. It is very costly to maintain a product manager. What generally happens is that with passage of time, the product manager claims that he is overburdened with the increase in the number of products and brands, and requests additional support. As a result, more people have to be employed and this increases the costs of the organization.

Vertical product team

The vertical product team comprises a product manager who is responsible for liaising with other department and functional heads and seeking their cooperation in various product related efforts. The product manager is assisted by an associate product manager, who, apart from providing assistance to the product manager, also handles paperwork. Finally, this structural form has a product assistant at the last level whose job is to mainly carry out most of the paperwork and routine analysis.

Horizontal product team

The horizontal product team consists of a product manager and different specialists representing a range of functional areas such as marketing, purchasing, R&D, production, and so on. The product manager, in coordination with these functional specialists, develops suitable product strategies. The functional specialists help in the development of the product in the market. Some companies adopt a strategy where they allocate two or more products to one single product manager unlike the conventional method where a product manager handles only one product. This kind of strategy works well when there are similar products in the product line. For instance, an organization like Amul that produces milk and milk related products, need not maintain separate product managers for milk, cream, cheese and so on. But organizations that produce products, that appeal to different sets of customers, have to maintain separate product managers for individual products. For instance, a company like HLL has to maintain separate managers for its toothpaste, detergent, bathing soap, bakery and other divisions.

Triangular product team

The triangular product team consists of one product manager assisted by two product assistants. The job of each product assistant is to handle a specialized assignment pertaining to the product. For instance, one may perhaps handle the product communications, and the other might coordinate with the R&D department to come out with the most suitable design of the product for the market.

Market management organization

When the organization's span of business expands and it starts operating in more markets with more products, it becomes necessary for the organization to have a market management organization set-up. The markets manager supervises a set of functional experts who are in charge of identifying or developing new markets. The duties and responsibilities of the markets manager are to identify new markets, effectively manage and improve the market share in existing markets, and provide timely and appropriate suggestions to the company on introducing new products into the market and when to introduce the new products. The markets manager should have complete information about the market. The markets manager is also responsible for developing long range plans for the company's markets. A lot of firms, termed as market-centered organizations, are reorganizing themselves to suit market needs. In order to become a market-centered organization, companies have to give the maximum importance to developing the divisions of the organization. The advantage of having a separate market management organization is that it serves the needs of distinct consumer groups effectively.

Corporate/divisional organization

As the company grows in size, offering a host of products and services to markets across the world, the company begins to increasingly feel the necessity of setting up separate corporate or divisional organizations. A functional head, usually a vice-president, is appointed to handle the sales and overall management of that particular division.

When an effective marketing team is developed at the divisional level to take care of the products in that market, what should the status of the corporate head office be? Should it maintain a separate marketing department for itself? There can be various answers to the question. The corporate office can choose not to have its own marketing department and concentrate on other strategic issues as individual divisions already have their marketing teams. Another option is that it can maintain a small marketing team to assist the top management in developing marketing plans. Or, it can even have a full-fledged marketing department to assist other divisions in the activities that the divisional marketing teams find difficult to perform.

LINKAGES WITH OTHER DEPARTMENTS

Keeping the interests of the organization in view, all the departments should coordinate and work together to achieve the organizational objectives. However, quite often, mistrust and ill-feeling affect interdepartmental relations. One of the prime reasons for interdepartmental conflicts is individual departments giving precedence to their own goals, which are often not in alignment with the goals of other departments or those of the organization. Other reasons could be prejudice and the communication gap between interdepartmental employees. Organizations exist to sell goods and services in the market and make profits. These goods should satisfy customer needs. Therefore, it is the duty of every employee to contribute towards the organization's goal of customer satisfaction. The concept of modern integrated marketing has evolved from this notion. The concept of integrated marketing proposes that the marketing manager should coordinate with all other departments to achieve customer satisfaction. A marketing manager should coordinate with the HR department to hire proper sales staff, with the R&D department to give inputs regarding the tastes of customers to help in developing the right products, with the production department to ensure production of the right quantity at the right time, with the finance department in fixing the price of the product that is suitable to the customer, and so on. If the marketing manager has no significant say in other departments' issues pertaining to customer satisfaction, then it severely hampers the organizational growth.

Research and Development

The lack of proper interaction between the marketing and R&D departments often hinders fulfilment of organizational objectives. Differences may arise between the people of both the departments due to various reasons. The R&D department usually consists of scientists and technicians who are more interested in developing breakthrough designs. They desire long-term challenging opportunities rather than just developing products that produce immediate sales. These people like to work without restrictions on time schedules or research costs. On the other hand, the people in the marketing department have a business orientation and view things from the customer perspective. These people want the R&D team to develop new products at regular intervals, with customer-oriented features that can generate immediate sales. Their concern is about designing products at the lowest costs so that the price advantage can be passed on to the customer. The mutually incompatible goals of these two departments makes the R&D team perceive the marketing team as only being concerned with generating short-term sales, even if it means resorting to market manipulations. The marketing department likewise thinks that the R&D team is concerned more with enhancing the technical aspects of the product rather than designing products on the basis of customer choice.

Some companies are technology-driven, some are market-driven, and there are also companies which follow the middle path. Technology-driven companies are those that invest heavily in R&D and try to come out with breakthrough products. Market-driven companies frequently come up with design modifications with the help of existing technologies and introduce customer specific products. These products normally enjoy a short life cycle. In companies that have a balanced view of both technology and markets, the R&D and marketing departments coordinate to produce products that optimally utilize the technology as well as market inputs. In this kind of an organization, both the marketing team and the R&D team work in tandem. By the combined efforts of the R&D and marketing departments, a company can successfully develop innovative products. Organizations can take certain measures to ensure that a close link is established between the marketing and the R&D departments. The company can organize joint meetings to develop common objectives, and one representative from each department can be involved in the entire life cycle of a particular project right from the idea initiation stage to the commercialization of the product.

Engineering

The engineering department focuses its efforts on designing new manufacturing processes so that they can be simplified and the cost of production reduced. These objectives normally create a conflict with the marketing efforts as marketers look for new products to be produced on a regular basis. Marketers ask for custom made product features, while the engineering team tries to standardize product features. These opposing objectives of both these departments create a conflict between them.

Manufacturing and Operations

The personnel in the production department are concerned about manufacturing goods without any deviations from the planned schedules. They are responsible for producing the exact quantity of the product at the right time. While the marketing department changes its requirements (product) in line with the changes in the market environment or it wants to change the production schedule dynamically, it is usually difficult for the manufacturing department to adjust the processes and change the schedule dynamically because the production is again linked to the availability of raw materials and such abrupt changes would affect the inventory level and costs. Manufacturing-driven companies aim at mass production of goods. On the other hand, the focus of market-driven companies is on addressing the needs of consumers and producing products that suit them even if it means an increase in the cost of production. Experts opine that companies should have a balanced view combining both these perspectives and try to unify the objectives of both the manufacturing and marketing departments. Research has suggested that as the conflicts between the marketing and other functional departments increase, the interaction between them also increases but in a negative manner. This type of increased negative interaction affects the relationship adversely. Another research conducted to find out whether marketing and manufacturing can effectively cooperate, identified around eight problem areas that needed cooperation but happened to be areas of potential conflict. These are capacity planning and long-range sales forecast, production scheduling and short-range forecasting, delivery and physical distribution, quality assurance, breadth of product line, cost control, new product introduction, and adjunct services such as spare parts maintenance. To reduce these conflicts, it has been suggested that each functional unit be made more responsive to other functional unit’s needs.

Purchasing

The purchasing personnel’s job is to procure raw materials at the lowest costs and of the required quality. They always prefer to buy in bulk quantities so that they can bargain better with the vendors and can get quantity discounts. This objective of the purchasing department is in conflict with that of the marketing department, which stresses on having many varieties in the product line and wants to keep changing the product design and feature. With the marketing department keeping on changing its forecasts, the purchasing department is forced to buy materials in small quantities rather than in large quantities, which could have significantly reduced the costs. The forecasting fallacies of the marketing team may sometimes force the purchasing department to buy the goods at higher prices, or may even result in excessive inventory.

Finance

The employees in the finance department control the finances of an organization. They allocate budgets for different departments according to their requirements. They feel marketing is the only department that cannot be controlled effectively by them. The general perception in the finance department about the marketing personnel is that the latter negotiate for higher budgets for different marketing activities without any guarantee about the sales that these activities will generate. The marketing personnel, on the other hand, feel that the finance people control the finances too tightly without giving any importance to their concerns about developing a long-term relationship with the customers. In such a scenario, it is beneficial to solve these types of conflicts by making personnel from both the functions understand their mutual interests and concerns.

STRATEGIES FOR ORGANIZATION WIDE MARKETING ORIENTATION

Global companies need to be customer-oriented in their activities. Many companies face difficulties and fail strategically because they are not customer-driven. These companies neglect the ‘customer focus’ approach by giving more importance to other activities such as sales or technology or production processes. But over the years, most companies have realized the importance of customer-driven business and are realigning their business processes so that the customer focus remains intact. Companies need to take the following measures to be customer centric:

- The top management should communicate to all employees its commitment to align business processes to satisfy customer needs.
- Companies can also develop committees to promote and implement integrated marketing efforts in the company. The committees can comprise top level officials from all departments who will work together to devise innovative strategies.
- Companies can seek the assistance of external marketing consulting firms in developing a modern marketing organization and obtain valuable suggestions in transforming the organization into a customer-focused organization.
- Companies need to change the reward structure. If the finance department is rewarded for cutting down budgets, it will not change its functioning regarding the budget allocations to the marketing department. Once these departmental personnel are made aware of the importance of an integrated marketing approach, they will respond positively to the needs of the marketing department.
- Companies should also focus on employing the best marketing talent. The best strategy would be to search for experienced professionals in a similar line of business.
- It is important to provide training to employees at all levels of the organization regarding marketing aspects such as customer service, customer perception and so on.
- Companies should develop a market-oriented planning system that will ensure that the managers develop strategies and plans according to the market needs by assessing the marketing environment and the opportunities available in the market.
- Companies should recognize and duly reward business units that have developed and implemented successful marketing strategies. Giving the employees due recognition for their contribution to the marketing efforts will encourage others also to work towards achieving the marketing goals.

MARKETING IMPLEMENTATION

Marketing implementation is the process by which the objectives and strategies of a company are converted into actionable programs so that the objectives are achieved and strategies become successful. Successful marketing implementation depends on the abilities of an organization. They include the ability of the company to identify and analyze a problem situation, implement the plans, and finally, measure the performance with the help of the control system and take corrective action if there is any deviation from the plan.

EVALUATION AND CONTROL

The responsibility for evaluating and controlling the marketing programs of a company lies with the marketing department. It has to constantly assess and adjust the programs according to the market requirements. The marketing department utilizes techniques such as annual plan control, sales analysis, sales variance analysis, market share analysis, financial analysis and market-based score card analysis to evaluate the marketing implementation process. Finally, the company takes corrective measures to correct any deviations in the implementation process.

Annual Plan Control

In the annual plan control process, a company sets its annual targets for sales, profits, etc., and ensures that the company achieves them. Annual plans are divided further into quarterly and then monthly targets so that they can be controlled effectively. Subsequently, the control system helps in measuring the progress and identifying deviations from the plan and in taking corrective actions.

Sales Analysis

Sales analysis is a process of analyzing the actual sales and comparing them with the projected sales. The sales variance analysis is a technique which helps in evaluating the factors responsible for the deviations in sales. Once these factors, such as low price or low volume are identified, a micro sales analysis is undertaken to identify the actual deviations. It involves identifying the product, territories, etc., responsible for deviations from the plan. The product's performance and the territory's performance are judged on the basis of factors such as competition, skills of the marketing personnel, the general economic condition of the territory, and so on.

Market Share Analysis

Market share analysis is an ideal process to judge a company's performance against its competitors. Normally, a company is considered to be performing well as compared to the competition if its market share is increasing.

There are about four techniques available for measuring the market share. The first one is the overall market share method, in which the company's sales are taken as a percentage of the overall market sales. The next method is the served market share method, in which the company's sales are taken as a percentage of the total sales in its served market. A served market comprises all those buyers who are willing to, and capable of buying the company's products. Another technique is the relative market share method. This is a process of considering the sales of the company as a percentage of the combined sales of the top three competitors. Yet another method is calculating the sales of the company as a percentage of sales of the leading competitor.

A company has to carefully evaluate its market share on the basis of the type of customers, the product line, and the territories in which it is operating. The overall market share can be analyzed in the following way:

Overall market share = (Customer penetration) × (Customer loyalty) × (Customer selectivity) × (Price selectivity)

where,

Customer penetration denotes the percentage of all the customers purchasing the products of the company.

Customer loyalty denotes the purchase process of the company's customers, calculated as a percentage of total purchases from all the vendors of the same product.

Customer selectivity is the size of the average purchase process of a customer from the company, which is calculated as a percentage of the size of the average customer purchase from an average company.

Price selectivity is the average price quoted by the company, calculated as a percentage of the average price quoted by all the companies.

Marketing Expense to Sales Analysis

This method helps a company analyze whether its marketing expenses are within limits or if it is overspending. To achieve its sales objectives, the company has to control its marketing expenses and ensure that it is not exceeding the limits.

Financial Analysis

Marketers use financial analysis to formulate profitable strategies for the company and to identify the factors determining the firm's rate of return on net worth. Financial analysis has been elaborately discussed in Chapter 4.

Market Based Score Card Analysis

Sales and financial analysis were discussed above on quantitative terms. But to measure the success of a marketing program or department, it is essential to consider qualitative factors such as level of customer satisfaction, etc. A market based scorecard is an approach which helps managers consider qualitative factors. There are two types of market based scorecards that represent performance and even act as an early warning system in market share fluctuations. The first type is a customer performance scorecard that analyses the firm's annual performance on the basis of customer attributes such as new customers, dissatisfied customers, lost customers, target market awareness, target market preference, relative product quality, and relative service quality. The second type is a stakeholder performance scorecard. This method measures the satisfaction levels of stakeholders of the company such as the employees, suppliers, customers, distributors, retailers, stockholders and so on.

Profitability Control

Managers have to clearly assess the profitability of the products, the customer segments, territories, the channel partners and so on. The profitability assessment will help the company in deciding whether product or marketing activity should be widened, reduced or eliminated. The profitability ratios have been discussed in detail in Chapter 4.

Efficiency Control

In order to improve their overall profitability, companies need to identify the ways to improve the efficiency of the sales force, sales promotional activities, advertising and distribution. Many large companies employ marketing controllers, whose responsibility is to determine the various marketing expenditures of the company and provide necessary training for the marketing personnel on the financial dimensions of the marketing activities.

Sales force efficiency

To determine the sales force efficiency in a particular region, there are certain key performance indicators that should be evaluated:

- The average number of calls a salesperson is making in a day
- The average time spent on a sales call
- The average revenue that is being generated from each sales call
- The average cost incurred on each sales call
- The average entertainment cost incurred on each sales call
- Orders generated per 100 sales calls
- The number of customers added to the firm's customer base in a given period
- The number of customers lost in a given period
- The costs incurred on the sales force as a percentage of overall sales

These indicators help a company evaluate the sales force efficiency. The results will help the company take the necessary measures to improve the areas in which the sales department is lagging behind.

Advertising efficiency

Normally, it is difficult for a company to measure advertising effectiveness. The following factors can help a company measure the returns on its advertising expenditure:

- The advertising costs incurred per thousand target buyers through a specific media
- The percentage of the audience which is exposed to and has read the maximum contents of the print ad
- The customers' perception regarding the ad and its effectiveness
- The attitude of the customers prior to and subsequent to the ad campaign
- The total number of inquiries generated through the ad
- The costs incurred on each inquiry

Sales promotion efficiency

There are many ways of improving the sales promotion of a particular firm. The company should evaluate the costs incurred and the subsequent benefits accrued from each promotional activity in order to evaluate its sales promotion efficiency. The following factors can help a firm evaluate its sales promotion efficiency to an extent:

- The percentage of sales accrued from each promotional activity
- The display costs incurred per sales rupee
- The percentage of the coupons redeemed
- The number of inquires that have been generated from each sales promotional activity

Distribution efficiency

Distribution expenses are a significant part of the total overhead expenses of a product. Companies need to measure the efficiency of their distribution so that they can keep a control on it and take corrective measures at the earliest. Companies can improve their distribution efficiency by improving various processes in distribution like inventory management, storage locations, transportation management and so on.

Strategy Control

The top management of an organization reviews its strategic goals and objectives at regular intervals. Managers change their marketing objectives continuously to suit the changing market needs. Methods like marketing effectiveness review, marketing audit and marketing excellence review help analyze the strategic performance of the company in the market.

Marketing effectiveness review

The marketing effectiveness review assesses the extent to which a company exhibits the following attributes namely, customer philosophy, integrated marketing activities, sufficient marketing information, strategic outlook and operational efficiency. We will now see how a company can be rated on these different attributes.

A company is rated for customer philosophy on the basis of its ability to develop its products and services according to the customer requirements, its effectiveness in creating value for customers in its offerings and marketing strategies for different segments, and its ability to have a wider perspective of the business environment while planning the business.

A company can be rated on the basis of its intensity of coordination with other departments, its control over important marketing functions, and on the basis of its new product development process. As far as sufficiency of the marketing information is concerned, it is dependent on the company's ability to estimate the sales potential and profitability of different customer segments, its ability to update itself with the latest information about markets, customer perceptions, competitors and so on.

The company's strategic outlook is analyzed on the basis of its ability to design an organization-wide formal marketing plan, and its ability to evolve the most effective contingency planning system. The operational efficiency of a company is judged on its ability to effectively communicate and implement its marketing strategy.

Marketing audit

If companies come across certain marketing fallacies through marketing effectiveness review, they must analyze their marketing activities at a deeper level with a tool called marketing audit. Marketing audit is defined as a comprehensive, systematic, independent and periodic evaluation of a firm's marketing activities, goals and strategies in order to identify the opportunities and problem areas, and suggest suitable recommendations for improving the firm's overall marketing performance.

Companies should conduct a comprehensive marketing audit. The audit should cover all the important marketing activities and marketing efforts of a firm. It should be systematic and should adopt a step-by-step procedure to analyze the marketing activities of the firm encompassing both the internal and external environment. A marketing audit can be conducted by anyone in the company who is aware of its marketing functions. But generally it is advisable that the marketing audit is conducted by an independent external agency to eliminate the risk of bias and to get an independent view. Finally, a periodic review of the marketing activities of the firm should be done with the help of marketing audit.

Marketing excellence review

Companies should assess their performance against the best practices of high performing businesses. Companies can measure their performance on a scale of poor, good and excellent business and marketing practices. In this process, the company can identify the strengths and weaknesses of each of its business units.

SUMMARY

Globalization and the emergence of advanced technological tools in information technology and telecommunications have forced companies to change the way they do business. They are compelled to give up their conventional business practices and change their business processes with the help of techniques like reengineering, outsourcing and benchmarking. In order to remain competitive, it is essential for them to collaborate with suppliers, build customer relationships, enter global markets through strategic tie-ups like mergers and takeovers, downsize their organizational structures and empower their employees. These measures have a deep impact on organizational performance.

Reengineering is a process where a company tries to enhance its business processes by radically redesigning the existing processes. In outsourcing, companies buy goods or services from external suppliers to focus on their core business activities and reduce the costs in in-house processes. Benchmarking involves the process of identifying the companies that are the best in the industry and analyzing how these companies are performing their business activities, what the practices of these companies that are making them so successful are, etc. After identifying such companies, the firm selects one of them as the benchmark and tries to copy or imitate the best practices of this firm. Companies acquire or merge with other companies to gain a significant advantage through economies of scale or by having a synergistic effect in some business processes. Many companies expand their markets beyond geographical boundaries and extend their operations across countries to reach out to new customers and markets. Also, it has become very important for organizations to flatten and downsize their hierarchical structure in order to get closer to the customers. Flattening is the process that helps the organization reduce centralization that hampers effective and timely decision making.

Organizations develop their marketing department or conduct their marketing activities on the basis of four types of structural forms. These are functional, geographic, product and customer markets. Generally, in the interests of the organization, all the departments should coordinate and work together to achieve organizational objectives.

Marketing implementation is a process by which the objectives and strategies of a company are converted into actionable programs so that the objectives are achieved and the strategies become successful. Various controls are necessary for the successful implementation of a marketing program. Various control tools are annual plan control, profitability control, efficiency control, and strategic control.

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Chapter 23

Global Marketing Strategies

In this chapter we will discuss:

- Significance of global marketing
- Selecting a potential market
- The impact of environmental forces on global marketing
- Methods of entering a new market
- Types of marketing organization
- Developing global marketing strategies
- Marketing strategies of MNCs in India

What is common in Hamburger and Scotch whisky except that they belong to the category of edible products? They both sell very well in the global market due to the global marketing strategies of the producers of these products. Similarly, do you know where the tires of the car that you drive were manufactured; who made the engine; where its interiors were designed; where the nuts and bolts for the car were produced? Of course, not! This is because world markets have integrated, are moving towards a unified global market and the flow of trade has increased significantly.

Though the concept of global marketing has gained significance in the last few decades, companies had begun trading across borders much earlier. We can trace the chronological development of globalization. In the 1960s, various US companies crossed the country's boundaries, the 1970s witnessed the growth of Japanese companies in the US and other markets, the 1980s saw the emergence of third world multinationals and the 1990s saw companies going global. Changes in various environmental factors, especially technology and economy, have been responsible for companies going global. Companies have realized that to achieve economies of scale and survive in today's competitive world, it is vital to become global, use the strengths of different markets and market their products globally.

To device a global marketing strategy, companies need to have a cautious and structured approach, because the risks are high and the process is quite complex. When companies transcend national boundaries, they face a host of constraints. While some of them are quite obvious, others are not. Differences in legal, economic, demographic, political, regulatory and technological environment are easy to understand but understanding the cultural diversity is the biggest constraint for companies crossing their geographical boundaries. Apart from these environmental factors, we shall discuss in this chapter how companies can select and enter potential markets, what the global marketing organization should be like, and how it can design effective global marketing strategies.

SIGNIFICANCE OF GLOBAL MARKETING

The significance of global marketing has increased in the 21st century with several countries including India having opened up their economies. Domestic markets of developed nations are already saturated. Therefore, companies need to look for new markets which can help them achieve their growth objective and satisfy their shareholders' and capital market expectations.

As companies need to reduce their product development time, they also need to recover their investments in research and development faster. For faster recovery of investments, it is essential for companies to market their products in global marketplace. This is especially true in the case of industries like pharma, where new product development costs more than $50 million.

Rapid technological developments have helped companies improve the quality of their product and reduce costs. With the advent of the Internet and other communication technologies, it has become easier for companies to transfer technology to one another. Companies are under tremendous pressure to reduce costs and to reduce costs, they need to source good quality material from a place where it is available at the cheapest rate. Technology has helped organizations source globally. Sellers of a component collect at and bid their prices at industry and auction sites. With the help of comparative analysis, it becomes very simple for companies to select the best available supplier who may be from any part of the globe.

It is easier for companies dealing in technology to globalize, as technology products are standardized and not affected by national and cultural boundaries. For example, Nokia, a Finnish company, strengthened its position in the global telecommunications market and achieved success by offering a wide range of products, especially mobile phones to its customers across the globe. Over the years, the company has evolved as the biggest mobile phone manufacturer. Nokia's largest markets in 2002 were USA, UK, China, Germany, Italy, France, UAE, Thailand, Brazil and Poland. Many firms have set their vision on global markets. Today, an average person uses several products that are manufactured outside his country, maybe right from the pen he carries to the automobile he uses for transport. Several Indian companies started their global operations long ago and have established themselves firmly in international markets. For example, Maruti has operations in over 70 countries and its total exports till August 2003 crossed 3,00,000 vehicles. Bajaj Auto has a presence in about 60 countries. The emergence of the Indian software industry has had a significant impact on the global market. Companies like Infosys, Satyam, Wipro have made their mark in the global market by providing software solutions for their global clients.

SELECTING A POTENTIAL MARKET

When a firm decides to internationalize or globalize its operations, the first step is to select potential markets. Selecting potential markets is a complex process because there are 191 countries on the world atlas. Only a few of them will provide a market for the goods a firm produces. The costs of entering a market are also quite high and the decision will have a major impact on the future of the firm. The company should understand consumers of the existing or local market by asking questions like, 'Who buys its products?', 'Why do they buy them?', 'What do they do with the product after buying it?', 'What are the factors influencing their decision?' etc. Answers to these questions will help the firm understand its customers better. It will be easier for it to reject outright, countries, which are not suitable. Other factors, which affect the selection of a market, are the economical and political environment in a host country, the level and cost of customization of products, similarities with the existing market, size and growth of the potential market, the culture of the potential market, number of competitors, etc. For different products, the importance of different criteria will vary. Therefore, companies must evaluate these criteria before deciding whether to enter a market or not.

Regional Free Trade Zone

Regional trade agreements or trade blocs are relatively new phenomena through which companies have started entering potential markets. Companies are benefited because they can enter into a group of countries rather than a country through these trade blocs. Regional free trade zones are formed to help nations in a region to engage in free trade within the region. ASEAN, NAFTA, European Union, etc. are examples of regional trade associations. These associations formulate uniform trade policies for the rest of the world and preferential trade policies for member countries. Their objectives are:

- Ensure economic growth of members
- Increase trade relations with other countries
- Increase foreign capital inflows
- Create economic and diplomatic trade blocs
- Integrate the economic policies of member countries.

The South Asian Association for Regional Cooperation (SAARC) was established in 1985 to develop cooperation among member countries in social, economic, cultural and other fields. The member countries are Bangladesh, Bhutan, India, the Maldives, Nepal, Pakistan and Sri Lanka. SAARC countries signed a free trade agreement called SAFTA (South Asia Free Trade Agreement) on January 6, 2004. Under this agreement, member countries have agreed to eliminate trade barriers and reduce trade tariffs to 0 – 5 per cent in the next seven years. The agreement will be operational by January 2006.

India has signed several free trade agreements (FTAs) with other countries. However, the impact of these FTAs has not always been favorable for local industries. Table 23.1 lists the impact of a few FTAs on Indian industries.

Table 23.1: The FTA Effect

Country – FTAs	Gainers	Losers
Indo – Thailand FTA	Multinational component manufacturers	Domestic automobile component manufacturers
	Japanese and US car companies which already have bases there	Domestic car manufacturers
	Multinational petrochemical companies	Petrochemical giants like Reliance because of the duty structure
India – ASEAN + 3 FTA	Chinese and Japanese companies	Most manufacturing companies because India will have to compete with China
Indo – South Africa FTA	South African farmers	Indian farmers because of uncompetitiveness of the sector
India – Singapore Economic Cooperation	Singapore's manufacturing and trading companies	India's electronic industry and other manufacturing units

Source: "FAT Fallout," Business Today, February 1, 2004: 17 – 18.

Evaluation of Potential Markets

A firm generally selects a potential market by screening out less lucrative markets. It is not economically feasible for companies to conduct comprehensive research on all 191 countries in the Atlas. Therefore, they select a few promising countries and identify opportunities with the help of published secondary data. Exhibit 23.1 shows the parameters used by Samsung to select the potential markets for its global marketing efforts.

Companies divide the screening of potential markets into four phases. During the first phase, the firm analyses different markets on the basis macro environmental factors such as political, legal, geographic and economic environment. If the disposable income of individuals in a country is low or the country's political condition is unstable or its economy is facing a severe crisis, the country can be removed from the list of probable markets.

The second stage involves analyzing the market size, product acceptability and customer perceptions. If direct data is not available about a product, its market potential can be estimated on the basis of the existing market capacity for related products. For example, if you want to measure the size of the market for web cams, the market size of related products such as personal computers can provide good indication of web cams' market. Other factors, which can be used at this stage for screening out a country, are the stage of economic development, the level of import duties, regulatory requirements, etc.

The third stage of the selection process includes analyzing micro environmental factors such as the barriers to entry and exit in a particular industry, the cost of exit, industry capacity, number of competitors, availability of skilled labor, number of sources for raw materials supply, intensity of the competition in the industry, etc. By the time a company reaches this stage, it has already filtered out a majority of countries. Therefore, a detailed study of the various micro environmental factors is feasible. At this stage, the company also determines the sales and profit potential along with the costs of acquiring a profitable market share.

Exhibit 23.1

Market Selection at Samsung

Eric Kim joined Samsung Electronics as executive vice president global marketing operations, in 1999 and he was given a marketing budget of a billion dollars. The company at that time was operating in more than 200 countries with 14 products in its portfolio. To market its products globally it needed to identify potential markets across the globe. It had carried out a one-and-half year intensive study about the market and had identified potential markets on the basis of the following parameters. 1) Population of the country and also the population of the target market 2) per capita expenditure 3) per capita expenditure on various products 4) market penetration rates of different products 5) the growth rate of product categories 6) market shares 7) advertising costs 8) historical market expenditures 9) profitability and competitor analysis.

Adapted from Corstjens, Marcel, Merrihue, Jeffrey, "Optimal Marketing," Harvard Business Review, Vol. 81, Issue 10, October 2003: 114 – 121.

The fourth and the last stage of the selection process involves ranking the potential markets on the basis of profit potential, market share, level of investment, margins, expected sales, etc.

THE IMPACT OF ENVIRONMENTAL FORCES ON GLOBAL MARKETING

When a firm globalizes its marketing efforts, it faces diverse conditions influenced by economic, political, social and cultural, legal and regulatory and technological factors. These factors are very dynamic and complex in nature. Therefore, firms need to be alert to the changes in the environment and adapt to them quickly to survive in the international market.

Economic Environment

The economic environment has a tremendous impact on global marketing, as the most crucial factor determining a market's potential, is income. World economy has undergone a significant change in the recent past. The competitive front has taken a new shape, with companies facing global competition in the place of local competition. The major factors, which influence the economic environment, are the GDP and GNP, the disposable income, inflation rate, the cost of energy and its availability, infrastructure capabilities, etc. For instance, the Foreign Institutional Investor investments (FII) in India increased considerably in 2003, with much higher investments compared to the last 13 years. The growth in the FIIs' sentiments which led to large investment inflows into the emerging markets like India, China, South Korea, Argentina and Brazil is due to increased rate of returns. India became an attractive investment destination especially because of its high GDP growth, which is next only to China. Further, a healthy performance by the domestic corporate sector, cheaper valuations, an appreciating rupee, strong forex reserves, globally competitive technology, and liberalization of various sectors have all added to the attractiveness of the country.

Generally, there are three categories of economies operating in the world; capitalist, socialist and mixed economies. This categorization is influenced by the resource allocation in the system. The resource allocation is done in three ways – market allocation, in which the customer is given maximum preference and the goods and services are produced according to the choice of the customers. In command allocation method, the government plays a prominent role in deciding what and how much is to be produced while in the mixed system, resources are allocated on the basis of combination of both market allocation and command allocation methods. World markets can also be divided according to the GNP per capita by segmenting them into high income countries, upper-middle income countries, lower-middle income countries and low income countries.

Exhibit 23.2

Unstable Economies of the Middle East

The recent attacks by the US Government on Iraq, the ongoing fight between Israeli and Palestinian forces have destabilized the economies, and have badly affected businesses in this region. The Bush Government hoped that setting Iraq free from Saddam's rule and the intense peace process between Israel and Palestine would boost the economy and improve trade in the region. It also hoped that the end of Saddam's regime in Iraq would improve oil flow from it and the price of crude oil would come down which would boost global trade. However, this did not happen although Turkey's tourism witnessed a 10 per cent annual growth in the aftermath of the attack. With the exception of Saudi Arabia, Kuwait and UAE, business has been bleak for non oil producing countries in the Middle East like, Israel, Jordan and Turkey which depend heavily on tourism. A ray of hope is that export of high tech products from Israel is marginally growing at 12 per cent since May 2003.

However, analysts are hopeful that the situation will improve and Iraqi oil exports will rise significantly after an improvement in the security of the oil fields. It is also expected that the new governing council in Iraq will remove the restrictions on foreign investments.

A*dapted from Bill Powell, "The Cost of Instability," Fortune, September 2003: 28.*

Political Environment

The political environment of a country should be carefully analyzed before venturing into the country. Factors such as the treatment of foreign firms, political stability, bureaucratic involvement, etc. need to be considered. The recent attack of USA on Iraq has completely destabilized the political as well as the economic environment in the Middle East. Exhibit 23.2 gives a clear picture of the political and economic environment prevailing in the Middle East after the Iraq war.

The national sovereignty and security policies, the political prestige of the country, trade barriers, implications of foreign direct investments, and rules regarding mergers and acquisitions are usually taken into consideration while assessing the political environment in a country. The political system of a country – socialistic or capitalistic – influences the economic environment in the country. Allocation of resources in capitalistic systems depends on demand and consumers determine the demand for a product on the basis of their consumption levels. In socialistic system, governments control and decide the production level and the prices of products. Political stability in a country also influences the economic development of the country. If the political environment in a country is stable, the relationship between key players in society remains unchanged. Conversely, if the environment is unstable, the relationship will be unpredictable.

The Indian economy has witnessed a decent growth in recent times, but the political atmosphere needs to be more investment friendly and red tapism in administration needs to be reduced significantly to fuel economic growth and encourage foreign players to enter India. If certain issues are addressed, they will pave the way for a significant change in the economic scenario of the Indian market. Foreign direct investment is still not allowed in the Indian retail sector, whereas China opened up its retail sector in 1992. Though China has set an investment limit of 49 per cent, its retail sector has witnessed substantial growth in the last ten years. The political environment influences the global marketing environment to a great extent and therefore has to be given due importance.

Social and Cultural Environment

The social and cultural environment differs from one country to another and it has a significant impact on the consumption patterns of consumers. Therefore, while designing global marketing strategies, companies should take into consideration the differences in cultures and societies. These differences may occur due to differences in language, demographics, non-verbal communication, education, values and beliefs. However, they are certain similarities in cultures and consumer behavior. Companies can design a global strategy if these similarities affect their product consumption. Pepsi and Coca-Cola have standardized products and have sold them everywhere. Both these companies have been successful in crossing all national and regional tastes, flavors and preferences. However, not all companies have succeeded in global markets with standardized products. For example, initially McDonald's offered its standard products in India. Its most popular product Hamburger was made with beef. The product failed in India because the cow is treated as sacred and people worship it. People did not accept the product prepared from the meat of an animal they worship. Later, McDonald's developed customized vegetable products for India.

Companies need to customize their promotion and distribution strategies for different markets because language and communication differ significantly. If a company fails to understand the culture of a foreign country, the new customs, value systems, attitudes and work habits, its managers might unintentionally act as they would in their home country. This unconscious reference to home culture has been a problem for many global companies. For example, when Coors translated its slogan, "Turn It Loose" into Spanish, it was understood as "Suffer from Diarrhea." Similarly, when Parker marketed a ball-point pen in Mexico, its advertisements were supposed to read "It won't leak in your pocket and embarrass you." The company assumed that the word "embarazar" meant "to embarrass." Actually "embarazar" means "to impregnate," so the resulting advertisement read "It won't leak in your pocket and make you pregnant."

Companies need to adapt to cultural changes quickly to survive in competitive markets. Some companies have made special efforts to adapt their products and services to different cultural environments. For example, American Express customized its credit cards in Japan where people prefer to pay in cash. Japanese feel embarrassed if they go out for dinner and do not pay in cash. Therefore, American Express modified its product and its customers in Japan were allowed to withdraw $2200 every month apart from other facilities, which were already available. This adaptation to a unique culture helped American Express expand its business in Japan.

Culture is a learned predisposition. Therefore, it does not remain the same. It changes over the years. Several changes have taken place in Indian society and culture. For example, many people in urban India have started consuming pizzas and burgers in place of *idlis* and *dosas* and Coke, Pepsi in place of coffee and tea. Similarly, Indian food has become popular in the US. Exhibit 23.3 shows that the means of entertainment are changing globally and video games are becoming a common means of entertainment. Therefore, marketers are bullish about this market.

Legal and Regulatory Environment

The prevailing legal and regulatory environment in a market has to be thoroughly analyzed by a company before it ventures into it. The various factors governing the legal and regulatory environment, such as the sovereignty of the nation, contractual agreements, dispute settlement procedures, arbitration policies, rules regarding patents and trademarks, tax structure, licensing, exit routes and other related issues have a significant impact on the global marketing environment and therefore a company has to deal with these issues carefully.

Exhibit 23.3

The Boom in the Video Game Segment

Video games are culturally overpowering other entertainment options like television, movies, music, magazines, etc. Veronis Suhler Stevenson, a market research firm, estimated that on an average an American spent around 75 hours playing video games in the year 2003, which is double the figure of 1997. However, Internet surfing is the only form of entertainment that has overtaken video games usage. Though the video game segment was looked down upon by the entertainment sector, it has grown rapidly over the years. Many companies like Sony, Nokia and Microsoft are placing high hopes on the video games market. Some of them have already started manufacturing hardware and software tools for this market. Xbox is one such hardware console built by Microsoft, Sony has come out with Play Stations.

According to a study conducted by Pew Internet and American Life project, 70 per cent of college students have played video games. Popular web sites like Yahoo, AOL, MSN and a host of other sites are offering online gaming facilities to tap the lucrative market.

The popularity of games can be estimated from the fact that The Slims, a computer game, has sold some 20 odd million copies. Similarly, there are around 30,000 people at a given point of time playing online games on Yahoo! Site. Tom Melcher, the CEO of There, an online gaming and communication service provider comments about the videogame market, "It wasn't something I grew up with. Now, I'm 40, and I can remember a time when there weren't any electronic game devices at all. However, for kids who came in the 1980s and 1990s, they can't remember a time when there were no game machines all around them."

Adapted from Plewis, "Video Game Planet," Fortune, 15 September, 2003: 36-46.

There is an increasing requirement for the universalization of law as the world is transforming into a unified marketplace. With an increasing number of countries opening up their economy and a large number of firms operating internationally, legal and regulatory issues have become complex. As mentioned earlier, they have become more complex due to the advent of the Internet. Now, a person sitting in India can buy a product from a small place in Brazil. Further, certain issues such as, which country will collect the sales tax, under which country jurisdiction, can the interests of customer be protected, etc have to be tackled.

Though the need to have laws and regulations that could be enforced in more than one country was realized long back, it became a reality in the late 1970s, when representatives of the US, European Commission and other governments formed major trade agreements for aircraft sales as part of the General Agreement on Trade and Tariffs (GATT). The 1979, the GATT agreement incorporated a legal framework governing the conduct of trade in civil aircraft. The framework recommended the elimination of duties and technical barriers for civil aircraft, the avoidance of pricing distortions and a ban on governmental interference in sales or purchases.

Multinational laws and regulations are used not only to increase business in multiple countries, but also to protect companies and industries. In the mid 1980s, when Airbus' sales expanded and the consortium (Airbus is a European consortium of French, German and later, Spanish and U.K companies) developed products to compete in several market segments, US manufacturers lobbied with the US Department of Commerce and the Office of the United States Trade Representative to help counter the trend. When the US government officials lodged protests, European governments retaliated by drawing attention to the US Government's own involvement in the industry. The diplomatic debate continued for the rest of the 1980s and the 1990s.

However, no government was able to take unilateral trade action against the other. Over the years, the fortunes of Airbus had become entangled with those of the US. Not only were US airliners important customers of Airbus, but US suppliers also played an important part in the launch of Airbus planes. One-third of the value of the A300/310 program and one-quarter of the A320 program was outsourced from US engine manufacturers such as Pratt Whitney and General Electric. Airbus also accessed US military and space R&D. For example, the A300 was the first aircraft to exploit "supercritical airfoils," an invention patented by NASA (for which Airbus paid NASA a royalty).

Technological Environment

Today's global companies are operating in a volatile technological environment. Companies are adopting the latest technologies to develop new products and services. Customers are increasingly on the lookout for better products that offer value for the money they spend. Increased customer wants have forced companies to compete globally with innovative products. The convergence of communication, information and computer technologies has changed the entire structure of economies.

Technology can help companies innovate at a faster rate and reduce the cost of the new improved product. Small firms can now compete with large transnational firms by providing globally competitive products at affordable prices. Project-Impact, founded by David Green, has developed globally competitive products. Exhibit 23.4 explains how it was able to produce low cost contact lenses and hearing aids.

Exhibit 23.4

Low Cost Product Innovations

David Green founded Project-Impact, a non- profit organization, in Berkeley to help the poor get high quality healthcare services. The organization's basic aim is to improve the quality of life of poor people. Although western countries have cutting-edge technologies in medicine, poor people cannot afford it. In the 1980s, the cost of a lens was around $300. He believed that prices could be controlled and lenses could be produced at much lower costs. This thought led David Green to develop low cost intraocular lenses and hearing aids with the help of some engineers in the US, without violating any patents.

He setup a factory, Aurolab, in Madurai, India in 1992 to produce low cost plastic lenses used in cataract surgeries. In spite of these being low cost compared to the traditional lenses made in US that cost not less than $300 per piece, the company made profits of about 30 per cent in 2002. It had also become one of the world's largest producers of contact lenses. Aurolab's major customer is Aravind eye hospital, a non-profit organization that performs 2,500 cataract surgeries a year compared to about 125 done in the US. Aurolab's sells around 700,000 lenses annually at a price of $4 per unit.

Another venture of David Green is a low cost digital hearing aid. According to WHO, there are around 250 million people suffering from deafness. Advanced digital hearing aids cost not less than $1,600 in the US, which is far too expensive for the poor people in the third world countries. David again tied up with engineers in the US to develop a low cost hearing aid. As a result, a hearing aid which costs around $118 was developed and is being subsidized for poor people out of profits made by selling them to people who can pay $118. David has expanded his business to Nepal, Tanzania, Egypt, El Salvador, Malawi and Guatemala.

Adapted from Brian Dumaine, "David Green See Me! Hear Me!," Fortune, October 2003: 92-94.

Technologically enhanced infrastructure facilities like transportation, telecommunication, storage and warehousing are opening up new horizons for the companies to compete on a global scale. Companies have to work faster in innovating products that are in demand, they have to constantly keep an eye on the technological changes taking place in the market and adapt to them quickly. The lack of efficient and sufficient pre-warning systems on technological changes in the environment may bring costly surprises for strategists. A worldwide survey conducted by Fuld-Gilad-Herring Academy of Competitive Intelligence in 2002, which covered as many as two-thirds of the 140 corporate strategists, discovered that their companies were startled by nearly three new technological changes that took place in the past five years. Almost 97 per cent of them conceded that their organizations were handicapped by lack of efficient early warning systems. Leonard Fuld suggested that there are three major steps that need to be taken, for shaping an efficient early warning system in an organization. They are: Forecasting the future technological environment by an efficient 'what-if' analysis, wherein the company simulates a probable change in the future environment and checks the results arising out of such a situation, recruiting skillful employees to evaluate the environmental changes taking place and adapting quickly to the changes in the environment.

METHODS OF ENTERING A NEW MARKET

Companies have several options for entering into international markets. The most important task for companies after entering global markets is to develop strategies that are location specific. A common strategy for the entire global market may not be useful for many products. Therefore, development of local marketing strategies is essential for a global company. Some of the popular ways of entering international markets are through direct exports, indirect exports, licensing, joint ventures, and internationalization process. Most governments in the world restrict their exports or imports depending on their strategic requirements. For instance, export controls in the USA cost its companies about $9.3 billion per year. Some developing countries are trying to increase their forex values by maximizing their exports and minimizing imports. China has increased its exports by nearly ten-folds during 1980- 2000. In world exports, which are expected to reach US$ 7.5 trillion, India will contribute one per cent i.e., India's exports will be US$ 75 billion by the end of this financial year.

Direct Exports

In case of direct exports, companies sell their goods through middlemen located in foreign countries. A company identifies the most suitable distributor in the foreign country it is trying to enter. In case of direct exports, companies enjoy more control over their distribution channel than in case of indirect exports. Companies can also open their sales offices in foreign countries, rather than dealing with middlemen.

Indirect Exports

Unlike direct exports, indirect export is a process of exporting goods to foreign countries with the help of a domestic intermediary. This process is advantageous to those firms, which have little knowledge of exports or foreign markets. Brokers, combination export managers and manufacturers' export agents are common types of intermediaries used in indirect exports. The exporting company bears the minimum risk. Many Indian firms processing marble stones in Rajasthan export their products to other countries with the help of these intermediaries. Usually, companies use the method of indirect export to test a new foreign market. If the demand for their products increases in a market, they can adopt other proactive entry approaches.

Licensing

Licensing is a form of providing access to a patent[1] or a trademark[2] to some other company by charging a fee or royalty. This will facilitate the licensed company to

[1] A patent is the grant of a property right to the inventor, issued by the Patent and Trademark Office. The term of a new patent is usually 20 years from the date on which the application for the patent was filed in the United States Patent and Trademark Office (PTO).

[2] A trademark is a distinctive sign, which identifies certain goods or services as those produced or provided by a certain entity or person. The trademark is protected for a period of 20 years, indefinitely renewable.

leverage the value of these patents or trademarks and increase its business potential. Sometimes, companies with strong brand names enter into licensing agreements with companies in foreign countries to enhance their profitability with virtually no investment. A company generally provides license to another company with some geographical limitations and for a specific period of time. Many pharmaceutical companies in India manufacture medicines and other related products by obtaining patent licenses from foreign companies.

Though licensing is a simple way of earning revenues from foreign countries, it exposes a company to certain risks. The biggest threat is that the licensee can become a formidable competitor in the future if it develops its own know-how or technology. This risk can be overcome by the licensor if a clause is entered in the licensing agreement that both the licensee and the licensor will exchange all future technological developments with each other.

Joint Ventures

In a joint venture agreement, a foreign company invites a local company (in the country in which the foreign company wants to enter) to become an equity partner. A partner may be a majority or a minority stockholder in the joint venture. Foreign companies enter into joint venture agreements to share the risk and to have access to the in-depth knowledge of the local market, and low cost material and labor. Sometimes, companies enter into joint venture agreements to leverage the technology possessed by one of the companies or if there exists a chance to enhance the existing technology of both the companies. When foreign companies are not allowed to set up their own units in a foreign country, they enter into joint ventures to enter the country. After the opening up of the Indian economy, many Indian companies entered into joint ventures with foreign companies. Maruti entered into a joint venture with Suzuki of Japan for technical assistance, similarly Hero Cycles with Honda, TVS with Suzuki, Bajaj with Kawasaki and Hindustan Motors with Mitsibushi Corporation. Recently, several international insurance firms have entered India after the deregulation of the insurance sector. Companies such as Allianz and AIG have tied up with Bajaj and Tata, respectively.

Some critical issues in making joint ventures successful are how much autonomy should be given to the joint venture partners, which tasks should be performed at the headquarters and which tasks can be performed by onsite managers. In a research conducted on joint ventures worldwide[3], it was found that joint ventures are successful when parent companies allow local on-site managers to implement administrative policies such as human resource policy. This is because employee expectations about promotion, vacations, flexible work hours and work environment are dependent on culture, which differs significantly from one region to another.

Joint ventures are not always successful, many a time they face rough weather. In a research conducted in 2001, it was found that only 53% of joint ventures succeed[4]. It was also concluded in the research that most joint ventures fail due to errors committed during the launch phase. The launch phase of a joint venture starts from the signing of memorandum of understanding and continues till the first 100 days operations of the venture. The various challenges in the launch phase are those related to strategy, governance, economics and organization.

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[3] Yoram Zeira, Professor, Tel Aviv University and William Newburry, then a doctoral student, New York University's Stern School of Business in 2000.

[4] James Bamford, David Ernst and David G Fubini, "Launching a World-Class Joint Venture," Harvard Business Review, February 2004: 90 – 100.

As the goals of an organization and the market pressures on it are different from those of their shareholders, there is a need to align their strategic interests when they enter into a joint venture. If strategic alignment does not take place during the launch phase, conflicts develop later in strategic areas. If organizations can identify during the negotiation phase, the areas in which misalignment can take place, the chances of success can be significantly improved.

Organizations also need to develop an administrative system that promotes shared decision making and supervision. If the administrative system is weak, it can even lead to cancellation of the deal. Therefore, due attention must be paid to important assets in both the organizations, but not at the cost of entrepreneurship. They need to develop protocols for decision making so that there is no ambiguity in them.

Parent organizations usually provide various resources and supports to run a joint venture and this has an impact on the economics of the venture. Therefore, both become economically interdependent. In such a case, transfer pricing becomes a challenge. In the launch phase, the services that the parent organizations will provide should be clearly specified and the parties should develop a fair transfer pricing system. They should also develop risk and performance management systems to make the joint venture successful.

It is a challenging task to build an organization after launching a joint venture. Organizations involved in joint ventures invariably have different cultures and management systems and processes. Therefore, in a joint venture, employees of both organizations often face a different environment and sometimes even a conflict of interests. Parent organizations should develop a team of top executives dedicated to the joint venture. If organizations don’t pay attention to the nuances of the project, it may adversely affect the venture in the long run.

Internationalization Process

Companies started the internationalization process twenty years back. Since then, internationalization has grown at a very fast rate. It started with multi-domestic marketing and has reached global marketing. The internationalization process refers to a company’s entry modes and timing strategies. Various entry modes for internationalization are exporting, contractual agreements such as licensing and franchising, joint ventures, strategic alliances, wholly owned foreign direct investments including mergers and acquisitions, etc. When a product reaches its maturity phase, the company can initially think of exporting it. As the company does not have adequate knowledge of the foreign market, exporting provides a starting point. When a product is exported to a host country, companies in the country look for technology transfer and start developing new products. When domestic companies start developing their products, the government resorts to protectionism. It tries to protect the domestic companies by imposing non-tariff barriers because more and more countries are becoming members of trade blocs and tariff barriers are continuously being reduced.

When the product reaches its standardization phase, companies move to the next phase of internationalization either by entering into contractual agreements such as licensing and franchising or by making an FDI, and set up a wholly owned subsidiary. Companies enter into contractual agreements in the early phases of standardization because it involves low resource commitment and control and make an FDI in the later stages of standardization. Companies enter into joint venture agreement as a part of investment when the market in the host country is characterized by company specific know-how. When they gain experience in the market, they terminate joint venture agreements and set up wholly owned subsidiaries to gain more control and increase their returns.

TYPES OF MARKETING ORGANIZATION

Developing a truly global organization is a challenging task for any company. Before entering a global market, a company needs to find solutions to several questions like: Who will be responsible for the operations? Should the company pursue its business from its domestic base or should it acquire a subsidiary? What should be the duties of the staff members of the international division? The primary aim of a global marketing organization is to adapt itself to the international marketing environment. Organizations should consider all the factors that affect the design of a global marketing organization. The various types of organizational structures, which are developed when organizations internationalize their operations, are discussed below.

Export Division

When a company's exports grow substantially, it opens a self- sufficient export division to carry on its overseas business operations independently of its domestic operations. If a company makes direct investments and enters into a joint venture, its export department will not be able to meet the operational requirements.

International Division

An international division is set up to manage and develop overseas business opportunities. A separate international division is generally set up to clearly distinguish the overseas operations from domestic operations. For instance, to cater to the increasing demand for its products overseas (a phenomenal growth of 360 per cent during 1997-2000), Godrej Soaps Limited set up a new company in the Middle East called Godrej Global in 1997. The company, a wholly owned subsidiary of the parent company Godrej Soaps Limited, took care of the exports to Gulf countries. Growing companies usually prefer to have an international division, as they cannot afford to have a worldwide organization. However, this structure has some inherent drawbacks. When overseas business moves in a different direction from the domestic business, it becomes difficult for an organization to do corporate planning. Similarly, conflicts arise between the interests of domestic and overseas businesses. In this structure, it is difficult to decentralize R&D activities. As a result, all R&D activities are oriented towards fulfilling domestic market requirements and R&D for overseas market is just restricted to product modification.

Global Organization

A global organization handles international business operations. It has to build an effective organizational structure to analyze the opportunities and threats it is facing in the global market. Certain factors determine organizational structure. They are the environmental factors, which include competition, nature of customers etc. and industry specific factors such as the importance of international business, diversification, local managerial skills etc.

A truly global marketing organization procures raw materials and supplies from a country which provides them at the lowest price, and makes investments in countries where returns are the highest. Executives are recruited from many countries and they are trained to handle global operations. They usually report to the chief executive of the company. The top management, along with the members of the global operating unit, take decisions regarding manufacturing facilities, marketing policies, logistic systems, etc.

Global organizations face several complexities in their operations. One of the most critical issues is whether the products should be made globally available with a high degree of standardization or whether they should be highly customized. When there is an issue about the pricing of a product, who should take a decision – the country manager, the product manager or someone else? While designing a global organization, companies should check whether they have designed their operations keeping in view the global industry and market structure.

DEVELOPING GLOBAL MARKETING STRATEGIES

Global marketing strategies have a significant impact on the performance of a company in the global market. There are three major perspectives on global marketing strategy: standardization, configuration-coordination and integration. As world markets become homogeneous due to advancement in communication and transportation technology, companies can standardize their marketing programs in terms of product offering, promotional mix, price, and channel structure. The major benefits of standardization include economies of scale in production and marketing, consistency in dealing with customers, and the ability to exploit good ideas on a global scale. Companies can also design global communication programs because it will help achieve convergence in consumer tastes and increase the opportunities for combined marketing campaigns. However, companies should develop global communication programs at two levels. At the first level, they can identify emotional and psychological drivers of the target market, which are universal in nature and at the second level, they can customize their communication mix to suit cultural, ethnic and accent differences.

Configuration and coordination help organizations exploit opportunities and synergies in different markets. To design an effective global marketing strategy, companies need to configure their value chain activities in such a way that the strategy performs at its optimum level and efforts in different markets should be well coordinated. An effective configuration helps organizations exploit comparative advantages of different countries. For example, product development and engineering activities can be performed in countries where world-class manufacturing facilities are available and labor- intensive processes can be performed in countries where the cost of labor is low.

The integration view of global marketing helps organizations integrate their competitive moves in various markets. It also stresses on gaining competitive leverage through operations in different markets and integration of moves in those markets.

To develop an effective global marketing strategy, companies need to divide it into four parts. They are product, promotion, price and place.

Product Strategies

The product is one of the most important components of a marketing program. A company is usually known by the products it offers in the market. In the global marketplace, companies need to develop products which meet global standards. However, product characteristics and features can be customized depending on the requirements of a local market. For example, the chassis of most automobiles in developed countries is placed just a few inches away from the ground, which cannot be done in third world countries, where road conditions are poor. Therefore, there is a considerable gap between the engine chassis and the ground.

Once the brand value of a product is developed, the same kind of positioning and marketing efforts can be utilized through out the global market. Product process design should also take into consideration the legal restrictions of local markets. If the product communication strategy is successful in the domestic market, it can be adapted with slight adjustments to the global market.

Himalaya Drug Company entered the US market in 1996 with products modified to suit local requirements. It sold various products in the US market such as daily health and digestive capsules, laxative syrup, antiseptic cream and cold balm. Similarly, foreign banks, which want to succeed in the highly competitive US market, need to design a product strategy which focuses on fee based income. They can follow a two-step approach. In the first step, they need to identify which core products can be transferred from the home country to the US. Then, they need to develop a niche strategy to identify the customer groups who are underserved and develop customized or new products for them. However, to develop niche products for the US market, a high level of commitment and investment in US operations is required from the head office.

Promotion Strategies

The promotion strategies of a global marketing organization include advertising, sales promotion, publicity, public relations, direct marketing and personal selling. As the cultures of different countries differ significantly, it is always a challenging task for companies to design an effective promotional strategy for global customers. Communication is an essential form of the promotional process and it has to be done with due diligence as cultures, habits, tastes and preferences differ from one customer segment to another in the global market. Another factor that also affects the designing of a promotional strategy is the different set of cost constraints in different countries. For example, media cost and sales force cost differ significantly from one country to another. Therefore, companies need to be very careful in the selection of communication mix in different countries. They need to strike a balance between personal selling and advertisements in their communication decisions. Companies should also consider the foreign sales practices and compensation procedures prior to the selection of the sales force for personal selling. Industrial selling in the global market differs significantly from selling in the local markets. Therefore, different promotional strategies should be developed for different markets. One of the important promotional strategies for industrial markets is participation in international trade fairs. Sponsoring locally popular games and events can also be effective promotion strategies.

Pricing Strategies

While developing pricing strategies for the global market, one must consider the internal and external environments of a company. Internal factors include inventory costs, production costs, distribution costs, transportation costs, marketing and sales costs. External factors include competitive environment, income levels of the target customers, foreign exchange rates, government regulations and inflation rate. It is very difficult to assess the impact of these factors on the price of a product because these factors work in various combinations in various countries. Managing price differentials due to environmental factors in different countries in a tolerable limit, is a challenging task for global companies. A company needs to decide whether to adopt a common pricing strategy for the entire global market or to adopt a pricing strategy that suits individual nations. It is normally suggested that to leverage maximum benefit, it is better to adopt individual pricing strategies for different markets in which the company is operating. Global companies need to continuously review their pricing strategies because uncontrollable factors such as exchange rates and inflation change continuously.

Place Strategies

Economic, efficient and reliable transportation and distribution of goods and services has played a significant role in the development of world trade. In the total cost of a product, over 50 per cent is related to material and around 10 per cent is labor cost. Distribution of the product accounted for the remaining 40 per cent. Though this aspect was ignored for a long time, companies realized its importance in the late 1980s. Therefore, the selection of an appropriate distribution medium is critical to the success of the global marketing efforts of a company. Place or distribution strategies are dependent on the type of product a company offers. Generally a company has access to two major types of distribution channels – domestic intermediaries and foreign intermediaries.

A company with global operations can utilize the services of a domestic intermediary in the form of an export agent or export management company that exports the company's goods to foreign countries. The foreign intermediaries are those located in a foreign country and distribute the company's products locally. Apart from these channels, the company can also use its own personnel for distribution. A global distribution strategy has to be developed considering the economic, cultural, legal and political environment. The distribution strategies must be consistent with the product, pricing and promotional strategies. For example, McDonalds recently opened its outlet on the Delhi Agra highway to cater to the increasing tourist traffic on the highway. Samsung executives say that the key reason for the company's success in India is the selection of right distribution partners. The company selected some of the best IT distribution companies like Techpacific, Redington, Ingram Micro and Savex Computers as its distribution partners.

Exhibit 23.5

Kellogg's Indian Experience

In April 1995, Kellogg India Ltd. (Kellogg) received unsettling reports of a gradual drop in sales from its distributors in Mumbai. There was a 25% decline in countrywide sales since March 1995, the month Kellogg products had been made available nationally. The company had set up its 30th manufacturing facility in India, with a total investment of $30 million.

Launched in September 1994, Kellogg's initial offerings in India included cornflakes, wheat flakes and Basmati rice flakes. Despite offering good quality products and being supported by the technical, managerial and financial resources of its parent, Kellogg products failed in the Indian market. Even a high-profile launch backed by hectic media activity failed to make an impact in the marketplace. Meanwhile, negative media coverage regarding the products increased, as more and more consumers were reportedly rejecting the taste. There were complaints that the products were not available in many cities. According to analysts, out of every 100 packets sold, only two were being bought by regular customers; with the rest 98 being first-time buyers. Converting these experimenters into regular buyers had become a major problem for the company.

By September, 1995, sales had virtually stagnated. Marketing experts pointed out various mistakes that Kellogg had committed and it was being increasingly felt that the company would find it extremely difficult to sustain itself in the Indian market.

Kellogg realized that it was going to be tough to get the Indian consumers to accept its products. Kellogg banked heavily on the quality of its crispy flakes. However, pouring hot milk on the flakes made them soggy. Indians always boiled their milk unlike in the West and consumed it warm or lukewarm. They also liked to add sugar to their milk. When Kellogg flakes were put in hot milk, they became soggy and did not taste good. If one tried having it with cold milk, it was not sweet enough because the sugar did not dissolve easily in cold milk. The rice and wheat versions did not do well. In fact, some consumers even referred to the rice flakes as rice corn flakes.

A typical, average middle-class Indian family did not have breakfast on a regular basis like their Western counterparts. Those who did have breakfast, consumed milk, biscuits, bread, butter, jam or local food preparations like idlis, parathas, etc. According to analysts, a major reason for Kellogg's failure was the fact that the taste of its products did not suit Indian breakfast habits. Kellogg sources were however quick to assert that the company was not trying to change these habits; the idea was only to launch its products on the health platform and make consumers see the benefit of this healthier alternative.

Source: ICMR Cases.

In developing a pricing strategy for the global market, companies take decisions on the following issues: distribution density, channel length, channel alignment and distribution logistics. Decision with regard to distribution density relates to the number of sales outlets in a geographic area and channel length relates to the number of intermediaries involved in bringing products of a company to the market. Similarly, channel alignment relates to the development of channel structure in such a way that there is no conflict among different channels and distribution logistics relates to the physical flow of product through the length of the channel.

MARKETING STRATEGIES OF MNCs IN INDIA

With the liberalization and globalization of the Indian economy in 1991, many multinational companies began to enter the country to tap the vast potential market of about a billion people. The entry of MNCs had a significant effect on the Indian marketing environment. Many companies entered the country with the same strategies they had followed in their home countries, failed to adapt to local tastes and preferences and therefore had to face bitter results. For example, Kellogg, which was one of the first entrants into the Indian market after globalization, felt that it could tap the huge potential Indian market by offering convenient breakfast cereals. However to its dismay, it failed in the market as Indians are used to prepare their own breakfast. Kellogg then had to alter its strategy and offer products that are significantly adapted to Indian conditions. Exhibit 23.5 shows why Kellogg had to change its strategy to adapt to Indian conditions.

A typical strategy followed by some of the MNCs was that they entered the Indian market with premium offerings for the upper income class. Subsequently, as this market got saturated with intense competition from similar companies, it became difficult for them to survive in the market. The only alternative available for such companies was to cater to the mass market with low priced products. Baron was one such company that catered to this potential market by offering Akai and Aiwa televisions at very low prices.

SUMMARY

A company with operations in several countries should chalk out marketing plans, which meet global market requirements. Such marketing action plans are termed global marketing strategies. In today’s environment, with the rapid increase in information technology and domestic markets becoming saturated, it has become important for companies to market their products globally. Selecting a potential market is a crucial factor in global marketing, as the firm has to evaluate several factors like political, economic, social, technological, legal and regulatory environments before selecting a viable market. The firm should evaluate these factors carefully and adapt itself continuously to environmental changes.

There are various methods of entering a global market, such as direct exports, indirect exports, licensing, joint ventures, indirect investment, etc. The marketing organization for a global company should be properly structured to match international standards so that it leverages the maximum benefit of going global. Hence, a firm adopts a structure that suits its business requirements. Some such structures are export division, international division, and global organization. Global marketing strategies are developed separately for different marketing mix elements – product, price, place and promotion.

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Chapter 24

Direct and Online Marketing

In this chapter we will discuss:

- Nature and scope of direct marketing
- The growth and benefits of direct marketing
- Database marketing
- Forms of direct marketing
- Direct marketing in India
- The growth of online marketing
- Advantages and disadvantages of online marketing
- Developing online marketing strategies
- Online advertising
- Opportunities and challenges in online marketing

You go to a cyber café to check your mail and log on to the rediff site. As soon as the home page of the website appears on your screen, there's a set of attractive offers vying for your attention – a VCD player for Rs 1999, a set of three shirts just for Rs 400, a Walkman for Rs 550, a set of 10 audio CDs for Rs 300. Why are these offers coming your way? When you reach home and open your letterbox, you find a colorful catalog addressed to you from Big Bazaar, displaying the pictures and prices of hundreds of products at very attractive prices. As you walk into the house, casually turning the pages of the catalog, the phone rings and a female voice at the other end introduces herself as a marketing executive of HDFC Bank. She coaxes you to spare a few minutes to which you reluctantly agree. Almost against your wish, you find yourself listening as she speaks to you of all the benefits you would receive if you open an account in HDFC Bank and asks whether you would be interested in opening an account with the bank.

What are these various companies, rediff, Big Bazaar, HDFC Bank, doing? They are marketing their goods and services available directly to customers. This approach in marketing is termed as direct marketing. Companies traditionally relied on advertisements, sales promotion, personal selling, etc. to reach customers. However, because of competitive pressures, companies began to realize the need to compress or eliminate the intermediary channels, reduce the costs in reaching customers, pass on the savings or benefits to their customers, and maximize their reach. At the same time, they can also learn more about their customers and their needs and wants. Therefore, more and more companies are now adopting direct marketing to provide their products and services directly to customers. According to Tim Searcy, Executive Director, American Teleservices Association, Americans spent $654 billion in the year 2003 to purchase goods and services over the telephone. This shows how big the market is for direct marketing, and the potential is even greater.

This chapter discusses the nature and scope of direct marketing, and the benefits that can accrue to companies through direct marketing. Direct marketing can take place in various forms such as catalog marketing, telemarketing, kiosk marketing, home shopping, etc. As the use of the Internet is increasing in leaps and bounds, companies are using their websites to sell their products and services directly to customers. The chapter also discusses how online marketing is growing, and its increasing importance for companies that want to reach global customers. It also throws light on how companies can use online advertising to attract and retain customers.

NATURE AND SCOPE OF DIRECT MARKETING

The UK Direct Marketing Association defines direct marketing as, "*Communications where data are used systematically to achieve quantifiable marketing objectives, and where direct contact is invited or made between a company and its customers.*"

In direct marketing, companies reach their customers directly without any intermediary through a medium, which may be the Internet, telephone, post, etc. Marketers try to market their products by reaching the customers through such direct forms of marketing, and to persuade them to buy their products or services. For example, to buy a VCD player through rediff.com, you just need to place your order on the website by clicking a series of buttons as instructed. Within two or three weeks, the VCD player is delivered at your doorstep through courier or VPP. There are different methods marketers adopt for direct marketing such as catalog marketing, telemarketing, kiosk marketing, home shopping, etc. Direct marketing is similar to traditional marketing activities except that it has following three additional features.

1. In direct marketing, marketers invite customers to respond to their marketing efforts through the telephone, email, etc.
2. The effectiveness of direct marketing can be measured easily because direct feedback is available to marketers from customers.

3. In direct marketing, generally, a database of customers is maintained. This helps marketers understand customers and serve them better, and eventually gives the marketer a competitive advantage.

Direct marketing evaluates the direct response patterns of customers, enables a company to formulate future marketing strategies for building customer loyalty and for profitable business growth.

THE GROWTH AND BENEFITS OF DIRECT MARKETING

The emergence of direct marketing has been one of the most significant developments in recent years. The growth of direct marketing has been phenomenal, with marketers continuously adopting the latest technologies to derive maximum profits from direct marketing. Beginning with conventional telephonic sales, direct marketing has now taken off on a global scale, as companies around the world are using web technologies to make their marketing programs more effective. Email marketing, web-based marketing and other such online marketing moves have become important elements of marketing today. Effective market research studies have also helped a lot in the growth of direct marketing. Marketers are a little disenchanted with traditional media such as television because their cost effectiveness and ability to target the right segment have been questioned. As it is easy to measure the effectiveness of and fix the responsibility for direct marketing efforts, more and more marketers are adopting it. Similarly, new product development cycles have been reduced and companies are launching a much greater number of products than before. Therefore, marketers want to reduce the time to reach to customers so that they can recover their investments faster. On the customer's side, individuals want companies to design products according to their specifications. Therefore, they want to interact directly with manufacturers and explain their requirements to them. Most companies have automated their warehouses and they feel that with the automation, they are able to handle small orders and even individual orders more efficiently because of the development of high speed picking systems and automatic routing to dispatch bays.

Though direct and database marketing is growing at a very fast pace, and it helps marketers target the desired segments efficiently, the issues of information privacy and physical privacy have gained importance. According to some analysts, customers are over targeted in some industries and customer contacts have reached a point of saturation. The US government passed legislation in 2003 which proscribed companies from calling on people unless they have an existing relationship (over the previous 18-month period). Analysts believe that such legislation will adversely affect marketers who have been relying mainly on telephone contact points to attract new customers.

DATABASE MARKETING

Database marketing is an enhancement of conventional marketing efforts through the effective utilization of customer information. Information pertaining to customers helps marketers understand the customers' perceptions, and their tastes and preferences better. With this knowledge, marketers can formulate cost-effective strategies to serve these customers better. Proper customer information helps marketers generate the right leads for their salespeople.

Database marketing helps marketers evaluate markets, identify the number of prospective customer segments and their features, and search for other customer segments with similar needs and wants. It also helps marketers identify the tastes and needs of customers, and analyze whether the company is deriving the maximum business from each customer. It also provides marketers with information regarding the various opportunities to improve customer service and enhance the profits of the firm.

Exhibit 24.1

Database Marketing for Whose Benefit?

In year 1991, a US company, Lotus Development, launched a CD-ROM called Lotus MarketPlace containing information on households in the US, there was a mass public outcry. The people protested that it was an act of invasion on their privacy. The company had to finally withdraw the product from the market. However, marketers believe that database marketing benefits only some of them because obtaining such information is becoming costlier and only few marketers can get access to such databases. Also, the use of database marketing makes customers feel that they are constantly being observed and monitored while shopping.

Another case of increased concern is the use of mailing information, although direct marketers send their mailers to only those users who prefer to receive such mails. As people have an option of removing their names from mailing lists, marketers contend that receiving these mails should not pose a problem for customers since no one forces them to respond to such mails. The US government and the governments of European countries have passed regulations for the usage of customer information. The information regarding the customers is restricted in the following ways:

- The marketers have to explicitly state to the customers how the collected data will be used;
- Customers should be given a choice of opting out of these campaigns at any point;
- Finally, the transfer of such information from company to company is highly restricted.

Although these restrictions may eliminate certain marketers from their businesses, they tend to benefit larger companies more than one way. Firstly, these restrictions raise the cost of obtaining data pertaining to customers. Secondly, customers volunteering information are given discounts and concessions on the products or services they buy. These aspects of database marketing increase marketing expenditure of companies and the inability of smaller companies to bear such expenditure makes them eventually leave the market. As a result, bigger companies will eventually occupy the entire market and owing to lesser competition, an imbalance is created in the marketplace.

Adapted from "Invasion of Privacy: When is Access to Customer Information Foul or Fair?," Harvard Business Review, September/October 1993, Vol 71, Issue 5, 154 – 155.

Database marketing provides a scientific approach to the marketing activities of a firm, and also helps measure the effectiveness of the marketing activities of the firm. It helps determine whether the company is in tune with its objectives. Database marketing utilizes various software tools effectively to generate and use customer information to develop efficient and suitable cost-effective strategies. Database marketing tools help marketers evaluate competitors better, manage their sales force well, and improve customer service. However, the use of customer information in database marketing has been severely criticized by some members of the public who contend that the use of customer information by marketers is nothing but an invasion of privacy. For instance, way back in 1991, in the US, a company, Lotus Development, launched a CD-ROM with the name 'Lotus Marketplace' containing household information beneficial for marketers. This resulted in a mass public outcry and the company had to recall the product. Exhibit 24.1 discusses how companies can protect the privacy of customer information.

FORMS OF DIRECT MARKETING

The various forms of direct marketing include catalog marketing, telemarketing, kiosk marketing, home shopping, and marketing using other media.

Catalog Marketing

Catalog marketing is the process in which companies send their catalogs containing details of products and services to customers and expect them to respond by placing orders by telephone or by mail. Catalog marketing is a convenient way for customers to purchase products. Retailers too have an advantage in catalog marketing as they can operate from remote locations with minimum store operating expenses and need not spend heavy amounts on store decor. However, catalog marketing is suitable only for a limited range of products. Otto Burlington in India sells its products exclusively through catalog marketing.

Amazon.com, an e-tailer in the US, mails its brochures to customers before occasions like Christmas and Father's Day. The catalogs contain information related to products such as books, electronics, toys and games, apparels and accessories, home and gardening products and software. A toll-free number is provided for customers to place orders.

Marketers have to fulfill certain criteria in order to make their catalog marketing successful. They should first evaluate whether the customers would like to buy a particular product through a catalog. Then, they should analyze various other factors such as whether the product has been priced right to attract significant customer attention; whether the product can be depicted well in the catalog with colorful images and text; whether the product can be ordered by mail, and whether it can be dispatched to the customer without any damage. These are some of the factors that a marketer has to consider before selling a product through a catalog. Companies also post their catalogs on their websites so that customers can access them when required. Catalog marketing helps companies reduce their cost per customer and increase their reach significantly. According to a research carried out by shop.org, a US-based research organization, catalog-based e-tailers using direct marketing techniques spend an average of $14 to acquire a new online customer. It costs traditional stores $34 to accomplish the same task.

Telemarketing

Telemarketing is the process of communicating with customers through the telephone, to promote products or services. Telemarketing needs highly trained marketing staff who is given specific objectives. Telemarketing is usually aimed at people who are prospective customers and require the services offered by a marketer. Unlike telesales, telemarketing is a concentrated effort aimed at developing a long-term relationship with customers rather than making immediate sales Telemarketing saves customer time. A telemarketing executive can contact customers at a time that is convenient to them. Most companies give their toll-free numbers for customers to respond. This is beneficial for both parties, as it paves the way for increased response from customers, while the customer has access to the firm at a time of his/her convenience.

There are several organizations that offer telemarketing services for their clients. For example, SixthElement Systems, a Hyderabad-based company, offers telemarketing services, and additionally offers its clients information on sales leads and sales opportunities. It also identifies prospective customers for its clients and fixes up appointments with them. This enhances the quality of the client's sales calls, as its sales personnel can now focus entirely on face-to-face selling and closing the deals, rather than wasting time searching for prospective customers. Telemarketing helps marketers build positive relationships with their customers, understand their needs better and develop new products according to the requirements of prospective customers. There are various objectives of a telemarketing effort, such as developing customer loyalty, conducting market research, generating leads, etc.

Telemarketing has grown strongly on account of advances in telecommunication and computer-based technologies. Companies may use only telephones or they may use a combination of telecommunication and information technology for telemarketing. This depends on the type and nature of the company's business. Smaller companies normally depend on a basic telecommunication device with a few telemarketing executives to promote their products and services. However, larger companies utilize computers and integrate them with the telephone services. For instance, many companies are increasingly using the services of a third party service provider such as call centers for handling customer issues, problems, queries, etc. These call centers rely on the integration of telephone and computer technology to make and receive calls. For instance, while receiving a call from a customer, call center executives can view his profile on the screen of their computer systems, which helps in serving the customers effectively.

Kiosk Marketing

Kiosk marketing involves the use of kiosks or electronic touch screens, which provide information to customers regarding products and services of a company. The use of kiosks is beneficial for customers because they can be set up at places convenient for them, and enable them to obtain relevant information about the company without visiting the company. They can be set up in even a very small area. On an average, each kiosk requires around four square feet of space. These can be operated twenty-four hours a day, seven days a week, without any supervision. There are certain kiosks that can be used for transactions like distributing tickets, coupons, etc. Indian Railways is planning to install multi-lingual kiosks at railway stations initially at major metropolitan cities to distribute monthly seasoned tickets. These kiosks can be operated with a touch screen and will provide comprehensive information about train and city related queries. These kiosks are targeted at commuters who at present have to stand in long queues for information and railway passes.

Kiosks are highly beneficial for retail outlets, especially groceries, banks (ATM), etc. Once a customer fills in the details regarding the products he needs, they are delivered to him either immediately (in an ATM) or at his address, where the payment for the goods is made. This facility reduces the dependence on e-commerce and the use of credit cards, especially in countries like India, where the usage of credit cards is quite low. Kiosk marketing is beneficial for customers as it allows them to shop conveniently, as well as for retailers by facilitating holding of minimum or negligible stock.

Home Shopping

Home shopping or television home shopping is generally done through television programs in which various products are displayed and their uses are demonstrated to viewers. An attempt is made to persuade the viewers to place orders for these products on the phone or by writing to the company. Once the orders are placed, these products are delivered to the customers within two to three weeks, normally with a payment-on-delivery option. Almost every day, Indian consumers are exposed to these kinds of programs on television through the Telebrands programs, which usually present fitness and health-related products. The length of these programs varies between ten minutes to half-an-hour depending upon the extent of demonstration required for the products. The advantage of home shopping is that consumers can shop for these products at their convenience from their homes. There has been a significant increase in the popularity of home shopping the world over. In USA, these programs attract more than 60 percent of households. The increase in the popularity of home shopping is attributed to the customers' perception of low prices, better after-sales service, and polite and informed salespersons.

Exhibit 24.2

Direct Marketing through Cell Phones

Indian marketers are increasingly getting attracted to the marketing opportunity through mobile phones, since it provides marketers a personalized approach to reach customers. In addition to cheaper SMS rates, the high response rates and feasibility of sending messages anytime and anywhere are the contributing factors for the increased focus of marketers on mobile marketing. Mobile marketing is the process of promoting the products and services through mobile phones.

When marketers are involved in one-way dialogues with customers and send messages for advertising their products or services, they are called a push based campaign. Push based campaigns should be carefully designed by targeting only the audience to which the product or service would be relevant. Moreover, these messages should be sent to only those customers who have agreed to receive such mails. Unwarranted messages cause irritation to the mobile users and may also result in brand erosion.

In pull based campaign, marketers are involved in two-way communication with the customers. Television, billboards, radio and newspaper are used to persuade interested customers to take part in the marketing campaign by sending an SMS to a particular number. Once a customer responds and sends a message, the marketer starts a dialogue with him. Many innovative techniques such as interactive games, quizzes, mobile lotteries, etc. are being used by marketers for mobile marketing. The pull strategy helps marketers in developing a database of interested customers and enables them to send subsequent messages to targeted customers.

With the mobile market poised to grow from 17 million customers in August 2003 to 35 million customers by the end of April 2004, the future of mobile marketing appears very bright. Everyday, approximately 8.5 million messages are sent out to cell phone users. Cell phone operators are introducing advanced features like multimedia messaging to make their services attractive. These factors encourage mobile marketers and therefore, direct marketing through mobile phones would increase rapidly in the next few years.

Adapted from Hiral Sheth, "Sell it on Cell", Business India, August 4-17, 2003.

Other Media

Direct marketing can also be effectively done through newspapers, magazines, journals, company newsletters, post cards, postal envelopes, leaflets and door-to-door pamphlet distribution. These media can be used effectively either individually or in a combination. The major difference between the methods discussed above such as telemarketing, catalog marketing, etc. is that in telemarketing and catalog marketing, the customers can be addressed individually, while this is difficult with newspapers, magazines, journals, and such other media. The usage of such media should be carefully planned, depending on the response patterns of the target customers. Some customers may respond quickly to catalogs, while some prefer to respond to company newsletters. Magazines meant for investors or managers of small companies or industry-related magazines will get a good response only from readers of these magazines. On the other hand, general magazines related to sports or entertainment are not targeted to specific types of customers. Though the target audience will be wide, the response rate will be lower.

Some promotional materials, like coupons in magazines, usually get a better response from customers. Newspapers and magazines inserts also have a considerable advantage as a marketer has complete freedom with respect to the design, color, type of paper, etc. in comparison with a newspaper advertisement.

These days, mobile phones are becoming a big attraction for marketers to promote their products. Exhibit 24.2 describes how mobile marketing is catching on in India. Exhibitions and sales seminars conducted by companies also provide ample opportunities for marketers to promote their products.

DIRECT MARKETING IN INDIA

Direct marketing differs from country to country. The full potential of the direct market in India is yet to be tapped. The diversity that prevails in India and the growing number of middle class customers (over 200 million) provide immense opportunities for direct marketing. In India, more than 70 percent of the people employed in direct sales are women, who sell cosmetics, personal products, household products, health products and cookware products. When marketers, especially those working for

Exhibit 24.3

The Indian Direct Sales Industry

Companies like Tupperware, Amway and Modicare have struggled hard to penetrate the Indian market. From a very small presence in the early 1990s, the Indian direct market has become a multi-crore market. Tupperware is a company that markets high quality plastic food containers. These products are priced higher than those available in the market. Due to the higher pricing, Tupperware adopted a direct selling approach that would give its distributors ample chance to explain the reasons for the high price when interacting face-to-face with customers.

When Amway entered India in 1998, it had around six products in its portfolio. Now, it has some 40 products, and plans to introduce 12 more by May 2004. Similarly, Modicare with its varied product range comprising cosmetics, water-purifiers, and agricultural-based products is also faring well in the Indian market. The Indian direct selling industry is growing at an average of 30 percent annually. There are more than 20 direct selling companies with a nation-wide presence in India. The major portion of their revenues in the initial stages comes from new recruitments as these recruits have to purchase a starter kit comprising certain products of the company when they join the company.

Any product or service that needs to be explained to the buyer is best sold through direct marketing. There are usually many categories of products that are sold through this channel. Food supplements and nutritional food products are, to an increasing extent, being sold through direct selling. Herbalife is a company selling weight loss, weight management and nutrition products entered the Indian market in 1999 and has sold products worth Rs 330 crore since then.

Training salespeople is an essential part of direct selling in India. This is the reason why these companies spend around 10 to 15 percent of their turnover on training.

Another increasing trend in direct selling is the growing number of direct selling associates. These are entrepreneurs, who set themselves up with minimal or no investment. The growth in the numbers of direct selling associates (DSA) in the last decade has been phenomenal, especially in the financial services sector. DSAs sell products ranging from soaps and detergents to SIM cards, insurance policies and bank loans. Multinational financial institutions are able to reduce their operating costs significantly by using the services of DSAs. Standard Chartered Bank was one of the first banks to use this route. Normally DSAs are compensated on a commission basis for the volume of business they procure. These agencies can also be utilized to sell club memberships, holiday options, or any other service that needs concept selling. Women have played a significant role in the growth of direct sales marketing in India. There are many housewives who have entered this business by leveraging their free time. Avon Cosmetics is one direct selling company that has attracted a large number of women entrepreneurs.

Having witnessed the success of direct marketing concepts, HLL has begun to use direct selling for its personal care products, Aviance. Reliance Industries has also entered this market with Dhirubhai Ambani Entrepreneurs Scheme to sell mobile services in India.

Adapted from Smita Tripathi, "Selling a Chain Reaction," Business Standard Weekend, July 5 & 6 2003, Abhishek Parekh, "A Personal Touch," Business India July 21-August 3, 2003 and Shailesh Dobhal and Dipayan Baishya, "Entrepreneur Sales Army," Business Today, May 25, 2003.

global/MNC firms, try to tap this potential, they should evaluate the country's macro environmental factors closely. Some international players like Amway and Oriflame have achieved remarkable success in the Indian market. Amway is the biggest player in direct marketing with the sales per annum exceeding Rs 5 billion.

The major areas of growth for direct marketing in India are financial services, telecom services, credit cards and insurance services, automobiles, engineering, home appliances, entertainment and food products. As discussed earlier, direct marketing stresses on improving long-term customer relationship, rather than just focusing on the sales of a product. Most direct selling companies, especially those offering financial services, seem to have realized this and are focusing on improving relationship with the customers by offering after sales services and so on. Companies like Amway, Tupperware and Modicare have adopted a direct marketing approach for their products. Exhibit 24.3 describes the success achieved by some direct selling companies through direct marketing.

In metropolitan areas, customers normally respond fairly quickly by phone, fax or using coupons. Urban customers are usually open to new ideas and are willing to try out the various promotional schemes offered by marketers. While telemarketing is on the rise in urban India, it can go much further still. In rural India, television serves as a powerful medium for direct marketing, while village exhibitions *(melas)* offer great opportunities for one-to-one marketing. The Indian marketplace poses a different set of challenges for direct marketers. The marketers have to customize their products to suit to Indian conditions and customers. Indian consumers are averse to receiving phone calls on Sundays and holidays. Also, most Indian housewives, especially in semi-urban and rural areas, are reluctant to talk to strangers over the telephone.

Teleshopping or television home shopping, as discussed earlier, is poised to do better in rural areas of the country, as several products are not otherwise available in these areas. The payment-on-delivery options offered by marketers are also likely to make this system popular.

There are a number of reasons why mail-order shopping has not been popular in India in the past. In India unlike in the West, there are very few products that can be ordered by mail. Also, in the West, weather conditions like heavy snowfall restrict people from going shopping in most parts of the country. Such weather conditions are rare in India. Additionally, in India, many people do not feel the pressure of time so much, and feel they have ample time for shopping. Another reason for the lack of interest in mail-order shopping is that when people order products by mail, they are sometimes delivered in a damaged condition. However small the damage, the consumer does feel dissatisfied on account of it. So, if delivery services are not good, mail-order shopping will not take off. Moreover, often marketers do not live up to their claims of making "express" deliveries, and delays are a cause of anxiety for the customers.

Many benefits are derived from telemarketing in urban India. In telemarketing, sales leads can be generated and prior appointments can also be fixed with the customers. This makes the job of the salespeople easier and is more convenient for customers.

Direct marketing is immensely beneficial for marketers as long as marketers tread on the right path. However, if marketers attempt to leverage maximum benefits out of direct marketing without taking ethical and social considerations into account, it will be disastrous for the company. Exhibit 24.4 describes how pharmaceutical companies in the US often adopt unethical practices to market their products to doctors.

Exhibit 24.4

Strategies for Pushing Pills through Doctors

Pharma companies in the US are spending billions of dollars to lure doctors to prescribe their drugs to patients. This spending by pharma companies is growing at alarming proportions. According to Verispan, a market research firm, in the year 2002, pharma companies spent close to 9.4 billion dollars on marketing their drugs to doctors and other medical intermediaries. Medical representatives give free samples of medicines worth thousands of dollars to doctors, apart from hard cash and exotic holiday trips. A few years ago, TAP Pharmaceuticals was fined $875 million for indulging in such unethical practices. The marketing strategy of another company, AstraZeneca, for one of its drugs Zoladex, is being probed by the US Department of Justice. The competition to lure doctors has reached a point where medical representatives are bribing doctors, believing that if they don't, it might result in the loss of a potential customer to a competitor.

With increasing number of patients to attend to, doctors have less time to meet medical representatives. The average time spent with each representative does not exceed five minutes. There have also been fewer new drug launches, and several mergers and tie-ups among pharma companies. These trends have resulted in a market with very few drugs and a large number of representatives. In this cut-throat competitive environment, many pharma companies are treading on the edge of normal ethical behavior, which is obviously very important in the field of healthcare.

Adapted from "Pharmaceuticals Pushing Pills," The Economist, February 15 2003.

THE GROWTH OF ONLINE MARKETING

Very often, you find emails, which you least expect, in your inbox. These are commercial mails that promote a product or a service and generally ask you to click on a specific link given in the mail. If you are interested, you will visit that site, otherwise you just delete the mail from your inbox. Your personal page is filled with pop up messages and banner ads, trying to grab your attention all the time you are viewing that page. These are some of the online marketing strategies that marketers are adopting to reach potential customers. Technology has become the predominant element in many businesses. IT has added to the capabilities of companies enabling them to set new standards in business. The power of the Internet has transformed everything. E-commerce has redefined markets, industries and the way one does business. The growth of online marketing has just begun and it is at an early stage of evolution. The Internet has not only revolutionized personal lives, but has even transformed the world of business to a great extent. Every company today, irrespective of whether it is a dotcom company or not, has a presence on the net. The Internet has become an effective medium for reaching potential customers all over the globe. However, some companies have failed to leverage the benefits of online marketing, and have ended up with a complex IT infrastructure that is difficult to manage and costlier than expected.

The rapid increase in the growth of online marketing can be attributed to many factors. Goods, services and ideas can move across continents efficiently at the click of a mouse. Anyone can link up with anyone else, anytime and anywhere in the world. With the advent of e-commerce, the rapid growth of the Internet and online transactions taking place at all times of the day and night, today's markets, businesses and customers never sleep. This is not only a new challenge for global businesses attempting to serve a client base that spans time zones, but also for local enterprises that can no longer afford to restrict themselves to traditional hours of doing business. Online business is growing with the assistance of new powerful technologies like satellite communication, mobile telecommunications, interactive voice recognition, data mining, digital signatures, virtual private networks, and portable computing. The aim of these technologies is to benefit a firm's online marketing efforts, in terms of both cost and value.

Exhibit 24.5

Factors behind E-Business Growth

Ecommercetimes, an electronic news website, conducted a research by interviewing some well-known analysts about the most important factors that have enabled the growth of electronic business. The results of this study showed that the fundamental factor that led to the growth of electronic business was the invention of semiconductors for chip building, which transformed the computer industry radically. This technology has resulted in a market worth $1 trillion per annum. Another factor was the development of secure encryption standards for safe transfer of information over the web.

Electronic mail is another important factor that has contributed greatly to the growth of online marketing. Innovative technologies developed by e-commerce sites for business enhancement like Amazon's one-click is another factor that has aided in boosting online marketing.

Adapted from Robyn Weisman, "Five Patents that Changed E-Business," E-Commerce Times, December 31 2003, <http://www.ecommercetimes.com/perl/story/32495.html>

India's e-solutions are becoming the most sought after products around the world. Considering the interest shown by the government in the growth of the online market, e-commerce in India is likely to witness a significant jump over the next few years.

At present, the Internet user base in the country is too small for e-business to happen in a large way and the user demographics in the country is not conducive for e-business. But experts feel that due to local innovations, the cost of hardware and software will come down drastically, and will pave the way for the use of e-business even by small businesses. Mobile computing is also going to provide a major impetus to e-business. The idea of getting the Internet access through television is also appealing to consumers. If Internet is available through television, rural consumers too will be able to shop online.

The growth of online marketing in recent times has been phenomenal. It is, however, important to recognize the factors that led to this growth. Exhibit 24.5 describes a study conducted by Ecommercetimes, an electronic news website, to identify the most important factors that have paved the way for growth in electronic business.

ADVANTAGES AND DISADVANTAGES OF ONLINE MARKETING

There has been a rapid penetration of online marketing in recent times. This can be attributed mainly to the increased usage of online services by people, and the greater importance being given to e-commerce and associated services by governments. The increasing popularity of the Internet with marketers, and e-commerce applications for businesses, is due to the specific advantages associated with online marketing. The advantages are:

- Online marketing efforts reach a larger customer base. In fact, marketing can be done on a global basis using the Internet and it enables marketers to reach potential customers around the world.
- Online marketing allows customers to shop online at their convenience from their home or workplace.
- Online marketing allows firms to provide customers with video clips and statistics thereby giving them ample scope to compare products and services with those of competitors.
- In online marketing, there is a direct interaction between the marketer and the customers. Thus, both the user and the seller have a closer relationship.

- Maintaining an online store does not have traditional costs associated with maintenance of a conventional store. For instance, costs related to real estate, shelf space, interiors, insurance premiums, etc. are almost absent in online marketing.
- Online marketing allows marketers to count the exact number of customers visiting the site. This will allow the marketer to devise his promotional strategy accordingly.

However, online marketing does have certain disadvantages. People are still not accustomed to shopping online. For instance, a grocer trying to sell his goods online may find it difficult to attract customers who want to touch and feel the goods before buying them. Marketers of apparels, flowers and carpets have faced many difficulties in selling their products online and many have to withdraw from the business. It may take some more time for customers to get used to shopping online. Another difficulty faced by online marketers is associated with the use of credit cards. Indians are still reluctant to give their credit card details for online purchases. This is significantly hampering the growth of the online business in the country.

DEVELOPING ONLINE MARKETING STRATEGIES

Many large firms across the US and Europe have failed in their pursuit to benefit from e-business. They invested billions of dollars for transacting business through the Internet but failed miserably. The failure can be attributed to the absence of strategic planning by online marketers. A firm has to design its business processes very well to succeed in e-business. Online marketing has grown rapidly since the first appearance of banner ads in 1994.

To ensure success in marketing through the Internet, online marketing strategies should be combined with conventional marketing efforts. Keeping in view the rapidly evolving technology, innovative marketing and advertising strategies should be developed using these technological advancements. For instance, Nestle is adopting a new online strategy where it has designed online games for kids. Exhibit 24.6 explains this new strategy of Nestle. Advertising online helps a company develop and build its brand. Online advertising should be designed in such a way that the target customers can understand it easily. Marketing techniques such as email newsletters will be successful, if they can be targeted to the relevant customer group. Besides advertising and promoting its products on its own website, a firm should collaborate with other sites which attract potential customers; this would help the firm increase its business. For example, apart from advertising on his own site, if the author of a book advertises on Amazon.com as well, it would benefit him by bringing him greater visibility and publicity. Since many people visit the site Amazon.com to purchase books, the author’s chances of getting potential customers are increased by advertising on Amazon.com.

ONLINE ADVERTISING

With the advent and rising popularity of the Internet, marketers have found it worthwhile to advertise online. There are various methods of online advertising. Some of them are – forums, newsgroups, bulletin boards, web communities, emails and web-casting.

Forums

Forums are discussion groups located on commercial websites that link users to libraries, directories or chat rooms. These help users who are online to send and receive instant messages.

Exhibit 24.6

Nestle's New Online Gaming Strategy

Nestle is trying to promote four of its children food brands with the help of popular online games. The company with the help of its Internet entertainment agency, the Ayzenberg group, is developing popular online games for kids on the basis of the versions of games available at some of the most popular gaming sites for kids.

The company is also trying to target parents with a site called verybestkids.com. The site contains links to all other Nestle's sites developed for kids. Nestle has developed specific games for specific brands of its products. For instance, a game called 'Chocolate Mountain Challenge' has been developed for its most popular chocolate drink, Nesquik. For still younger children, the company has developed a site that focuses on sing-along games using popular rhymes. For older kids, the company has developed sites that have games and contests suitable for them.

Adapted from Wayne Friedman, "Nestle Goes Gaming," Advertising Age, Vol 72, Issue 43.

Newsgroups

Conventionally, customers used to lodge complaints with the company's complaint department. But these days, customers can log on to newsgroups or chatrooms and praise a marketer's service or express their discontent about it. Newsgroups can build or destroy a company's image since these messages get exposed to larger audiences. Discontented customers, especially, tend to choose popular sites like Yahoo, which are visited by large audiences, to express their feelings.

Bulletin Boards

Bulletin boards are electronic notice boards where mails can be sent, discussions can be held between individuals and groups and even files can be exchanged.

Web Communities

Users who want to share information online through message boards are called web communities. Message boards allow users to post messages for people having similar interests, and who thus become members of that particular web community. Any member of the community can reply to the messages posted. Popular websites like Yahoo offer free services to its members to set up web communities. Web communities are becoming increasingly popular as they provide a platform for people who want to share information on similar interests. Setting up a web community is as easy as the click of a mouse. For instance, on the Yahoo website (http://groups.yahoo.com), all it requires to set up a web community is a click on the 'start a new group' link and entering the Yahoo ID and password.

E-mails

Electronic mails have become a popular medium for marketers to reach customers and promote their products and services personally to the customers. Personalized e-mails relevant to the target customers are sent to persuade them to buy the product/service. However, if the market is not segmented properly, the emails may reach unrelated audiences, who may develop negative opinions about the company's offerings. Therefore, sufficient care should be taken in selling through e-mails. Personalized emails targeted at the right audience will leverage maximum benefit for marketers. Companies need to search for those users who have consent to receive emails of their interest. This would significantly enhance the online marketing effort of marketers.

Web Casting

Web casting is a form of broadcasting, using Internet technologies. The information is dispatched to the users according to their requirements. When a user signs up for the service of a webcaster, he gives his consent for receiving and being updated with certain information from time to time. This technology helps in sending such information to these users at regular intervals. This kind of online advertising significantly reduces the time users spend on searching. Direct marketers use this technology to target relevant customers. Information on sports, news, weather and other subjects is sent to customers continuously. The latest software such as RealNetworks and Microsoft Net Show help in broadcasting movie releases over the Internet.

OPPORTUNITIES AND CHALLENGES IN ONLINE MARKETING

Online marketing offers immense opportunities to marketers to expand their businesses on a global scale. Companies that have traditionally catered to the requirements of a small market are today competing with multinationals by expanding their businesses online. Online marketing gives marketers scope to reach prospective customers across the globe. Online advertising gives marketers a chance to reach the maximum number of customers at minimum cost. Marketers can conduct their online business by using the latest technologies. There are, however, certain challenges that online marketers have to face. With an increasing number of marketers going online, there are about 17 lakh commercial websites competing with each other to attract buyers to their sites. This increases the marketing costs for these firms significantly since the cost of acquiring an online customer surpasses the average life time value of that customer. Lifetime value of customers is low for online customers because information is quickly available and the cost of switching is quite lower on the web. Marketers have to adopt innovative strategies for advertising on the Internet. Banner ads have been used by many companies to advertise their products and services. However, the effectiveness of banner ads is constantly being questioned. Apart from innovative strategies, marketers have to focus on marketing their products and services by entering into strategic collaborations with other sites through which they can enhance their chances of reaching to potential customers.

Online marketers should also advertise their offerings through conventional media such as print, radio and television. A major factor that contributes to the growth of online business is word of mouth. Online marketers should, therefore, take special care to spread their presence on the net and improve their sales through word of mouth. Maintaining proper public relations will also help the company secure higher sales.

Another major online marketing opportunity is affiliate marketing, that is, paying a commission to a third party site when visitors buy the company’s products by logging on to the company’s site from a third party’s site. According to a study conducted by Forrester Research, around $16 billion of online advertising spending will be for affiliate marketing in 2004.

SUMMARY

Direct marketing helps marketers reach customers directly through online media, telephone or post. Direct marketing has grown phenomenally in the recent past. Marketers are continuously adopting latest technologies to leverage maximum profits from direct marketing. From the conventional telephonic sales, there has been a worldwide growth of direct marketing, as companies around the world are increasingly relying on web technologies for their marketing programs.

Database marketing is an enhancement of conventional marketing efforts through effective utilization of information regarding customers. There are various forms of direct marketing, which include catalog marketing, telemarketing, kiosk marketing, home shopping and direct marketing using other media.

The rapid increase in growth of online marketing can be attributed to many factors. Goods, services and ideas can move across continents efficiently at the click of a mouse. As the penetration of the Internet has increased significantly in the last decade, marketers are using online advertising and marketing techniques to increase their reach at the global level. This can be attributed to the increased usage of online services by people and significant importance being given to e-commerce and associated services by governments. A firm has to design its business processes effectively in order to succeed in e-business. Firms can employ various methods of online advertising to expand their online business. Some of these methods are – forums, newsgroups, bulletin boards, web communities, emails and web-casting.

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Chapter 25

Marketing of Services

In this chapter we will discuss:

- Growing importance of services in marketing
- Bases for service classification
- Characteristics of services
- Developing marketing strategies for services
- Managing service differentiation
- Managing service quality
- Managing productivity
- Product support service management

In the previous chapters, we discussed that products have both tangible and intangible attributes. Although we talk about products in terms of goods and services, yet many products have a combination of the attributes of both. For example, service can be rendered with a tangible element. However, since goods are more tangible in nature, marketers of physical goods rely on providing the goods in physical form to satisfy customer needs. Services, on the other hand, are intangible in nature and marketers concentrate on selling this intangible attribute of services. American Marketing Association (AMA) defines services as “activities, benefits or satisfaction, which are offered for sale, or provided in connection with the sale of goods.” In other words, a service performs something, or offers that something extra, which provides a benefit (value) to the customer.

A service can be provided even by a machine, for example, an ATM kiosk or a vending machine; a person, for example a doctor or an advocate; or a combination of both man and machine, for example services of a mechanic or a technician. There are also some services that accompany the purchase of a product. For example, services in the form of guarantees and warranties that accompany a product. Services can be directed at a person or at an object. For example, services such as an educational package, a facial massage, a sauna bath or an eye checkup are directed at a person, whereas services such as installation, repair, replacement of parts, maintenance, etc., are directed at an object.

The major factor that differentiates a service from a product is its intangibility. However, it should be noted that the line separating products and services is fast thinning down. In order to attract customers and increase their loyalty, marketers today try to associate their products with an element of service attached to it. For example, when a customer buys a car, he enjoys the facility of free service for the first three years from the car manufacturing company.

If goods and services are represented on a continuum with highly tangible goods on the extreme left and highly intangible services on the extreme right, the bundle of goods and services will fall somewhere along the middle of the continuum.

Examples of services include hospitals, banks, transport services, consultancy firms, tourism and travel agencies, etc. Service providers may be government organizations such as the State Bank of India, the Indian Railways, Indian Airlines, State Transport Corporations, State Electricity Boards, etc. or private organizations such as the Taj Group of Hotels, ICICI Bank, HDFC Bank, Sahara Airlines, etc. Exhibit 25.1 describes how Indian Railways is offering specialized services to cater to the needs of the corporate sector.

GROWING IMPORTANCE OF SERVICES IN MARKETING

The service industry is growing in size and importance rapidly and will continue to grow due to the following reasons:

- Economic well being increases the demand for services: The growth in population across the world has been decreasing for more than a decade. Therefore, the proportion of the population that has entered the earning stage of their life has also increased considerably. In cities and towns, the increasing trend of two earning members per family has increased the disposable income of the family, thereby creating a demand for services like investments, tourism and travel, gyms, orthodontic and cosmetic surgeries, body care centers, etc.
- Changing life style: Advances in medicine and technology have helped increase the average life span of the common man. The increase in life span of the individual has led to more number of elderly people in the society. With the change in life style and work habits, and more and more number of women

Exhibit 25.1

Want a Solution? Charter a Train!

Attrition has become the biggest problem of the day for corporates and is attracting the attention of almost all the companies. To fight this evil, companies are devising various strategies to motivate their employees and inculcate a sense of belongingness in them. One such strategy being used by companies is taking the employees on a vacation. Companies believe that offering recreational packages, which allow the employees and their families to travel together, stay together and unwind, help develop a special bond in them for each other and for the company.

Indian Railway Catering & Tourism Corporation Ltd. (IRCTC) is an extended arm of the Indian Railways. It is a professional body that manages the catering and hospitality services at railway stations and in the trains. IRCTC has come up with a unique idea of catering to this need of the corporate world. It facilitates companies to charter a train to take their employees to various tourist destinations across the country. The companies can either opt for point-to-point services or a circular route visiting various places. IRCTC also provides special sleeper coaches along with regular trains. One such company that IRCTC has catered to is the ECC Construction Division of L&T. In October 2002, ECC took almost 700 of its staff members and their families to its ECC Recreation Club in Goa. For this purpose, it chartered nine sleeper class coaches and two SLRs from Chennai Central to Vasco De Gama in Goa via Renigunta, Tadipatri, Guntakal and Madgaon. Another example of a company that utilized the services of IRCTC is the Cognizant Technology Solutions that chartered an entire train to take its employees to Pondicherry.

Adapted from "Railways Selling Tourist Train Concept to Corporates," The Hindu – Business line, October 1, 2003 and <http://www.vigyanprasar.com/comcom/develop54.htm>.

entering the workforce, there is a significant change taking place in the family patterns. For example, today there are more families that have a single parent and more couples that have decided against having a child early in life. These patterns have increased the demand for services like prepared food, ready-to-cook food, baby care centers/crèche services, play schools, recreational activities, old age homes, etc. Increase in the number of women in the workforce has compelled many organizations to set up crèches and playschools. For example, Infosys, and ICICI Bank provide crèche services for the children of their employees. Other organizations, especially in the public sector, like the HAL and the Indian Armed Forces provide crèches, educational facilities (Kendriya Vidyalayas) and vocational training centers for the children of their staff.

- Complexity of the product: With advances in technology and improved manufacturing processes, manufacturers are producing goods, which are of superior quality and also innovative. Examples of such products include business solutions such as SAP and ERP. These products need special attention for installation and maintenance. They might also require the service provider to conduct user-training programs. In factories where automated manufacturing units and quality control equipment are used, support services become an indispensable tool. Hence, manufacturing units and other departments of the organization cannot write off services.

BASES FOR SERVICE CLASSIFICATION

There is no universal way to classify services. Services can be classified on several bases. Some of the bases for classification of services are the degree of involvement of the customer, service tangibility, skills and expertise required by the service provider, business orientation of the service provider and the type of end-user.

Classification on the Basis of the Degree of Involvement of the Customer

In this type of classification, services are categorized on the basis of the degree of involvement of the customer in the service delivery process:

- **People Processing:** The customer is highly involved in the service process and needs to be physically present in order to experience the service. In people processing, the service is directed at the customer. For example, at a school or training center for dance, the students availing the services have to be present in person. Other examples of services that involve people processing include health care centers, passenger transport services, beauty saloons, lodging and boarding services, educational services, etc.
- **Possession Processing:** The customer doesn't require to be physically present to experience the service but submits his property or belonging to the service provider to avail the service. In possession processing, the service is directed at the object possessed by the customer and not at the customer. For example, if a person wants his car to be serviced, he has to leave it with the mechanic for some time to enable the mechanic to change the oil, check the gears, brakes, etc. and wash and clean it thoroughly. Laundry and dry-cleaning services, postal service, courier service and freight transportation are other examples of such services.
- **Mental Stimulus Processing:** In mental stimulus processing, the attention of the customer must be directed at the service to experience it. In this case, the service is directed at the mind of the customer. For example, a person being counseled by a professional counselor gets stimulated mentally to take the right decision or develop the right attitude. Other examples of such services are advertising, entertainment, education and consultancy services.
- **Information Processing:** This type of service requires the service personnel to collect information, analyze it, interpret and offer appropriate advice to the client. For example, a market research firm hired by a company collects information from customers to know their opinion on the company's products or services and their expectations and suggestions to improve the products/services. The employees of the firm then analyze the information and prepare reports in a way that allows the management of the company to formulate strategies to improve its sales. Information processing also takes place in services such as accounting, insurance, legal services, programming, data processing and data transmission.

Classification on the Basis of the Service Tangibility

Services, based on the degree of tangibility, can be classified into:

- **Highly tangible:** In these services, the customer gets a tangible product, though it may sometimes last for only a short period. For example, if a person takes a PC on rent, he gets the PC (a tangible product), which he can use for the period of contract. After the contract period is over, the PC is returned to the service provider.
- **Service linked to tangible goods:** Some organizations offer a warranty period to customers who purchase products from them. During this period, they offer free service if the customer reports any problem with the product. For example, if an organization buys a printer, the manufacturer offers free service for a specified period. Hewlett Packard, for example, provides one year free service from the date of purchase on printers to its customers.
- **Tangible goods linked to services:** Some services offer a tangible product along with the service requested by the customer. For example, airline services offer food and magazines to passengers, and market research firms provide clients with a detailed report of the research results.

Exhibit 25.2

Aravind for Total Eye-Care

Aravind Eye Hospital was established in the Madurai district of Tamil Nadu in 1978 by Dr. G Venkataswamy to eradicate blindness caused by cataract. At the time of its inception, it was an eleven-bed hospital and has now flourished to over five hospitals with more than 2500 beds in various parts of Tamil Nadu and Pondicherry. The dedication and perseverance of Dr. Venkataswamy and his team, in collaboration with various international universities and organizations, has helped Aravind gain the status of a premier hospital and medical research institute. Each doctor of Aravind specializes in a specific eye problem, and the experience the doctors gain is insurmountable. Aravind has its own manufacturing division called Aurolab. Aurolab specializes in manufacturing high quality Intra Ocular lens (inserted after cataract surgery), nylon and silk ophthalmic suture needles, drugs and spectacle lens.

40% of all eye surgeries of Tamil Nadu, i.e. 5% of the surgeries conducted in India, are carried out by Aravind eye hospital. The hospital gives the same treatment to all its patients, irrespective of their economic status. The hospital provides free eye care to almost two-thirds of its patients. It also undertakes community welfare and education programs like free screening eye camps in rural areas, school children screening and diabetic retinopathy detection and awareness camps.

Adapted from http://www.aravind.org.

- **Highly intangible:** These are the services, which do not provide customers with any tangible product. For example, at a massage parlor, the customer might not get anything tangible, except for the relaxing experience. He might smell the aromatic oils or feel relaxed while undergoing the massage, but does not get any tangible product.

Classification on the Basis of Skills and Expertise Required

Services can be categorized on the basis of the level of skills and expertise required by the service provider to offer the service:

- **Professional services:** These services require the service provider to be formally trained to deliver the service. The service rendered by a doctor, a pilot, an IT consultant or a corporate trainer are examples of professional services.
- **Non-professional services:** These services do not require the service provider to undergo any training to deliver the service. For example, baby-sitting and housekeeping are examples of non-professional services and can be delivered without formal training.

Classification on the Basis of the Business Orientation of Service Provider

Services can be categorized on the basis of the service provider's purpose of doing business:

- **Not-for-profit organizations:** These are the services in which the main objective of the service provider is to serve the society and not to make profits. For example, government schools and social service organizations are not in the business to make a profit. Madurai-based Aravind Eye Hospital is an example of a not-for-profit hospital that was set up to serve the community. Exhibit 25.2 gives a snap shot of the services it provides.
- **Commercial organizations:** These are services in which the main objective of the service provider is to earn revenues and make profits. Airlines, insurance firms and restaurants charge customers for the services they offer and attempt to continuously improve their services and profitability.

Classification on the Basis of the Type of End-user

Services can be classified into following categories depending on the type of customer who consumes them:

- **Consumer services:** These services are purchased by individual customers for their own consumption. For example, beauty care, physiotherapy and hair cutting are examples of consumer services.
- **Business-to-Business (B2B) services:** These services are purchased by organizations. For example, market research, consultancy and advertising are some of the B2B services.
- **Industrial services:** Industrial services are generally based on a contract between organizations and service providers. Machine installation and plant maintenance are some examples of such services.

CHARACTERISTICS OF SERVICES

Services differ from physical goods in certain characteristics. These characteristics of services make them unique and pose a challenge before marketers to market them separately from goods. The major characteristics of services are intangibility, inseparability, heterogeneity and perishability.

Intangibility

A product is a physical entity, which can be seen, heard, touched, smelt and tasted even before it is purchased or consumed. For example, when a consumer decides to buy a bike, he can see it, touch it and test drive it to understand its functionality. Therefore, he has a better idea of the product before making a decision to buy it. However, a service is intangible and cannot be experienced unless consumed. The quality of a service cannot be established as clearly as it can be done in the case of a product. For example, consider a situation where a customer decides to use the services of a bank to obtain a loan for the first time. Although he has an idea about the variety of services offered by the bank, he can actually assess the services only after he avails them. Further, a motor bike can be defined in terms of its horse power and mileage, but a service cannot always be defined in absolute terms.

Different people have different expectations with regard to the same service. Also, since the quality of the service is not always strictly measurable owing to its intangible nature, it is sometimes difficult for service organizations to define quality standards and market their services accordingly. For example, in the case of the bank, some customers may consider the personal attention from customer service executives as a vital aspect of service quality, while others may consider faster transactions to be more important. Since all customers do not have the same preferences, the service provider does not know what exactly should be offered to ensure complete customer satisfaction.

When compared to product manufacturers, it is more difficult for service organizations to ensure consistency in service delivery. For example, HLL can ensure that all the soaps manufactured by it are of the same quality but service organizations such as hospitals and restaurants may not be able to ensure the same quality of service to each customer. However, more and more service organizations are employing stringent measures to ensure that the quality of their services is standardized.

Heterogeneity

A machine can produce units identical in size, shape and quality. But a human being cannot work uniformly and consistently throughout the day. Since human beings offer a service, there is a high probability that the same level of service is not delivered all the time. The service offered by one employee may differ from the service offered by another, although they may belong to the same company. Even the service offered by the same employee may be different at different times of the day. After serving customers continuously for several hours during the day, an employee may not be able to offer the same level of service towards the end of the day. Also, the quality of service offered by employees at one branch of a service organization may differ greatly from the service offered at another branch. But if the variation in service quality becomes extremely obvious, customers may be dissatisfied and switch to a competing firm. Also, the customers may not be able to predict the level of service they would obtain from the firm, the next time they visit it. Hence, service organizations should try to maintain consistency in the services they offer by taking special care in standardizing the service processes.

In some cases, however, heterogeneity can benefit an organization. Some customers want specific services, which may not be needed by other customers. In such cases, the organization can offer customized service to such customers and charge a premium from them.

Inseparability

A service is consumed by the customer as soon as it is delivered to him. Thus, production and consumption occur simultaneously in case of services as opposed to products, which are manufactured, inventoried and then consumed. Services cannot be inventoried and need to be consumed immediately. Since the delivery and consumption of a service are inseparable, there has to be interaction between customers and service providers. For example, the interaction between a patient and his doctor is essential if the patient has to be treated for an illness. Similarly, in case of a hotel, the interaction between a server and a customer is essential for the former to take the order for food and serve it to the customer for consumption. As a result, customers tend to equate the quality of service offered by the organization with their interaction with its front-line employees. Therefore, service organizations should take special care in training and motivating these employees. Front-line employees should be trained to be professional in their approach, courteous in the way they talk to customers and patient in dealing with customer queries.

Perishability

Unlike products, services cannot be inventoried or stored for future consumption. Suppose, a hotel has 40 rooms but on a particular day, only 10 rooms are occupied. The hotel has an idle capacity of 30 rooms on that day. This is a lost business opportunity for the hotel owner. The fact that it may be fully booked the next day does not compensate for the idle capacity on the first day. It cannot be recovered, as it is lost for all time. Suppose a showroom recruited five additional sales people during festival season to serve customers efficiently. But for some reason, customers do not show up in the large numbers as expected. The showroom owner incurs a loss by having excess service capacity. In both the cases mentioned above, the organizations lost opportunities to earn revenue, though they had the capacity to offer services. Thus, the perishability of services is another factor that leads to complexity in managing services. Service organizations need to be extremely cautious in their demand and supply plans. They need to consider all the possible factors that affect the demand for their service and strive to avoid excess or shortage of capacity to meet demand.

DEVELOPING MARKETING STRATEGIES FOR SERVICES

As more and more products become standardized, organizations are bundling services with their products because they have realized that in this fiercely competitive world, they can differentiate their offerings with the help of services. No marketer can afford to offer only a pure good or a pure service in the market. Hence, marketers need to focus their attention on developing marketing strategies for the total product, rather than confining their strategies to pure products. The strategies so developed must be based on the similarities that exist between tangible (good) and intangible (service) aspects of the product. Moreover, it is essential to distinguish not only between goods and services but also between different services to formulate appropriate strategies for marketing them.

Marketers of services face a bigger challenge due to the unique nature of services. They need to take special care to produce, price, promote and distribute their services. In addition to product, price, promotion, and distribution, there are three other aspects of services, which demand the attention of service marketers. These are people, process and physical evidence. The most important challenge faced by marketers is to distinguish their service offering from that of the competitor and bring about a consistency in delivering the service.

Product

Services are intangible in nature and cannot be seen, touched or felt. Another shortcoming of services is that they cannot be evaluated before purchase or consumption. Hence, customers of services, while making their purchase decision, rely heavily on their past purchase experience, word-of-mouth publicity, reputation of the service provider, brand name and promotional activities. Marketers use various strategies to market services. For example, (a) they try to offer the same standardized service to all their customers; e.g. overhauling a car, a courier service, etc., (b) they customize the service according to the needs of the customer; e.g. doctors, consultants, etc. offer different services depending on the need of the customer. Service providers also leverage on their brand name gained over the years. Brand name helps in differentiating the service and expressing a brand’s superiority over rival brands. For example, brand names such as McDonald’s, Singapore Airlines, Taj Hotels, etc. reflect the quality of the service offered by the service provider.

Pricing

Most customers do not wish to pay for services due to their intangible and perishable nature. Hence, service marketers use various strategies to recover their costs. These strategies also vary across different industries. It is interesting to note how marketers and service providers use various names for the price they charge. For example, price is termed as ‘fees’ in case of a doctor, lawyer or accountant, ‘rent’ for a house, building, home appliance and other equipment, ‘admission fee’ for education, recreation parks and resorts, ‘premium’ for insurance policies and ‘interest’ on loans etc.

Service providers try to attract their customers by setting flexible prices, but it is essential that they take into consideration the cost of providing the service before setting their prices. For instance, people-based services are labor intensive and call for the service provider to set a price that allows him to make a profit after recovering the labor cost. Marketers also use other strategies like setting the price according to (a) demand for the service, (b) season and time of the year, day, etc. (for example, restaurants and resorts vary the price of their service according to the time of the day, season, etc.) (c) age of the service consumer, e.g. low price is usually charged for children and senior citizens in resorts, transport services, etc. and (d) the customer's ability to pay (for example, some doctors and lawyers charge a fee based on the ability of their client/patient to pay).

Promotion

Promoting an intangible is quite a challenging job for marketers because they cannot exhibit its features. Therefore, marketers resort to using the ambience of the service firm, its employees, awards and certifications received, etc. to project the quality of their service. Such a kind of promotion is seen in the case of hotels, recreation centers, transport services, etc.

Marketers also realize that customers form an opinion about service quality based on their impression of the ambience and employees of the firm. Personal selling plays a dominant role here. Hence, service providers look for ways and means to improve the ambience and also provide training to their staff to improve the service delivery.

Service providers may also make use of the services of other firms to enhance their image. For example, the Taj Group of hotels that caters to three types of customers, viz. luxury, business and leisure, has appointed the US-based Landor Associates (consultancy firm) to re-build and restructure its image.

Publicity is another tool, which is widely used by service providers. For instance, professional sports agencies, travel agencies, airways, etc. benefit from the publicity obtained by sponsoring various events. Other service providers like doctors, lawyers, accountants, insurance agents etc., take an active part in community affairs and volunteer services to gain publicity.

Distribution

Services are produced and consumed simultaneously, which implies that services are sold directly to the customer. For example, services like repair, medical care, legal consultation, etc. do not have any intermediaries or distributors. However, there are also other services like public utilities (electricity, gas, ration, mass transport etc.), financial securities, travel and entertainment that require a middleman to distribute these services to the customer.

Christopher Lovelock, in his book *Services Marketing,* has pointed out that the methods of service delivery depend on the nature of interaction between the customer and the service provider. There can be three types of interactions between these two parties (a) the customer must visit the service provider as it is nearly impossible to deliver these services at the customer's doorstep e.g. air travel, health and beauty care, fast food, public transport system, etc. (b) the service provider goes to the customer's location e.g. mason and plumber, mail delivery and courier service, baby sitting etc. and (c) neither the customer nor the service provider has a physical interaction for service delivery to take place, e.g. internet-based rail and air ticket reservation, fax, broadcasting, etc.

Marketers devise various strategies to attain the firm's selling objective and gain customer loyalty. To this end, the service providers train their dealers to sell their products. Exhibit 25.3 describes how Lakme India helps its dealers provide beauty care services in addition to selling its products. Another distribution strategy that can be adopted by a service provider is that he tries to choose the most convenient and desirable places for the service delivery e.g. banks try to locate their branches and ATMs near shopping centers and well-connected areas; physicians and dentists try to open their diagnostic centers in well populated areas; hotels and restaurants try to locate themselves close to airports, railway stations, bus terminals and business centers.

Exhibit 25.3

Franchising Beauty

People in general, and women in particular, are becoming beauty and health conscious the world over. More and more people are flocking to health clubs, fitness centers and beauty parlors to look young and feel good. This trend is catching up in India too. No wonder the beauty parlor business in India is growing at a rate of 22% per annum. Both men and women are flocking to these parlors on a regular basis.

When HLL decided to popularize the brand Lakme by interacting directly with the customers, it started the first beauty saloon (for hair styling and skin care) in 1999 in Pune. Ever since, the company has established 38 saloons in 21 Indian cities. Lakme helps its franchisees select the location for the saloon and decorate it, where it showcases its products and sells them directly too. The franchisee is required to hire eight beauticians in the parlor. Lakme helps the franchisee in recruiting, selecting its staff and also in training them. It has tied up with Pivot Point, a Chicago-based cosmetology school for training the beauticians to bring about standardization in providing skin and hair care solutions. Lakme also carries out the promotional activities at the national level, while it leaves the local promotions to its franchisees.

Adapted from Vidya Srinivas, "Beauty spread," Business India, June 24-July7, 2002.

People

People management is an important aspect of service organizations. Service organizations gain a competitive advantage through their service personnel. The personnel in a service organization can have an impact on the service delivered in various ways. Customers often judge the performance of a service organization by associating it with the behavior and attitude of its service personnel. For example, an unpleasant experience with a rude employee at a restaurant leaves bitter memories of the restaurant in the customer's mind. Hence, service organizations take a lot of care in providing behavioral training to their personnel. They lay emphasis on courteous behavior and friendliness while dealing with customers. The personnel are also trained on how to handle unruly and unpleasant customers and on the use of proper language and posture, and maintenance of cleanliness and proper appearance. These measures by service firms help them in maintaining a high quality of service delivery. British Airways, for example, differentiates itself from other airlines on the basis of its personnel.

Process

Marketing of services depends on meeting customer expectations. Over the years, some service organizations have standardized their processes and thus reduced the element of human judgment and error in their service delivery. Labor costs and competition in the service industry have increased tremendously and many service organizations have made customers an integral part of the service delivery process so that labor costs can be reduced and the benefit can be passed on to the customers. Though the expectations of some customers are not met, others are ready to be involved in the service production activity for lower prices. For example, a restaurant offering self-service charges lower price than others. Service organizations identify the customers who do not want to take on the co-production responsibility and are willing to pay higher prices for the service to be delivered to them. For example, customers are even ready to pay an additional amount as commission to portfolio managers for managing their mutual funds.

Physical evidence

Service customers experience greater difficulty in assessing a service as they cannot rate it until it is consumed. Therefore, service providers try to attach an element of tangibility to their service offers. This is the physical evidence and can be in any form. For example, brochures in travel agencies showing the details of a holiday destination and the interiors of a fast-food outlet provide physical evidence to the customers.

MANAGING SERVICE DIFFERENTIATION

As explained earlier in the chapter, services differ from products because of their intangibility, heterogeneity, inseparability and perishability. These unique characteristics of services pose a challenge for marketers to differentiate them from the service offered by rival firms. The absence of a tangible element makes it difficult for service marketers to identify opportunities for differentiating their service offering from that of competing firms. Added to this, the intense competition that has resulted among service firms following the deregulation of several service industries such as telecom, banking, energy, insurance, and transportation has made the task of differentiation even more difficult.

Despite the lack of enough opportunities to differentiate the service offering, service organizations try to gain customer loyalty by differentiating their service on the basis of the offer, delivery and image of the organization.

Offer

Since there are not many ways in which service organizations can differentiate the service offering, they have to be innovative in devising new ways to attract customers. A basic level of service, known as the primary service package, is expected by all customers. However, some customers are more demanding and have higher expectations. Thus, service organizations can attract customers by providing them additional and secondary service features over the primary service package, at a little extra cost. The enhanced service offer thus helps firms differentiate themselves from their competitors.

For example, hotel chains such as the Taj Group of hotels and the ITC Welcomegroup differentiate themselves from other hotels by providing their customers with hi-tech rooms and suites. Their customers get access to computers, fax machines and electronic mail. The management also ensures that their customers have access to the latest news even before the newspapers hit the stands. This is made possible by Wi-Fi technology with the help of which the newspapers are directly beamed in and thereafter, these are printed and delivered to the guests of these hotels.

Continuous innovation ensures that customers, who seek the best, remain loyal to the firm. Jet Airways has been at the forefront of innovation in airline services. It was the first to differentiate itself from other airlines by offering automated flight schedules on cell phones, in-flight mail-order shopping offers, and customized food and drinks to the business class travelers.

Delivery

Although most organizations realize the importance of providing good service, not many understand that efficient execution of the service is the key for superior service delivery. Service providers who want to differentiate themselves from competing firms should be able to identify customer needs and analyze to what degree they are able to fulfill those needs. For efficient service delivery, service providers must hire people who have the ability to deliver good service, train them well and provide them with outstanding support systems and processes. Excellent performers should be rewarded to ensure that they continue to deliver superior service. An example of a service organization that has been able to differentiate itself on service delivery is that of Domino's Pizza in India, where its promise of delivering pizzas anywhere in the city within 30 minutes set new standards in quick and timely delivery of service. Domino's is able to deliver its promise because of its efficient ordering process.

Image

Service organizations can also differentiate themselves from their rivals on the basis of their image. Service organizations can take the help of advertising, prestige pricing and market segmentation to create a unique image for themselves. Image becomes a crucial aspect for differentiation when a firm is unable to differentiate itself on the basis of the product. Companies may communicate their image through their logo, symbol, company's management, atmospherics, etc. For example, in the airline industry, the logo of Air India, *the Maharaja*, symbolizes care and hospitality and thus creates a unique image for the organization.

MANAGING SERVICE QUALITY

Service quality pertains to the comparison of service expectations to the actual service experience and the satisfaction or dissatisfaction that may result from doing so. Measuring service quality is difficult in the service industry because of the intangibility characteristic of services. Hence, service providers need to ensure that they consistently deliver high quality service that will allow them to differentiate themselves from their competitors and help them meet customer expectations.

In services, it is difficult to judge the quality of the core service unless one experiences it. For example, in a hospital, it is difficult for new patients to assess the service quality except for the opinion they form from the behavior of the staff at the check-in counter, behavior of fellow patients, ambience and maintenance of the hospital, and the attentiveness and the perceived competence of the hospital staff. In hospitals, service quality may also be assessed on the basis of past experience and word-of-mouth communication.

Success in the service industry depends on the following key aspects – strategic concept of the service, commitment of the top management, high standards, monitoring systems, customer complaints, and satisfying employees.

Strategic Concept

Providing superior service is a challenging task. The task becomes all the more difficult if service providers fail to have a focused service strategy. The operations of every service provider must be guided by a service concept as well as strategic concept. While the service concept determines the degree to which the service provider is able to focus on its target customers and efficiently satisfy their needs, the strategic concept ensures that the service provider has a distinct strategy to fulfill those needs and differentiate itself from its competitors.

Commitment of the Top Management

Service organizations across the world measure their performance not only from a financial perspective, but also from a service quality perspective. Service quality is a crucial aspect in the service industry and determines the level of customer satisfaction and customer loyalty. Although service firms may ensure superior service quality by training their personnel in the best practices of service delivery and by making continuous innovations in service processes and quality, commitment of the top management towards maintaining high standards in service quality is of utmost importance for a service organization to be able to differentiate itself from other competing firms.

High Standards

The best and leading service providers set standards in service quality, which become a benchmark for others in the industry. For example, in the hospitality sector in India, the Taj Group of hotels established service standards, which serve as a benchmark for all other hotels in the country. Further, while setting targets, firms must ensure that the standards are feasible and realistic and should be achievable rationally within the given constraints.

Monitoring Systems

The heterogeneity of services and the absence of monitoring systems make it difficult for service providers to maintain a consistent level of service quality. Leading service providers, therefore, adopt a two-pronged strategy. While on one hand, they keep a strict watch on their own service quality and on the other, they closely monitor the quality standards and policies of their competitors. While customer surveys, suggestion and complaint systems allow firms to monitor their own quality standards and customer satisfaction, methods such as comparison-shopping and ghost shopping help firms monitor the service quality standards of their competitors and identify areas where they can improve themselves. 'Importance-performance analysis' by service organizations helps them rate various components of the service on the basis of certain predetermined standards.

In order to monitor the quality, service organizations identify certain crucial aspects pertaining to the service such as cleanliness, timeliness, accuracy, etc. The quality of the service organization on these aspects is assigned a numerical value according to the category it falls into, namely, acceptable, fairly acceptable, or non-acceptable. If any aspect of the firm falls into the non-acceptable or fairly acceptable category, the firm makes efforts to improve on these aspects so as to provide service of acceptable standard. Subsequently, the firm undertakes a periodic monitoring of its processes along these aspects to check for changes and deviations from the acceptable levels.

Customer Complaints

Many times, customers are dissatisfied after making the purchase. However, very few actually bother to lodge a complaint with the service organization because they either do not know where to lodge the complaint or they feel that lodging a complaint would not serve any purpose. Many times, those who do lodge a complaint are not satisfied either, on seeing the way the firm handles the matter. This is a matter of grave concern for service organizations because most often, customers prefer to switch to a competing firm when they are dissatisfied with the service delivered.

Service firms today actively solicit feedback from customers. Dwelling into the feedback and analyzing customer comments helps firms take necessary action and improve their services. After receiving comments from customers, the management analyzes the number and nature of complaints received through a particular channel. It then identifies the most common and serious complaints among them and acts upon them on priority basis to find a long-term solution. Complaints can be collected by front-line employees or executives appointed for the purpose, or even the dealers. For example, Maruti Udyog Ltd (MUL) solicits comments and opinions of its customers about the quality of customer service offered by its dealers. Some firms even give individual attention to each complainant and keep the customer informed of the action being taken on his complaint.

Measures such as friendlier and easier complaint handling processes help service firms differentiate themselves by making it easier for the customer to lodge a complaint, by promptly attending to customer complaints and resolving them to the satisfaction of the customer. In this way, service firms can gain customer loyalty.

Satisfying Employees

Service delivery calls for the close interaction of customers with the service personnel. The satisfaction or dissatisfaction of the service personnel has an impact on the service delivery process. This, in turn, affects customer satisfaction. Hence, service firms try to ensure efficient service delivery and thereby customer satisfaction, by designing jobs that give their employees job satisfaction and enrichment, provide them the right work environment, and offer a reward system that motivates them to work better. Firms also conduct periodic employee audits to assess the job satisfaction levels among their employees.

Many service organizations, especially those in the IT sector, are taking measures to ensure the welfare of their employees by offering them flexible work options such as flexi time, compressed work weeks, etc. In order to motivate their employees to serve the customers with commitment and dedication, many modern organizations are also adopting measures such as variable-pay system.

MANAGING PRODUCTIVITY

In a service firm, the emphasis on productivity is high, while ensuring that the costs remain at minimum. Service organizations can adopt various approaches to enhance the productivity of their personnel. These approaches include helping employees in better utilization of their skills, designing more effective service, increasing customer involvement in the service delivery process, improved selection and training procedures to ensure better skilled personnel, standardizing service delivery procedures (for example, McDonald's 'assembly-line' approach for producing hamburgers) and using modern technology to provide better service to customers.

PRODUCT SUPPORT SERVICE MANAGEMENT

Although products and services have been considered as separate domains from the marketing point of view, there are several products, which require product support services after they are sold. These include heavy machinery, computer systems, office equipment, etc.

Product support services have emerged as a major area of differentiation for service organizations. The emphasis on support services has increased to such an extent that it has become a component of the overall strategic vision of even manufacturing companies like GE. Once known for its products, GE now calls itself a service company that also manufactures products.

There are three critical issues that need to be addressed by service firms while designing a service support program. These issues pertain to product reliability, duration of downtime, and overheads. Product reliability and failure probability is a major cause of concern to customers. Duration of downtime refers to the time for which the product remains out of action. The longer the duration of downtime, the more expensive it becomes for the customer. Customers prefer service providers who can minimize downtime by fixing the problem at the earliest. Some service providers who are unable to minimize the downtime even loan a spare product to the customer during the downtime in order to prevent customer dissatisfaction.

No customer would like to incur heavy expenses on repairs and maintenance of the product after its purchase. Hence, service providers should be careful to price their service packages competitively.

After-Sales Service Strategy

Customer service is the latest mantra in the industry. From banking and insurance to automobiles, after sales support has permeated every corner of the business landscape. However, the quality of such service rendered by different firms varies greatly.

Some firms are laid back and unconcerned in their approach, whereas some are over enthusiastic and highly responsive. In the course of providing product-support services, firms progress through several stages. In a manufacturing setup, the manufacturer starts with a spare parts and services department that handles customer complaints. This is because, in the early stages, they cannot afford training a third party in services and repair. Most manufacturing firms have a department devoted to it. In course of time, as business expands, they offload repair and maintenance functions to a network of authorized distributors and dealers. The advantage the dealers and distributors have is that they are nearer to customers, operate on a multi-location basis and can offer quicker service. Maruti Udyog Limited (MUL) differentiates itself on the basis of its large distribution-cum-service network.

Later, in the process, independent service firms come into the picture. Such firms are not associated with any particular product or firm. They are often specialists in delivering a particular service. In India, most two-wheeler owners do not visit the authorized service centers to get their vehicles repaired, rather they get it done from a local mechanic, who develops expertise in specific two-wheelers. For example, in a typical Indian metropolis, several independent garages and service stations operate, which specialize in different vehicles. They offer lower cost services that may be equally good when compared to authorized service centers.

Finally, if a firm has a large number of equipment, enough resources and if it is economically feasible, the firm can have a full-fledged maintenance and repair outfit instead of opting for authorized service centers.

SUMMARY

Service is an act of performing or offering that something extra which gives some benefits or value to the customer without the ownership of physical products. Services can be provided by a machine, a person, or a combination of both and can be directed at either a person or a product.

Marketing of services is gaining importance due to increase in demand arising from economic well being, changing life style of people and complexity of the product. Services can be classified on the basis of the degree of involvement of the customer, service tangibility, skills and expertise of the service provider, business orientation of the service provider, and the type of end-user. Services differ from physical goods in certain characteristics that make them unique and pose a challenge for marketers to market them separately from goods. The major characteristics of services are intangibility, inseparability, heterogeneity and perishability.

The unique characteristics of services make it essential for marketers to devise various strategies pertaining to product, price, promotion, and distribution to differentiate their service offering from those of competitors. In addition to the product, price, promotion and distribution, there are three other aspects of services, which demand the attention of service marketers. These are the personnel or people, process and physical evidence.

Service marketers find it difficult to differentiate their offer from the service offers of rival firms. Unlike manufacturing organizations, the absence of a tangible product makes it difficult for service marketers to locate opportunities for differentiating their service offering from those of competing firms. Despite the absence of enough opportunities to differentiate the service offering, service organizations try to gain customer loyalty by differentiating their service on the basis of the offer, delivery and image of the organization.

Service organizations can adopt various approaches to enhance the productivity of their personnel. These approaches include helping employees in better utilization of their skills, designing more effective service, increasing customer involvement in the service delivery process, improved selection and training procedures to ensure better skilled personnel, and standardizing service delivery procedures.

Although products and services have been considered as separate domains from the marketing point of view, there are several products, which require product support services after they are sold. Product support services have therefore emerged as a major area of differentiation for service organizations. The emphasis on support services has increased to such an extent that it has become a component of the overall strategic vision of even top manufacturing companies.

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Part VI
Marketing and Beyond

Chapter 26

Marketing of Organizations, Individuals, Places and Ideas

In this chapter we will discuss:

- Organization marketing
- Idea marketing
- Person marketing
- Place marketing

Marketing is the most essential functions in an organization. We discussed in the previous chapters how products and services have to be marketed and the various tools and techniques marketers use to differentiate their products/services from that of their competitors. Apart from the marketing of products and services, companies need to market themselves as well. Similarly, persons, ideas and places can also be marketed effectively to gain a competitive advantage. In this chapter, we discuss some of the methods of marketing organizations, persons, ideas and places.

ORGANIZATION MARKETING

Organization marketing helps in creating, maintaining, or changing the attitudes and behavior of the target customers towards the organization. Both for-profit and non-profit organizations need it, though for different reasons. For-profit organizations market themselves to gain long-term profitability and salability of their produce, while developing a positive image in the market. Non-profit organizations such as charities, colleges, museums, etc. market themselves to raise funds, attract members or patrons, and so on. Marketing of organizations involves image assessment, and image planning and control.

Image Assessment

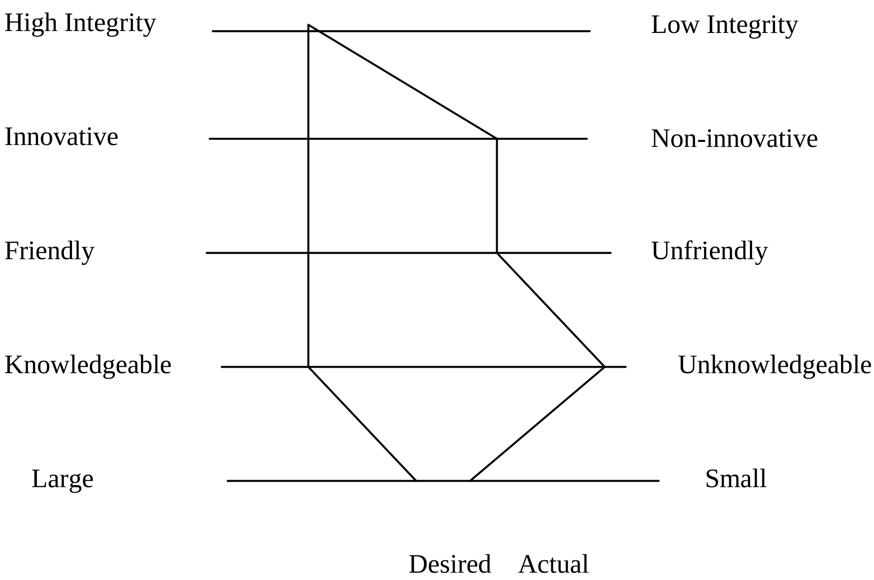
Image of an organization is based on the perception of various stakeholders including the society about the organization. Different individuals have different perceptions about an organization. Therefore, organizations should put in adequate efforts to find out the perceptions of the general public. Market research helps organizations in knowing the image people carry about them. Positive image of an organization helps in increasing sale and revenue of the organization. It does also indicate how socially responsible the organization is. On the other hand, negative image harms the organization's future prospects. If any of the stakeholders are dissatisfied with the products or services of an organization, they will create a negative image of the organization. If a bank's management conducts a market research to find out the general public opinion about the bank and finds out that the customers view the bank as a small, non-innovative, unfriendly bank lacking the knowledge to guide the customers (Figure 26.1 describes the image assessment of a bank), the bank has to put in considerable efforts to change the customers' perception.

Image Planning and Control

To enhance the image of the bank, the top management should first try to identify the image that it wants to create. After identifying the desired image, it should assess the difference between the desired image and the actual image. For instance, the desired image the bank wants to project could be a friendly, large, innovative and knowledgeable bank, while in practice it may be the opposite.

Once the desired image is identified, it should focus on each of the parameters. In the above case, the bank wants to be friendlier, so it can train its employees to be more courteous towards its customers, hire new employees, improve the facilities in the bank, innovate new services and offer various investment options that will help it create a positive image in the public. The bank can also change the interior to make customers more comfortable when they approach it to avail the services. Once the bank is satisfied that it has been successful in creating a positive image, it has to communicate it to the general public. It can do so by involving the bank in community services, conducting seminars, issuing press releases about its new schemes, etc. Corporate communication can also be used to project a positive image of the bank in

Figure 26.1: Image Assessment



Source: Philip Kotler and Gary Armstrong, "Principles of Marketing," Seventh Edition. New Delhi: Prentice-Hall of India Private Limited, 1996, 671.

the mind of the customers. However, the bank needs to ensure that it delivers the level of services it has promised in its communication thorough various media. Any difference between the actual level of service and the promised level of service can be detrimental to the bank's image. If the bank has achieved the desired image, it needs to ensure that it maintains it. It should measure the image regularly so that it comes to know immediately whenever there is any deviation from the desired image.

IDEA MARKETING

A marketing program is nothing but the marketing of ideas. We come across marketing of ideas very frequently. Advertising campaigns regarding birth control, persuading people to quit smoking, against drinking and using drugs come under the social welfare campaigns. Pollution control ads released by the Directorate of Audio Visual Publicity (DAVP) of the Government of India from time to time to reduce and control the pollution are some of the ads that are related to marketing of ideas. Social welfare campaigns, environmental protection ads, wildlife protection ads, pollution control ads and so on, are regarded as marketing of ideas (Exhibits 26.1 and 26.2 describe idea marketing against pollution).

Marketing of Ideas especially social welfare campaigns in India are very effective and are being used widely by various government and non-government organizations. For instance, the ads relating to the eradication of Polio from the country had been very effective and almost 100 percent of the polio causing virus had been removed from the country. Advertising campaigns regarding birth control have been successfully running for several decades. NGO's like CRY (Child Relief and You), CARE, etc. have been effectively marketing their ideas, such as contributing to the education of children and donating human organs (after the death). These agencies have been using celebrities extensively for promoting their ideas. Aishwarya Rai and Amitabh Bachchan, Sachin Tendulkar, Rahul Dravid, Shah Rukh Khan, etc. are some of the famous celebrities endorsing various social welfare causes.

Exhibit 26.1

Clean Ganga Campaign

Ganga, the holy river of India, has been polluted for long and beyond the normal pollution limits. The 'fecal coliform count' in Ganga (a measurement of human and animal waste in water) is 9,200 percent above acceptable level for human beings. With pollution reaching alarming proportions, supporters across the globe have started a clean Ganga campaign. They even started a website with the name www.cleanganga.com. This website has been started by Dr Veer Bhadra Mishra of Sankat Mochan Foundation. The foundation is creating awareness among the public about the website and is cleaning the Ghats of the river with the help of volunteers.

Adapted from: "Clean Ganges, Cyber Style!," Business India, March 18, 2002.

Exhibit 26.2

Kolkata's Leather Pollution

The Tangra and Topsia area on the Eastern Metropolitan Bypass in Kolkata are thickened with leather pollution. The water and air in the surrounding areas is extremely polluted with the toxic effluents released by the leather processing units situated in the area. Famous environmentalist, M C Mehta, moved to the courts for relocating these units during the late 80s and he was successful. However, the government, after about a decade, has recently sprung into action for shifting the leather units. Around 1000 acres of land have been acquired in the outskirts of Kolkata for relocating these units.

Adapted from Sudipt Dutta, "Calcutta Leather Complex," Business India, February 19, 2001.

PERSON MARKETING

Person marketing and image management are crucial in certain fields like politics. Sometimes a candidate gains substantial advantage over his opponent and wins the elections due to better image management and self marketing skills. Application of marketing techniques in politics with politicians being viewed as brands is increasing in recent times. In fact, brand management has become a fundamental task in strategic management of politics. For instance, if we see the British General Election during 1997, Tony Blair's young and energetic image overshadowed John Major's bland image and it helped Tony Blair win the election. The image management of the politicians starts with assessing their brand equity.

Qualities such as, honesty, patriotism, sound judgment, personality, etc. forms the basis for person marketing, especially for those involved in politics. Normally, brand management agencies focus on these areas for building a positive image of their clients. Some of the factors influencing brand images in politics are celebrity endorsements, image based advertising, organization of events, media coverage, image of the party and party leader.

During the recent General Elections in India, many political parties have used image based advertising for creating a positive image in the voters' mind. Major political parties in India such as Indian National Congress (INC) and Bhartiya Janta Party (BJP) have used print media, electronic media and a host of other media to lure their customers (voters) through image based advertising. In Andhra Pradesh, Telugu Desam Party's chief, Chandrababu Naidu, has used the image based advertising most effectively. The services of several advertising agencies were utilized by the parties for building image of the party or their leaders. Almost all the available celebrities (film stars, cricketers, television artistes) were roped in by different parties to market them.

Exhibit 26.3
Kerala Tourism – Branding A Tourist Destination

In the early-1990s, advertisements featuring the tagline, 'God's Own Country,' began appearing in the print and electronic media in India. These advertisements were not run by a company to promote its products and services. Instead, the campaign was run by Kerala Tourism Development Corporation (KTDC) and was intended to promote the South Indian state of Kerala as a tourist destination.

The advertisers projected Kerala as 'the place to be,' marketing every aspect of the state from the towns, cities, beaches, backwaters, cultural heritage, food, wildlife and even the centuries-old tradition of healthcare through Ayurveda. These aspects of Kerala, which were identified as the state's unique selling propositions, were packaged in a professional way by KTDC. It, perhaps had no idea that with this campaign, it had hit upon a gold mine. Over the next few years, the organization's efforts to 'sell' Kerala to Indians as well as foreigners began paying off.

Accepting the decline in the manufacturing and agricultural industries in the state (due to a large number of people going in for expatriate employment in the Gulf countries), the Kerala government realized the potential of tourism as a major revenue source. During the early and mid 1990s, Kerala's government concentrated on marketing attractions such as lagoons, lakes, canals, backwaters, boathouses and its 600 km coastline. The state government formed the Bekal Resort Development Corporation (BRDC) in 1995 to take up the task of developing the backwaters, beaches, and the scenic landscape at Bekal in an integrated manner.

During the late 1990s, the focus shifted to the marketing of hill stations, waterfalls, the Western Ghats, wild life sanctuaries and the state's cultural traditions like Kathakali, Koodiyattam (traditional dance forms), temple festivals, Kalari Payattu (martial arts), boat races and Ayurveda. In 2000, the Kerala Travel Mart Society (KTMS) organized the Kerala Travel Mart-2000 (KTM-2000), a high profile promotional campaign, at the International Convention Center, Kochi. This campaign made the tagline Kerala-'God's Own Country' popular worldwide. Gradually, as Kerala's marketing campaigns picked up pace, international travelers became aware of the state's rich culture, traditions, handicrafts, art and cuisine.

KTM-2000 attracted holiday buyers from 32 countries including France, Malaysia, Singapore and Hungary. The state became one of the favorite holiday destinations of the millennium. The next KTM organized in 2002, also received an overwhelming response with many more countries-Belgium, Holland, the UK, Germany, Malaysia and Brunei-participating.

Kerala was the first state in India to have enacted a Tourism Conservation, Preservation and Trade Bill to regulate tourism-related activities in the state. The state also took up the task of improving wayside facilities, boat terminals and jetties. In addition, it built a good waste-disposal system for the backwaters.

As a result of the above initiatives, international tourist arrivals in the state increased from 69,000 in 1991 to 0.21 million in 2000, while domestic tourists numbered 5 million during the same year. The state earned around Rs 5 billion in total direct revenues from tourism in 2001-02. These achievements prompted KTDC to further spruce up its tourism development and promotional activities.

Due to the focused, well-planned and well-executed marketing strategy, the tourism industry in Kerala grew by leaps and bounds. Over the years, the number of foreign as well as domestic tourist arrivals to the state increased significantly. In 2000, the National Geographic Society declared Kerala as one of the 10 paradises in India.

Adapted from ICFAI Center for Management Research.

PLACE MARKETING

Place marketing is used to create, maintain or change attitudes and behavior about a particular place For example, marketing of tourist spots and business sites. Business site marketing is the process of developing, renting or selling business sites for factories, offices, stores and so on. For instance, Bangalore, the silicon valley of India, markets itself as the best place for starting a software firm. Similarly, Hyderabad, one of the fastest emerging places in the global software industry, is marketing itself as a hub for software development, hardware engineering, biotechnology, apparel designing, BPO and so on.

Governments are marketing the tourism places in their countries. It helps them earn substantial foreign revenues. Tourism marketing involves marketing of tourist spots and places to attract people both from in and outside a country. Travel agencies, airlines, hotels and government agencies play a significant role in promoting tourist places. Kerala in India is one of the most beautiful places in India and the governments of Kerala and India have promoted Kerala as a tourist destination through aggressive marketing. Exhibit 26.3 describes the tourism marketing of Kerala.

SUMMARY

Marketing organizations helps in creating, maintaining, or changing the attitudes and behavior of the target customers towards an organization. Both for-profit and non-profit organizations need to market themselves. This process involves image assessment and image planning and control. What the general public thinks about the organization constitutes the image of the organization. Market research can help an organization assess its image in the market. If the image of the organization is negative in the market, the organization should take effective steps to improve its image. Apart from marketing an organization, ideas can also be marketed. Social welfare campaigns, environmental protection ads, wildlife protection ads, pollution control ads and so on, are regarded as marketing of ideas. Marketing of persons, for instance, includes marketing of politicians and their image management. Features such as honesty, patriotism, sound judgment, personality, etc. can be used to promote a person. Marketing of places helps in promoting a place.

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Chapter 27

Marketing Management: Ethical and Social Dimensions

In this chapter we will discuss:

- Importance of marketing ethics
- Social impact of marketing
- Social regulations in marketing
- Business regulations in marketing

We often see discrepancies between the promised and actual performance of products or services. This makes us feel that we have been deceived or cheated and some products and services may even cause physical injury. For instance, a common man buys colorfully packed potato chips for Rs.10 and feels that the price is justified due to the size of the pack. However, the moment he opens the pack, he finds only half the amount of chips he had expected to find. This is the case with most products today. Legally, the manufacturer is safe because he has printed the content's weight on the pack. However, the size of the pack is such that it can hold double the amount. Take the case of a jam bottle. If you can open the bottle without nipping or cutting your finger, you are lucky. Another example: Amol a post-graduate student, wanted to own a mobile phone. Several of his friends had one. However, his pocket money was not enough to buy the latest, sleek mobile phone. One day, he saw the offer of a reputed service provider offering a mobile connection along with the latest, sleek instrument at a low price. He immediately went to the company's outlet. The salesman there gave him an application form along with five pages of rules and regulations. It took him nearly an hour to read the same. He signed the form though he could not understand much of the technical jargon. He happily left with the phone and called up all his friends and gave them his number. His happiness was, however, short-lived. At the end of the first month, he got a bill amounting to nearly four times the cost of the connection. To his utter dismay, he was told by the company's staff that they had charged him for the services they were offering. Amol did not even know of the existence of many of those services. The company could not be challenged in a court of law, because Amol had signed the application form after going through the rules and regulations. However, was the company right, ethically? Amol was just one among many customers who felt that they had been cheated by the company. Managing and maintaining ethical standards are as important as any marketing effort.

This chapter discusses the importance of ethics in marketing programs. It also discusses how a company, which follows ethics can be profitable. Since consumers are becoming increasingly aware of the social responsibilities of companies and buying products of those companies which are behaving in a socially responsible and ethical manner, it has become necessary for companies to carry out their businesses in a socially responsible and ethical manner.

IMPORTANCE OF MARKETING ETHICS

The word 'ethics', is known as '*ethikos'* in Greek and '*ethicus'* in Latin. It is derived from ethos, which means character or manners. Ethics therefore is said to be the science of morals, moral principles and rules of conduct.

The characteristics that define acceptable conduct in marketing are called marketing ethics. Certain fundamental ethical issues have been codified into statutory regulations, to be followed by manufacturers. However, it is not enough to follow these legal regulations if manufacturers want to build a long-term relationship with their customers. To nurture their relationship with customers, manufacturers need to conform to ethical standards, which society expects them to follow. The expectations of customers and the general public should be observed carefully. If the marketing efforts of a company deviate from these ethical standards, it might face serious problems. In certain cases, even if the company's actions are legal, it may have to stop them, due to intense public protest. Shell faced similar problems a few years ago. Exhibit 27.1 describes the reaction to Shell's decision to dump one of its obsolete oil storage platforms into the North Sea, in 1995. Therefore, it is very important for organizations to follow ethical standards. As awareness among customers is on the rise, many customers prefer not to buy products or services of companies that have resorted to unethical practices either in the past or at present. Thus, if companies do not ensure that their policies and practices are ethical, they are bound to lose potential customers. These customers may also engage in a negative campaign against the company.

Exhibit 27.1

Ethical Dilemmas

In 1995, the Royal Dutch/Shell faced intense public protests over its decision to dump one of its obsolete oil storage platforms into the North Sea. Greenpeace activists gathered in large numbers on April 29th 1995, the day the company had planned to sink the platform in the sea. They protested against the move, contending that it would pollute the environment. The international media extensively covered the protest. Shell immediately took the matter to court, seeking legal protection. The court passed its judgment in favor of Shell. Subsequently, Shell forcibly removed the activists from its precincts. For weeks afterwards, Shell took radical steps to prevent Greenpeace activists from causing any further damage to its plans. The company even blasted boats occupied by Greenpeace activists with water cannons to stop them from entering its premises. Although Shell won legally, it failed ethically in the eyes of people around the world, as they started boycotting Shell gas stations. Some of the stations were even destroyed. Several governments condemned Shell's actions. Due to these developments, the company announced that it was abandoning its plans to sink the platform in the North Sea.

Under pressure for having shown insensitivity to social issues, Shell set up a new committee to act in an advisory capacity to the supervisory boards of the group. This "Social Responsibility Committee" reviewed the policies and conduct of all the companies in the group, with respect to the statement of "general business guidelines" and the group's policy and commitment concerning health, safety and environment (HSE). The first HSE report was issued during 1997 together with separate reports for the main businesses. Shell also consented, as a matter of policy, to allow the HSE reports to be verified externally.

With a presence in more than 130 countries, the group's companies operated under different environmental laws, regulations and reporting requirements. Shell refineries were among the first to receive ISO 14001 certification for sound environmental management systems. Shell decided to consider the costs of prevention, control, abatement or elimination of releases into the air and water as well as handling and disposal of wastes at operating facilities as an "ordinary part of business." Such expenditure amounted to 800 million pounds in 1996 and 700 million pounds in 1997.

In its 1997 annual report, Shell gave details of the various measures it had taken to protect the environment. Okios, a non-profit UK research organization, reported on Shell's publication that gave details about the company's social and environmental performance. Though Shell seemed to be setting benchmarks for others to follow suit, it was also taken to task for adopting double standards. Okios criticized Shell for developing the Camisea jungle gas fields, which it regarded as 'ecologically perilous and socially destructive.' However the Shell report was well received because it confronted difficult issues such as human rights, bribery and corruption. Shell ran youth training programs for locals in less developed areas. The company also funded private institutions and universities to conduct nature study and preservation at places of ecological importance.

Adapted from Michael D Watkins and Max H. Bazerman, "Predictable Surprises: The Disasters You Should Have Seen Coming," Harvard Business Review, March 2003, Vol 81, Issue 3 and "Royal Dutch Shell," Global Strategic Management, Case Studies on Fortune 500 Companies, Transworld University, Vol.VI, The ICFAIAN Foundation.

SOCIAL IMPACT OF MARKETING

An organization can create a positive impact on society if it produces products that are useful to society and do not harm it. Organizations seriously started considering their responsibility towards society, around forty years ago. They have realized that organizational social commitment comprises of four types of responsibilities. They are economic, legal, ethical and philanthropic responsibilities. Although these four

Exhibit 27.2

Microsoft's Philanthropy

Microsoft Chairman, Bill Gates, has pledged a sum of $400 million (approximately Rs.2000 crore) to India in a span of three years. He has stressed on the government's role in promoting the usage of software for individual and societal benefits. The assured amount is to be distributed among four projects. The first promotes basic education and is named 'Project Shiksha'. It is directed at providing education to around 35 lakh children. The second aims to enhance software utilization by entering into partnerships with other software firms. The third seeks to Indianize Microsoft's software products by introducing Windows XP in Indian languages such as Malayalam and Bengali. The fourth part of the investment is meant for its India Development Centre in Hyderabad.

Adapted from "Bill Gates Pledges Rs 2,000 Cr," November 13, 2002, <http://www.hinduonnet.com/thehindu/2002/11/13/stories/2002111304370100.htm>

categories of responsibilities have existed for decades, ethical and social dimensions have gained increased significance in recent years. Firms are established largely to offer goods and services to people and their aim is to maximize profits. In their profit maximizing efforts, their responsibilities towards society are almost forgotten. As consumers now realize the need to protect environment and society, companies are also forced to realize their responsibilities towards society and environment.

A firm doing business must comply with the law of the land. It needs to strictly adhere to the laws of the central, state and local governments. Apart from the legal factors, a firm has to focus its attention on ethical issues as well. Although a firm is not legally bound to follow ethics, following ethics helps organizations build a positive image in society and this in turn helps them improve their market value.

Philanthropic acts are different from ethical commitments. A firm, which contributes some of its resources for the betterment of the society is said to be performing a philanthropic act. A firm is considered socially responsible, when it fulfills its economic, legal, ethical and philanthropic commitments. Microsoft, for example, is increasingly becoming a socially responsible company by combining its business activities with philanthropic activities. Exhibit 27.2 briefly describes the activities of Microsoft in India.

Individual Customer

Consumers are becoming increasingly aware of the social commitments of organizations and some prefer to buy products of those firms that are socially responsible, if the services, quality and prices are equal for all firms. Organizations are gradually realizing that following unethical practices for short-term gains would spoil a company's image in the long run and the costs incurred in becoming socially responsible would improve organizational sustainability in the long run.

Firms must give maximum importance to the customers they are serving. Consumer needs and their purchasing power should be kept in mind while developing products and services. Products should satisfy the quality requirements of target customers. Companies must also ensure that they deal with customers in a fair and respectful manner at all points of contacts.

Several companies have been criticized for misleading customers through advertisements, pricing and packaging. Some companies recalled their products when they found that their products were either not performing at the desired efficiency level or were unsafe for consumer use or were harming the environment. Several automobile companies have recalled their vehicles to rectify defects that were detected in them. For instance, in November 2003, Ford recalled 340,000 of its Windstar vehicles (2001-03 models) to replace latches of the bench seats. Chrysler group recalled 438,000 of its Jeep Liberty sports utility vehicles (2002-03 models) to rectify the front suspension. Similarly, other automobile companies like Chevrolet and Volvo have also recalled their vehicles for rectifications.

Automobile companies are constantly seeking to produce environment friendly vehicles. For instance, the development of environment friendly technologies and 'greening' of the automobile was an important issue for Toyota in the 1990s. A company release in 1999 stated that Toyota saw itself in the 21st century as furthering its efforts to provide safe, clean and affordable mobility for people everywhere. The company stressed on innovation and urged its employees to explore new technologies. The launch of Pirus, the world's first mass produced hybrid car, was a major step towards cleaner vehicles. Toyota claimed that this car used fuel twice as efficiently as conventional cars and was 90 per cent cleaner than what Japanese regulations specified. Company sources revealed that teams continuously worked on leaner, cleaner power train technologies, on lighter, safer bodies, and on recyclable and recycled materials. The 'Eco Project' team looked out for new possibilities for greener transport, which included fuel cell technology. Toyota secured a global patent for its NOx catalytic system, a major breakthrough in controlling pollution.

Similarly, in August 2000, amid concerns over tread separation, accidents, injury and death, Firestone announced a voluntary recall of all Radial ATX and ATX II, and Wilderness AT tires. Around 6.5 mn tires were recalled which included 3.8 mn Radial ATX and ATX II tires, and 2.7 mn Wilderness AT tires. These tires were original equipment on certain Ford Explorer SUVs, Mercury Mountaineer, Ford Ranger pick up trucks, and Mazda Navajo and B-series pick up trucks. The Firestone tire recall was perhaps the biggest auto safety crisis in the US history. In February 2001, the National Highway Traffic Safety Administration (NHTSA) put the death figure at 174, which had risen from 101 deaths reported in September 2000. However, other sources estimated that there were as many as 250 deaths and more than 3000 injuries associated with the defective tires. Most of the deaths occurred in accidents involving the Ford Explorer and the victims and their families filed hundreds of lawsuits.

Society

Every business establishment contributes to society in some form or the other. Similarly, society also helps business organizations by creating an environment for them to grow in. Since businesses depend on society for their survival, they need to pursue their activities in a manner that does not harm the environment and society, and in fact proves beneficial to them. Many organizations have begun to realize their responsibility towards society. For instance, Procter & Gamble Hygiene and Health Care India initiated project Drishti, a sight restoration project, aimed at restoring sight of over 250 blind girls across the country by corneal transplantation. This project was undertaken with the help of National Association for the Blind. It also launched a project called 'Open Minds' aimed at educating working children.

Some companies put consumers and the society first. Johnson & Johnson showed that it put the health of consumers first when some consumers died after consuming Tylenol syrup for headache. Exhibit 27.3 describes the incident, the steps taken by the company and how it showed its responsibility towards the health of its consumers.

Companies need to be environment conscious, and sensitive towards issues like global warming and ozone layer depletion. Till recently, CFC (Chloro Fluoro Carbon) that damages the ozone layer was used in most countries to manufacture compressors for refrigerators. However, of late, many companies have developed alternate ways of manufacturing and have banned the use of CFC in any product or process. They should also adopt fair practices of employment like, giving equal opportunities to both men and women of the community, and provide a safe and healthy work environment for employees along with adequate compensation packages.

Exhibit 27.3

Johnson & Johnson's Tylenol Controversies

In September 1982, a 12-year-old girl, Mary Kellerman of Chicago, USA died after taking extra strength Tylenol for headache. Three more people, Adam Janus, his brother and sister-in-law died on the same day after taking extra strength Tylenol. Three more deaths due to consumption of Tylenol were reported on the next day. The news of the incident spread quickly causing a nationwide panic. Responding to the crisis, Johnson and Johnson (J&J) recalled 31 million bottles of extra strength Tylenol worth over $100 million from all retail stores in the US.

J&J acted immediately after the first reports of deaths came in. It alerted consumers across the US, via the media, not to consume any type of Tylenol product. Police drove through Chicago where the incidents were first reported, announcing the warning over loudspeakers, while all the three national television networks reported the deaths on their evening news broadcasts. The company told consumers not to use the product until the extent of the tampering could be determined. It recalled all Tylenol bottles and publicized the recall with full-page newspaper ads. Consumers were asked to return the bottles to the stores and exchange them for Tylenol capsules that were not subjected to cyanide tampering. The company shut down the production, distribution and advertising of the medicine temporarily. According to an analyst, J&J suffered a loss of $1.24 billion due to depreciation of the company's brand value.

Analysts said that J&J's manner of handling the crisis became the model for crisis management. They said that the company's response to the crisis demonstrated its commitment to customer safety and the quality of its product. Further, J&J's openness and communication with the public helped the company retain a high level of credibility and customer trust.

Source: "Johnson & Johnson's Tylenol Controversies," ICMR Center for Management Research.

Companies need to follow a code of conduct in dealing with their suppliers and customers. In some industries, various players have come together to regulate the industry and have designed a code of conduct that every firm in the industry needs to follow. Similarly, some companies have also developed their own code of conduct. Their efforts have been recognized and appreciated in society. Over the years, organizations have performed a variety of tasks in society. They are financial tasks, economic and production tasks, maintenance tasks, political tasks and environmental tasks.

Financial tasks

Businesses are going global. As a result, they need a large amount of funds that are usually borrowed from the public or from financial institutions. When shareholders invest their money in a firm, it becomes the company's responsibility to ensure that their investments or capital remains safe and that they get adequate returns on their investments. There have been certain instances in the recent past in which shareholder wealth was destroyed. For example, WorldCom, a US based telecommunication company, became bankrupt because of certain fraudulent accounting and auditing practices, and shareholders' wealth eroded in a period of three years. In August 1999, WorldCom shares were trading at $75.75. Its share prices dropped significantly and shares were trading at $3.41 in April 2002. Manipulating share prices for short term gains severely damages a company's reputation and credibility in the long run. Exhibit 27.4 shows how ITC faced such problems. In India, the Securities and Exchange Board of India (SEBI) controls the functioning and trading of shares through stock exchanges.

Exhibit 27.4

ITC – The FERA Violation Controversy

In October 1996, officials of the Enforcement Directorate (ED), Customs, and Department of Revenue Intelligence (DRI) conducted raids on various establishments of tobacco and hotels major ITC, in Kolkata. The raids were conducted because the ED suspected ITC of having violated FERA regulations to the tune of $100 million.

By June 1997, ITC's board of directors was facing prosecution on account of allegations of FERA violations. The case attracted extensive media attention, resulting in debates about the stringent FERA regulations and the need for efficient corporate governance practices in companies. The issue was discussed in both the Houses of Parliament, where MPs accused ITC of poor corporate governance practices and lack of transparency. The MPs wanted the DCA (The Department of Company Affairs is a central government body, which governs the Companies Act of 1956 and the Monopolies and Restrictive Trade Practices (MRTP) Act of 1969) to investigate into the matter, as they felt that ITC had violated various sections of the Companies Act and willfully and deliberately misinterpreted information, causing losses to the shareholders. Though ITC performed very well on the financial front in the fiscal 1996-97, charges of FERA violation, excise duty evasion and share price manipulation in the early 1990s, seemed to have tarnished the company's image beyond repair.

A majority of ITC's legal troubles could be traced back to its association with US based Suresh Chitalia and Devang Chitalia (Chitalias). The Chitalias were ITC's trading partners in its international trading business and were also directors of ITC International, the international trading subsidiary of ITC. In 1989, ITC started the 'Bukhara' chain of restaurants in the US, as a joint venture with its subsidiary ITC International and some Non-Resident Indian (NRI) doctors. Though the venture ran into huge losses, ITC decided to make good the losses and honor its commitment of providing a 25% return on the investments to the NRI doctors. ITC sought the Chitalias' help for this.

According to the deal, the Chitalias later bought the Bukhara venture in 1990 for around $ 1 million. Investors were paid off through the Chitalias' New-Jersey based company, ETS Fibers, which supplied waste paper to ITC Bhadrachalam. To compensate the Chitalias, the Indian Leaf Tobacco Division (ILTD) of ITC transferred $ 4 million to a Swiss bank account, from where the money was transferred to Lokman Establishments, another Chitalia company in Liechtenstein. Lokman Establishments made the payment to the Chitalias. This deal marked the beginning of a series of events that eventually resulted in the company being charged for violation of FERA regulations.

Source: "ITC – The FERA Violation Controversy," ICFAI Center for Management Research.

Economic and production tasks

Economic and production tasks relate to activities that are commercial or rather those that are aimed at the creation of wealth. There is a lot of scope for the adoption of unethical practices in the manufacture of products and services and their subsequent distribution. For example, distributors of certain products can create scarcity through illegal hoarding. However, companies need to refrain from unfair means if they want to achieve long-term credibility in the market.

Maintenance tasks

Maintenance activities help in the proper functioning of society. Activities that shape society and culture by imparting knowledge fall under this category. Educational establishments, religious institutions, health and hospitality services provide society with better resources through knowledge. Media also plays a significant role in the transformation of society. Welfare activities of firms too, fall under this category.

Political tasks

Companies with global operations need to formulate policies that respect the laws of the land in which they are operating. Every firm is expected to uphold human rights and not violate the rights of its shareholders and employees. Companies need to proactively seek solutions to global problems concerning the business environment. Companies with global operations need to respect the political framework of the countries they are operating in and carry on the business within those limitations. Exhibit 27.5 shows the problems Enron faced in India due to the change in the political environment of the country.

Exhibit 27.5

Enron: Entry into India

In June 1992, the US-based Enron Corporation showed an interest in setting up a power station in India on the basis of import of Liquefied Natural Gas (LNG). Enron was one of the world's leading power companies and figured in the list of the 500 largest corporations in the USA.

On 20 June 1992, the Maharashtra State Electricity Board (MSEB) signed a Memorandum of Understanding (MoU) with Enron. The MoU specified that the MSEB would buy electricity and/or capacity from Enron, to build, own and operate (but not transfer) a plant of about 2000-2400 MW capacity. The power station would be built near Dabhol in Ratnagiri district of Maharashtra, about 300 km south of Mumbai. According to the agreement, MSEB would be paying a sum of US$1300 million (Rs. 400 crore) every year for the total capacity of 2000 MW. The total payments for 20 years would be around 35 billion US dollars.

On December 8, 1993, a Power Purchase Agreement was signed between the MSEB and the DPC (Dabhol Power Company). The agreement specified that the company would build, operate and sell electricity in the form of available capacity. The total payments would be fixed, and these would be almost independent of the amount of electricity drawn by the MSEB. The MSEB seemed to have virtually surrendered all rights including that of inspecting the power station and fuel tank and even the right to enter the station. As per the PPA, only "duly authorized" MSEB personnel, who had been approved by the DPC in advance, could enter the station. The PPA made it a precondition for the MSEB to build at its own cost, the 400 kV lines for transmission of electricity from the plant site to the load centers. Under the agreement, the DPC was liable to penalties only in the case of non-performance, such as time over-run and capacity shortfall.

The DPC paved the way for its downfall by placing such conditions. In August 1995, the newly formed BJP Government almost scrapped the entire project. However, the company somehow managed to start re-negotiations with the Government of Maharashtra. Rebecca Mark, the CEO of Enron Corporation managed to wrest the controversial Dabhol Power Company (DPC) from the jaws of death in 1996. Five years later (2001), the survival of DPC was at stake again. Both DPC and the Government of Maharashtra (GoM) were accused of corruption and economic insanity. With the controversy regarding the price of power still raging and the latest payments crisis that the Maharashtra State Electricity Board (MSEB) faced, both Enron and GoM were desperately looking for a solution.

Source: "The Enron Saga," ICFAI Center for Management Research.

Environmental tasks

Firms need to protect the environment and ensure that none of their activities affect the environment adversely. The issue of effluent disposal has gained significance in recent times, and most countries have enacted laws for environmental protection. Firms should take steps to tackle industrial waste that causes severe damage to the environment and sometimes, even loss of human life. Exhibit 27.6 describes the Bhopal gas tragedy, one of the biggest industrial tragedies. It occurred due to UCIL's negligence and caused the death of over 10,000 people. A firm's commitment to environmental protection reflects its corporate and social responsibility.

Exhibit 27.6

The Bhopal Gas Tragedy

In the early morning hours of December 3, 1984, a poisonous grey cloud (forty tons of toxic gases) from Union Carbide India Limited’s (UCIL) pesticide plant at Bhopal spread throughout the city. Water carrying catalytic material had entered Methyl Isocyanate (MIC) storage tank No. 610. What followed was a nightmare. The killer gas spread through the city, sending residents scurrying through the dark streets. No alarm ever sounded a warning and no evacuation plan was prepared. When victims arrived at hospitals breathless and blind, doctors did not know how to treat them, as UCIL had not provided emergency information. It was only when the sun rose the next morning that the magnitude of the devastation was clear. Dead bodies of humans and animals blocked the streets, leaves turned black, the smell of burning chilli peppers lingered in the air. Estimates suggested that as many as 10,000 may have died immediately and 30,000 to 50,000 were too ill to ever return to their jobs.

The catastrophe raised some serious ethical issues. The pesticide factory was built in the midst of densely populated settlements. UCIL chose to store and produce MIC, one of the most deadly chemicals (permitted exposure levels in USA and Britain are 0.02 parts per million), in an area where nearly 120,000 people lived. The MIC plant was not designed to handle a runaway reaction. When the uncontrolled reaction started, MIC was flowing through the scrubber (meant to neutralize MIC emissions) at more than 200 times its designed capacity. MIC in the tank was filled to 87% of its capacity while the maximum permissible was 50%. MIC was not stored at zero degree centigrade as prescribed and the refrigeration and cooling systems had been shut down five months before the disaster, as part of UCC’s global economy drive. Vital gauges and indicators in the MIC tank were defective. The flare tower meant to burn off MIC emissions was under repair at the time of the disaster and the scrubber contained no caustic soda.

In addition to having caused the Bhopal disaster, UCC was also guilty of prolonging the misery and suffering of the survivors. By withholding medical information on the chemicals, it deprived victims of proper medical care. By denying interim relief, as directed by two Indian courts, it caused a lot of hardship to the survivors. In February 1989, the Supreme Court of India ruled that UCC should pay US$470 million as compensation in full and final settlement. UCC said it would accept the ruling provided the Government of India (GoI) did not pursue any further legal proceedings against the company and its officials. GoI accepted the offer without consulting the victims.

Source: “The Bhopal Gas Tragedy,” ICFAI Center for Management Research.

Other Businesses

A firm’s marketing practices can substantially affect other businesses as well. If a company acquires the business of a competitor with the idea of eliminating competition, it is clearly an unethical trade practice. Such acquisitions will lead to fewer choices of products and services for customers. Certain firms adopt unethical marketing practices, like setting the price of the product below the cost, or threaten to cut-off business with the suppliers. These are intended to wipe out competition. To prevent such unethical practices governments make antitrust laws.

SOCIAL REGULATIONS IN MARKETING

The social regulations in marketing include customer rights, Consumer Protection Act, consumer forums, Bureau of Indian Standards, competition policy, environmentalism and public action to regulate marketing.

Consumerism

Way back in 1962, US President John F Kennedy had proclaimed that consumers should be adequately protected. He had even proposed four important rights to protect consumers. They were the right to safety, the right to be informed, the right to choose and the right to be heard. Subsequently, consumerism gained immense significance during the 1970s in the US. Consumer protection regulations were enacted and several non-governmental groups began to work for the cause. Consumerism can be understood as an organized movement by consumers to protect themselves from exploitation by sellers.

Consumerism in India emerged as a reaction against the black marketeering and other unethical practices of sellers in the country. Indian consumers raised their voice against the exploitative practices of sellers. Various non-government organizations also began to voice their concern against the exploitative practices of marketers. For instance, The Centre for Science and Environment is a nongovernment organization that recently raised the issue of pesticides in the soft drinks of various companies. As a result, many individuals and organizations boycotted the consumption of these cold drinks. As consumers are aware of their rights and the need for companies to protect environment and society, it has become necessary for companies to operate in a socially responsible manner.

Customer Rights

One of the most important social commitment issues in marketing is the consumer movement. Consumer movement can be described as a collective endeavor of individuals or organizations to protect consumer rights. The issue of consumer rights gained momentum when US president John F. Kennedy passed a bill of rights to protect the interests of consumers. The rights were, the right to safety, the right to be informed, the right to choose and the right to be heard. The right to safety proposed that firms could not knowingly offer such goods to the consumers that may harm them, i.e. all products offered to the market must be safe. Otherwise, clear instructions must be provided to the customers about the safe usage of the products. The right to be informed proposed that consumers should have adequate information about the product. The right to choose conveys that consumers should have a wide range of products to choose from. The right to be heard proposed that the consumers should have a say in the formulation of business policies by the government. Sellers should also give consumers a fair chance to complain about their offerings. The Consumer Protection Act 1986, enacted by the Government of India, confers on Indian consumers all the above rights.

Community relations

Companies need to maintain good relations with communities. Firms, which undertake philanthropic work and actively participate in resolving social issues or concerns, have a good image in society. In India, several organizations are spending money to create public awareness on AIDS, road safety, ill effects of alcohol consumption, smoking and chewing of tobacco.

Green marketing

Green marketing is a recent phenomenon, in which manufacturers focus on producing environment friendly products. All marketing efforts are directed towards achieving this goal. The product development, pricing policies, promotional activities and distribution strategies are developed in a way that will not cause any damage to the environment. There are certain organizations, which observe companies’ efforts towards green marketing and give a seal of approval to these companies. This seal can be used in their advertising and promotional campaigns.

The primary interest of producers is to increase consumption of their goods. This interest clashes with the interest of saving the ecology. People who are concerned about the environment and ecological imbalance will reduce their consumption. This psychology will affect producers adversely. However, the number of people whose consumption is dependent on the environment friendliness of a producer is few. However, in the future, it might increase because more and more people are becoming aware of environmental issues. Firms have also started showing their customers that they care for the environment. For example, one of the leading tour operators in Britain, British Airways Holidays, provides its customers with a list of environment friendly hotels and resorts in the Caribbean. A survey of its customers showed that more than 50% of them selected an airline or hotel, which was eco friendly.

Consumer Protection Act

The Consumer Protection Act in India was enforced in 1986. The Act paved the way for setting up of consumer redressal forums at the district, state and national level. The Act gained momentum in 1990 after these forums had been set up throughout the country. The enactment of the Consumer Protection Act brought about increased consumer rights awareness in the country and many organizations came into existence to fight for the cause. These organizations offer their services through websites. These include www.consumerindia.com, www.itheconsumer.com, www.indiainfo.com, www.indianconsumernet.com, www.planetcustomer.com, www.cgsiindia.org/c-rights.htm. These sites provide necessary services to consumers who want to seek a remedy under the Consumer Protection Act. Since their establishment, many customers and organizations have approached them for redressal of their grievances. Awareness among consumers about their rights and the option of seeking timely and just remedies through consumer forums have made business establishments more responsible in their offerings towards customers. People have started demanding better quality products and services. Organizations, both public and private, have realized their responsibility to offer the best quality products and services to their customers. The Act applies to all goods and services (excluding services that are rendered free of cost) in the country, until and unless the central government categorically exempts a product or a service from it. The Act covers all the business establishments in the country irrespective of their nature. It also confers a right, that is, the right to seek remedy against those who adopt unfair trade practices or exploit consumers.

Services of doctors have also been included in the Act. A controversy has been raging over this issue for several years with doctors claiming that their services should not be included in the Act. Investment in the healthcare industry has increased significantly and a large number of corporate hospitals have been set up in the recent past. The need for redressal is however, much more important. There are certain landmark judgments like the one discussed in Exhibit 27.7, which show what constitutes redressals and what does not in medical cases.

Consumer forums

Under the Consumer Protection Act of 1986, the Government of India has set up consumer redressal forums at the district, state and national levels. They were established to provide faster remedies to aggrieved consumers, free of cost. There are 569 district forums in the country, with 33 state commissions and a National Consumer Disputes Redressal Commission located in the country’s capital, New Delhi acting as the apex institution. A former or a sitting district court judge or any person who is eligible to be appointed as a district judge, heads the district forums while the state commissions are headed by a former or a sitting judge of a High Court.

Exhibit 27.7

Medical Redressals

Gujarat State Consumer Disputes Redressal Commission, Ahmedabad gave a landmark judgment in a case filed by one Vaghri Gopalbhai against Dr Parmar Navalben. Baluben, Gopalbhai's wife, delivered a baby at her residence. However, it was found that there was another baby inside, which had to be delivered. As a result, she was taken to the primary health center and subsequently to a private surgical and maternity hospital. Some medication was given but Gopalbhai was asked by the doctor there to take his wife to a bigger hospital because she had bled profusely. However, the patient died in transit. Gopalbhai filed a case against the doctor in the private hospital alleging that she had not treated his wife properly, therefore causing her death. However, the commission observed that there was no negligence on the part of the doctor as all possible treatment was given. The commission further stated that in villages where modern facilities are unavailable and doctors have to treat patients with limited facilities, wild allegations of negligence would lead to a situation where no doctor would admit patients in hospitals even if they were serious. In its landmark judgment, the commission observed that the standard of treatment of a doctor in rural setting differs from that in an urban setting.

Adapted from Prof Gopinath Shenoy, "Available Means and Resources will Decide Treatment in Rural Practice," Express Healthcare Management, 1-15 November 2001.

The National Commission constituted in 1988, is headed by a former or a sitting judge of the Supreme Court of India. The district consumer redressal forums accept written complaints from customers claiming monetary losses up to Rs 20 lakh, while the state commissions accept complaints up to Rs one crore and the National Commission beyond Rs one crore. Consumers can appeal against the judgment of the district forum in the state forum and against the judgment of the state forum in the national forum. The National Commission has the right to control the state commissions in matters relating to administration and pending cases.

Bureau of Indian Standards

The Indian Parliament enacted the Bureau of Indian Standards Act in 1986. It was specifically set up by the government to standardize the quality of goods and services being produced in the country by issuing certifications to those companies that meet the minimum requirements laid down by it from time to time. The Bureau of Indian Standards (BIS) issues certification under the Indian Standards Institution (ISI) seal. The Bureau establishes standards regarding products or services by constituting committees comprising of consumers, manufacturers, technologists, scientists and other officials. These standards are established after giving a fair chance to all the parties concerned to voice their opinion. Any business establishment seeking a license from the BIS has to submit an application form in a specific format issued by the Bureau. An applicant's product or process is then verified by the Bureau for conformance to quality according to Indian standards. If the product or process conforms to the stipulated standards, then the Bureau issues a license to the manufacturer enabling him to display the ISI mark on its products, under certain conditions. The Bureau of Indian Standards, headquartered in New Delhi, is headed by a Director General and has branch offices and regional offices in all parts of the country. The Bureau also awards the Rajiv Gandhi National Quality Award annually to companies on the basis of their leadership skills, policies and strategies, human resource policies, resources, processes, customer satisfaction, employee satisfaction, impact on environment and society and business results.

Competition Policy

In India, the competition policy was formulated to create and sustain an environment of active and healthier competition among firms. This policy helps in the implementation of liberalization policies. The competition policy in a country should be developed keeping in mind the socio-economic, cultural and historical perspective of the country. The relation between competition, trade and investment policies on the one side and macro-economic factors on the other must also be taken into consideration. The competition policy can be effective only if the finance, commerce, industry and law ministries combine their efforts for its development.

The SVS Raghavan Committee has formulated the latest competition policy in India in the year 2000. The committee has called for abolition of the Monopolies and Restrictive Trade Practices Act 1969 (MRTP) and suggested that all cases that pending with the MRTP commission may be transferred to their respective consumer courts under the Consumer Protection Act 1986. The liberalization, privatization and globalization policies of the government should support the competition policy and vice-versa. An important aspect of the new competition policy is that the Industries (Development and Regulation) Act 1951 is considered only for environmental protection and protection of monuments and national heritage sites. The Industrial Disputes Act, 1947 needs to be amended for easy exit of non-viable and loss making companies. The Board for Industrial Finance and Restructuring (BIFR), set up under the provisions of Sick Industrial Companies (Special Provisions) Act 1985 has to be abolished. Certain other points envisaged by the commission are:

- All trade practices should be open without any discrimination.
- All anti competitive practices should be considered illegal.
- Unauthorized agreements regarding territory sharing, unusual price reductions to gain undue advantage should be considered illegal.
- State governments should significantly reduce their share in state monopolies and subsequently privatize those business establishments in all the sectors except for those that are strategically important like defense related industries.
- The businesses owned by the state governments and foreign companies operating in the country must be brought under the competition policy.
- The government should carefully examine the anti-competition practices in industries, especially those that arise with the implementation of World Trade Organization agreements.
- The entry barriers created in an industry and the abuse of position by the dominant firm should be seriously dealt with.

The committee has also suggested the establishment of a separate commission named Competition Commission of India to implement the Indian Competition Act. It has further suggested that the commission should consist of experts from different fields. All complaints regarding violation of the Competition Act should be directed towards the competition commission. India has signed the General Agreement on Trade in Services to upgrade the Indian service sector to match international standards. Exhibit 27.8 explains the different ways in which various services can be offered to the global market.

Exhibit 27.8

Competition Policy of the Indian Professional Services

Indian professional services sector traditionally has been regulated by various types of Institutes like the Institute of Chartered Accountants of India, Bar Council, The Institute of Company Secretaries of India, etc. which control the entry of professionals into their respective services. Under the GATS (General Agreement on Trade in Services) the member countries agreed to open up their services sector to international competition. India has signed the GATS agreement. Under this agreement member countries give the Most Favored Nation (MFN) status and National Treatment to each other. Countries can benefit from internationalizing their services in four areas.

The first is rendering services across countries. In this case, a service provider offers his services across national boundaries. For instance, in India, we have many call center companies offering services to clients across the globe.

The second is utilizing the services of a service provider in a foreign country, like pursuing education through foreign universities.

Setting up offices in foreign countries, is another way of providing services to foreign countries. For instance, several international companies provide financial, banking and insurance services in our country.

The fourth is free movement of professionals from one country to another without any restrictions.

Adapted from Pritesh Mehta Competition Policy and Professional Services, <http://www.indiainfoline.com/lega/feat/copo.html>, 02 September 2000.

Environmentalism

Environmentalism is yet another critical issue that needs to be considered by firms. Organizations need to ensure that they produce eco-friendly products and minimize industrial pollution. Consumer awareness and social concern for ecological issues have helped firms realize their responsibility towards nature and society. Today, firms around the globe are focusing on producing environment friendly products through increased research and development activities. However, more efforts are required in this direction, as the environment has suffered a lot of damage due to commercialization of natural resources. Exploitation of the world’s natural resources by industrialized nations poses a threat to the ecological balance.

The release of Greenhouse gases like carbon dioxide and carbon monoxide into the atmosphere by industries is causing global warming. Exhibit 27.9 briefly discusses the phenomenon of global warming and the steps that have to be taken to control it.

Public Action to Regulate Marketing

Consumer awareness and their expectations from producers have been increasing over the years. People have started boycotting products that are of low quality and are unsafe for the environment. Consumers have become united and formed groups to protect their rights. These groups have started discouraging consumers from buying certain types of goods and services. These customer groups have checked businesses adopting unfair and unethical practices, to a large extent. The Consumer Protection Act also helps them control such activities of producers through legal action. However, most organizations have realized the importance of producing goods that are environmental friendly and are also adopting fair and ethical marketing practices. They have understood that long-term benefits can be accrued by adopting customer friendly practices. Many organizations conduct social audit to evaluate their business activities. There are three vital steps in a social audit. First, an organization identifies the positive and negative impacts of its marketing activities. Second, it tries to

Exhibit 27.9

Who is Responsible for Global Warming?

If the temperature rises from 82.4 degree Fahrenheit to 88 degree Fahrenheit in Hyderabad, no one is going to observe the change. However, if the average temperature across the world rises even by a degree centigrade, it would have unforeseen implications. The Intergovernmental Panel on Climate Change (IPCC), set up by the United Nations, revealed that over the next hundred years the climate of the planet would rise by 2 to 6 degrees Fahrenheit and would create major changes in the sea levels and rainfall patterns across the globe. This will lead to environmental imbalance where one part of the earth would suffer from severe drought conditions, while the other part would suffer from extreme flood situations. The agricultural sector would be badly hit, with cultivation in some areas becoming impossible. Greenhouse gases are those that keep the earth's atmosphere warm enough to support life forms. However, over the years, the concentration of these gases like carbon dioxide has been increasing in the atmosphere. This is due to the emission of these gases by industries across the globe. In addition, deforestation is releasing a substantial amount of carbon dioxide into the atmosphere. Other gases such as clorofluorocarbon (CFC), which are manmade, are also contributing to the destruction of the atmosphere. During the 1992 Earth Summit around 160 nations of the world vouched to increase efforts to reduce emission of greenhouse gases. Five years later, the Kyoto Protocol stated that developed countries had to significantly reduce their emission levels of greenhouse gases. For example, the United States needs to reduce emission by 7 per cent, the European Union by 8 per cent and Japan by 6 per cent, by 2012. The lack of consensus between environmentalists and businessmen is complicating the issue. However, it is generally felt that emission of greenhouse gases is a serious issue that demands immediate attention and any inaction by nations in this direction would severely damage the global atmosphere. This would, in turn, result in the earth becoming an uninhabitable place for future generations.

Adapted from Kimberly O'Neill Packard and Forest Reinhardt, "What Every Executive Needs to Know about Global Warming," Harvard Business Review, July/August 2000, Vol 78, Issue 4.

minimize the negative impact and maximize the positive impact. Third, it evaluates these impacts and analyses their implications for the management. Three methods can be applied to evaluate the social responsibility of an organization. In the first, customers, suppliers and employees are asked to fill up a questionnaire. The second, comprises of a social responsibility report, prepared by the management and the third, is a socio-economic operating statement, in which the management estimates the social costs and benefits.

BUSINESS REGULATIONS IN MARKETING

Firms in the 21st century need to understand the importance of being socially responsible and perform ethical marketing activities. Regulators in marketing such as enlightened marketing, ethical marketing practices, following a corporate code of conduct and maintaining high standards of public policy in the marketing activities will help organizations perform their business processes in a better way.

Enlightened Marketing

Intelligent producers identify the needs of potential customers first and put in all their efforts to satisfy those needs. An enlightened producer's efforts should be directed towards improving the quality of life of his customers by offering them innovative and best quality products at affordable prices. The products should be environment friendly or they should at least not harm the environment. Producers need to feel more responsible towards society. Enlightened marketing activities of a firm are aimed at leveraging long-term benefits through business practices such as customer-specific marketing, social responsibility marketing, innovative marketing, value marketing and sense-of-mission marketing.

Customer-specific marketing: In this type of marketing, all marketing efforts of an organization are directed towards satisfying the requirements of its consumers with good quality products that will enhance their living standards. Producers should focus on producing goods that will satisfy their customers so that they are retained and refer their products to others leading to long-term profits and sustainability.

Social responsibility marketing: As discussed earlier, socially responsible marketing gives more importance to the society and environment rather than products and profits, in the production and distribution of products to customers. For instance, Levi, a US based leading apparel manufacturer and seller, has been known for its values, social commitment and community services. Exhibit 27.10 explains its commitment to social issues and community services. Similarly, McDonald's had set up the Ronald McDonald House of Charities (RMHC) in 1974 in Philadelphia to provide homes for families of sick children being treated at nearby hospitals. There were more than 190 RMHCs in 14 countries. About 20,000 volunteers contributed nearly one million hours of time each year to the RMHCs. Xerox also funded substantial amounts for social causes in five major areas. They are education and workforce preparedness, science and technology, employee and community activities, cultural affairs and national affairs.

Exhibit 27.10

Levi's Social Responsibility

Levi had a long history of commitment to the communities among which it operated. This heritage went back to the founder, Levi-Strauss, who had devoted substantial time and resources to charitable and philanthropic activities. Levi showed its commitment to social issues. The company took part in corporate initiatives such as the red tab foundation, which donated a portion of corporate revenues to support communities and employee-sponsored community involvement teams (CITs), which enabled employees to volunteer and help people and communities in need.

Levi was considered to be a model employer, especially by women. In April, 1994, the council on economic priorities gave Levi an award for its "Unprecedented commitment to non-exploitative work practices in developing countries." In 1984, the company was named one of the hundred best companies to work for in America.

Levi had strict standards with regard to the work environment. The Levi Board of Directors decided to close out $40 million a year in production contracts in China to protest against human rights violations. When the company found that its contractors in Dhaka, Bangladesh, were hiring girls as young as eleven as full time seamstresses, it worked out an agreement by which it decided to pay the wages of these girls while sending them to school and decided to pay for their uniforms, books and tuitions. When they reached the age of fourteen, the minimum employment age set by International Labor Organization standards, they would return to work. In 1992, Levi adapted a set of comprehensive standards for contractors worldwide regarding wages, working hours, working conditions, ethics and environment.

In 1995, the Haas family was honored with the lifetime achievement award from the business enterprise trust for providing steadfast social leadership while successfully competing globally. US president, Bill Clinton, honored Levi with the first annual Ron Brown Award for corporate leadership in 1998. The award was in recognition for the company's efforts to combat institutional racism through its unique grassroots initiative known as Project Change.

Adapted from Levi, "Global Strategic Management Case Studies on Fortune 500 Companies," Transworld University, Vol. VII, The ICFAIAN Foundation.

Innovative marketing: As the name suggests, a company should innovate new products faster than its competitors, devise new ways to reach customers, communicate with them and identify how their unfulfilled needs can be fulfilled.

Value marketing: Companies should focus on creating maximum customer value through their product offerings. The more the value derived by customers through the products, the more loyal they become to the companies. And loyal customers provide long-term profitability to companies.

Sense-of-mission marketing: Mission statements of firms must reflect their responsibility towards society rather than just their profit motives.

Marketing Ethics

Producers must develop ethical standards that are followed by the entire organization and ensure that these standards are never compromised. A firm, which strictly adheres to these standards without compromising on them for short-term benefits, would definitely find itself in a profitable position in the long run. Though it might be legal to use children in advertisements, it may be unethical to use them. Similarly, a pharmaceutical company can provide technical details about its products in advertisements, but can hide critical information about their side effects. In such a case, the company might not be breaking any rule, but it will be morally incorrect to deprive customers of the information which may affect their health adversely. A salesperson of a financial services company can sell a product to a customer, which does not suit his need. Concern about the ethical values adopted by organizations is on the rise. The increasing impact of media and the increase in its reach are making information available to the public, fast. For example, media, on a number of occasions, has focused attention on alleged exploitative employment practices of suppliers used by some of the biggest brand names in sportswear. There is a myth that if a company acts ethically, its profit objective will be adversely affected. It actually adds to profitability in the long run. For example, good safety standards and employment policies can improve productivity.

Organizations following the best business practices are even being encouraged through awards. For instance, Business Ethics Magazine awards the 100 best corporate citizens. Topping the list in the year 2002 were IBM, followed by Hewlett-Packard (HP) at the second place and Procter & Gamble at the fifth. HP's tradition of serving the community goes back to 1939, when its founders Hewlett and Packard donated $5 to charity in their first year of business. Since then HP has been involved in social welfare activities to improve economic conditions in many countries across the world. Being a good citizen was among HP's key corporate objectives formulated in 1957. HP was recognized as a philanthropic leader among global corporations. In 1996, HP and its employees worked in many ways to enrich communities, improve the quality of life, and promote economic development around the world. The philanthropic efforts in the Asia-Pacific region also increased during 1996. In 1998, HP gave $64.8 million in cash and equipment to not-for-profit agencies and educational institutions worldwide. HP's focus on the environment started by paying special attention to its own products and operations. As part of its culture, HP evaluated environmental effects at the earliest stages of its product development process in order to conserve resources, as well as, prevent or minimize any adverse environmental impact.

Corporate Code

Producers should keep in mind ethical factors while formulating a corporate code of conduct. A code of ethics helps an organization follow rightful ethical practices and avoid unethical business processes. However, the increasingly complex and competitive environment and businesses operating across countries are complicating the process of developing ethical standards. Therefore, it is important for producers to carefully analyze and understand the complex ethical standards governing society and the organizational environment. Cultural factors also deeply influence the organization's efforts in developing its code of ethics. People from different cultures work in organizations. Their values and ethical standards differ widely. The code of ethics should be developed, keeping in mind the type and nature of the society in which an organization is working. For instance, there are societies where individualism is highlighted and maximum importance is given to individual decisions. On the other hand, there are societies that uphold collective decision making efforts. Producers need to consider such factors while developing a corporate code of ethics. A framework is generally used to analyze the effectiveness of the corporate code of ethics of an organization. The framework is segmented into four divisions depending on the competition and the industry in which the firm is operating.

In the first segment, industrial atmosphere does not support strong ethics and most firms look towards profit maximization and do not concentrate much of their efforts in building a corporate code of ethics. In such organizations, the management should slowly direct the company's efforts in building and maintaining ethical standards, encouraging employees to be ethical and communicating the dangers of being unethical in the long run.

In the second segment, there is a highly competitive entrepreneurial environment and individual professional ethics dominate a firm's environment. The professional code of ethics must be adapted to cultural factors thereby helping the firm in developing a strong corporate code of ethics.

In the third industrial segment, industrial environment is stable and the corporate code of ethics is standardized. However, these organizations must adapt themselves to the changing market scenarios.

In the fourth segment, there is a stress factor working on the corporate code of ethics, because the environment is highly volatile. Due to frequent changes in the environment, a company constantly focuses on adjusting its ethical standards on the basis of the changes in the cultural, individual and professional ethics. Therefore, to maintain an ethical corporate code in such industries, managers should constantly communicate to the employees the ethical standards that they should follow.

Principles of Public Policy towards Marketing

There are about seven modern marketing principles that address the public policy towards marketing. They are:

Principle of consumer and producer freedom: This principle describes that any marketing effort will be successful if it improves the quality of life of customers. It implies that an individual will excel in his pursuit if he is given complete freedom.

Principle of curbing potential harm: Effective measures should be taken by the government and customer groups to ban harmful products. Legal action should be taken against producers offering goods that can harm customers.

Principle of meeting basic needs: It is the most important criterion because marketing activities should be directed towards fulfilling the basic needs of customers and simultaneously uphold the values of society.

Principle of economic efficiency: Organizations should strive towards achieving economic efficiency by producing goods of high quality and selling them at affordable prices. Organizations should adopt the best policies towards achieving economic efficiency.

Principle of innovation: It is imperative for organizations to constantly innovate new products to sustain and grow in the market profitably. However, these innovative practices should suit the changing needs of customers.

Principle of consumer education and information: Offering timely information and creating awareness among consumers about products and services are fundamental for producers to succeed. It helps consumers select the products that meet their requirements.

Principle of consumer protection: Companies should always be cautious towards consumer protection and should try to protect consumer interests in all their activities. Governments and consumers forums should take an active part in protecting consumer interests at all points of time.

An organization must focus on these seven principles to achieve its goals. If an organization follows these principles, it will be acting in a socially responsible manner and will be able to achieve its profit objectives in the long run.

SUMMARY

The characteristics that define the acceptable conduct in marketing are called as marketing ethics. Organizations need to market their products and services in such a manner that they do not have any negative impact on society and environment. They also need to realize the importance of satisfying customer needs and improving the quality of their lives.

Many organizations have realized their responsibility towards society. Consumers are becoming increasingly aware of the social commitments of organizations and prefer to buy products of the firms that are socially responsible. Organizations are realizing that following unethical practices for short-term gains spoils their image in the long run. On the other hand, the costs incurred for being socially responsible help them in their long-term survival.

The social regulations in marketing include customer rights, consumer protection act, consumer forums, Bureau of Indian Standards, competition policy, environmentalism and public action to regulate marketing. The Consumer Protection Act in India was enacted in 1986. The Act paved the way for setting up consumer redressal forums at the district, state and national level. They were established to solve consumer grievances faster without charging any amount from them. The enactment of consumer protection act increased awareness of the consumer rights in the country and many organizations fighting for the cause were established.

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Glossary

A

Administered pricing: An organizational pricing policy in which the seller determines the product’s price (or prices) and the customer pays that designated price.

Advertising: Paid non-personal communication with a target market; advertising media include television, radio, newspapers, magazines, billboards, and direct mail.

Advertising agencies: Companies that specialize in providing various levels of advertising services; some agencies focus on specific services or market segments, and others offer a complete range of services covering a wide range of market.

Agents and brokers: Intermediaries who assist with the marketing of goods and services but who don’t assume ownership of products, agents, unlike brokers, usually work long term for products.

AIDA model: An acronym for awareness, interest, desire, and action, which represent the psychological steps a customer goes through on the way toward making a purchase.

Aided recall: A post-testing technique that shows specific ads to people who then answer various questions about them.

Allocating: Breaking accumulated supplies into smaller units that are easier for later intermediaries and customers to handle.

Anchor stores: Large department stores or discount stores that serve as the main stores in planned shopping centers because of their strong customer appeal.

Arbitrary approach: A method of determining the advertising budget, in which a high-level executive subjectively stipulates how much will be spent on advertising for a certain time period.

Area sample: A type of cluster sample in which geographic units are used to define the cluster of the population.

Attitude: Learned tendency to respond to objects, people, ideas, or products in a particular way.

Auction houses: Facilities designed to bring buyers and sellers together for the purpose of selling products to the highest bidder.

Audience: The person or persons who are receiving a transmitted message.

Augmented products: The expected products plus all of them added value.

Automatic vending: An impersonal form of non-store retailing in which money- or credit-card-operated machines provide products or services.

Average fixed cost: The amount of fixed cost attributed to each unit produced; equal to total fixed costs divided by the number of units.

Average total cost: The sum of average total and average variable costs; represents the average expenses required to make one unit.

Average variable cost: The amount of variable cost attribute to each unit produced; equal to variable costs divided by the number of units.

B

Baby boom: The increase in births that started in 1945, when World War II ended, and extended into the early 1960’s.

Balance of payments: A system that accounts for a nation's international financial transactions.

Balance of trade: A nation's total imports in relation to its total exports over a one-year period of time.

Barriers to entry: Competitive conditions that make it expensive, illegal, or otherwise difficult to enter a market as a competitor.

Barter: An exchange that is not based on monetary prices.

Behavioral segmentation: A way of dividing large markets into smaller groupings according to consumer behavior.

Boston Consulting Group (BCG) approach: A method developed by a management consulting company that evaluates strategic business units based on market growth rate and relative market share.

Boycott: The refusal of a government or public groups and consumers to buy certain goods from another country.

Brand: A name, term, phrase, design, symbol, or any combination of these chosen by an individual or organization to distinguish a product from competing products.

Brand equity: The overall strength of a brand in the market place and its value to the company that owns it; increasingly companies are trying to assign financial value to brand equity.

Brand extension: Assigning an existing brand name to a new product in the same product line or in a different product line.

Brand licensing: A type of licensing arrangement in which one company sells others the right to use one or more of its brand names.

Brand loyalty: The level of commitment that customers feel toward a given brand, as represented by their continuing purchase of that brand.

Brand mark: The portion of a brand that cannot be expressed verbally, such as a graphic design or symbol.

Brand name: The portion of a brand that can be expressed verbally, including letters, words, or members.

Breakeven analysis: A profit analysis technique that identifies the sales volume at which total cost is equal to total revenue; you'll make a profit if sales exceed this level and suffer a loss if they don't reach this level.

Breakeven point: The sales volume at which a company breaks even.

Business cycle: A predictable economic fluctuation that gives rise to four stages: prosperity, recession, depression, and recovery.

Buyers' market: A market condition in which supply exceeds demand.

Buying center roles: Roles assumed by various members of the buying center, including initiator, influencer, decision maker, gatekeeper, purchaser, and user.

Buying power: The consumer's ability to purchase products.

C

Cannibalization: A situation in which a new product steals sales or market share from other products in the existing product line.

Capital equipment: Industrial machinery, office and store equipment, or transportation vehicles that are purchased infrequently and are used to produce goods, provide a service, or support the day-to-day operation of an organization.

Cash discount: A discount given in return for paying a bill within a certain number of days.

Catalog showroom: A limited-line discount retailer that offers products from a catalog for purchase by mail or in a self-service store.

Census: A survey of every person or item in the population.

Centralized organization: An organization in which authority and responsibility are concentrated in the hands of relatively few people, usually the higher levels of management.

Chain stores: Groups of retail stores owned and operated by corporations that perform centralized buying and administrative functions for all the stores.

Channel power: The ability of the channel captain to influence or control the behavior of the rest of the channel.

Cluster sample: A probability sample in which researchers divide the population into natural groupings with internal diversity and then select a few groups to apply a random sample.

Cold calling: Calling on potential customer by telephone or in person when there has been no previous contact.

Commercialization: The part of the product development process in which the new product is launched beyond the test markets into the full target market and is supported by the preferred marketing mix.

Commodity rates: Discounted transportation rates that are reserved for a shipper's best customers; designed to promote customer loyalty.

Comparative advantage: The advantage a nation has when it specializes in exporting products it can produce more cheaply than other nations.

Comparative advertising: A special case of competitive advertising the explicitly compare a product with one or more competitive products.

Competition: The rivalry among sellers trying to increase sales, profits, or market share while addressing the same set of customers.

Competitive advantage: In the context of international business, the ability of a nation's industries to innovate and upgrade to the next level of technology and productivity.

Competitive advertising: Advertising that tries to promote specific product features as better than those offered by the competition.

Competitor intelligence: The systematic collection and analysis of data about a firm's competitors, with the goals of understanding the competitors' positions in the market and of formulating strategies in response.

Concentrated marketing: A marketing approach that focuses on a small part of the market with a single or limited line of similar products; it can be used by firms with limited resources or in markets with specialized customer segments.

Concentric diversification: A growth strategy based on introducing into new markets new products that are technologically related to a firm's present products.

Concept testing: A type of marketing research in which marketers describe a new product and ask consumers to react to the concept.

Conditioning: Learning to associate a stimulus with a response.

Conjoint analysis: A form of analysis in which researchers uncover the most attractive combination of product attributes by having respondents rank products using a trade-off process.

Consumer behavior: Selecting, seeking, purchasing, using, and disposing of goods and services.

Consumer buying behavior: Deciding what goods or services to buy and then obtaining them.

Consumer decision process: A five-step process consumers go through when making a purchase.

Consumer learning: The process by which people acquire the knowledge and experience they apply to consumer behavior.

Consumerism: A social, economic, and political movement that seeks to protect the safety and rights of consumers.

Controllable elements: Internal factors in the marketing environment that marketers can modify, such as their product mix, pricing, distribution, and promotion.

Convenience products: Relatively inexpensive products that buyers or users choose frequently with a minimum of thought and effort.

Core customers: A company's most important customers, distinguished from the rest by their long-term value to the company.

Core values: Pervasive and enduring values within a culture.

Correlation analysis: A forecasting method that predicts the sales of an item on the basis of the sale, use, or availability of one or more other items.

Cost of ownership: The total cost of acquiring and owning a product; it includes the search costs, the purchase price, and any other expenses related to installation, maintenance, service, and replacement.

Culture: The beliefs, values, and objects shared by a group and passed on to succeeding generations.

Customer-based organization: An organization in which activities are grouped according to specific customer classes, such as businesses and final consumers.

Customer orientation: A management philosophy in which the customer is central to everything the company does.

Customer service: Actions companies can take to add value to basic goods and services.

Customized approach: Adapting product and promotion strategies to the distinct characteristics of each market.

Cycle analysis: A time series correction technique that adjusts forecasts for movements in the overall economy.

D

Data: The statistics, facts, and opinions that market researchers record and store.

Database: A computerized system that stores and retrieves a variety of data.

Database marketing: Direct marketing that allows advertiser to take advantage of comprehensive information about customers, including purchase behavior, demographics, and life-style.

Dealer: Basically the same type of intermediary as a distributor, although some people distinguish dealers as those intermediaries that sell only to final customers not to other intermediaries.

Decentralized organization: An organization characterized by widespread distribution of authority and responsibility.

Deceptive pricing: Pricing and promotional tactics that disguise the true price customers must pay for a good or service.

Decline phase: The fourth phase in a product's life cycle when both sales and profits decline.

Decoding: The process an audience goes through to translate a message into an idea with personal meaning; reverse of encoding.

Delivered pricing: A class of geographic pricing in which shipping charges are included in the selling price.

Delphi technique: A forecasting method that uses the averaged opinions of inside and outside experts who are allowed to change their predictions after learning the overall results of a first –round forecast; the revised estimate becomes the final forecast.

Demand-backwards pricing: An approach that starts with a price the market will support and backs up through the marketing channel, subtracting the profits and fees needed by retailers and wholesalers, until it arrives at the price the manufacturer can charge.

Demand Curve: A graph that plots the relationship between demand and price; it indicates the sensitivity of buyers to various selling prices.

Demographic segmentation: A way to divide large markets into smaller groupings according to the elements of size, composition, and distribution of the population.

Demographics: The characteristics of populations.

Department store: A large general merchandise retailer selling a wide variety of products at full price with full service.

Depression: A more intense from of recession in which unemployment peaks, buying power drops dramatically, and consumers lose faith in the economy.

Derived demand: The fact that the demand for organizational products is driven by the demand for consumer products.

Differentiated marketing: A marketing approach that aims specialized products or product lines at target markets, using different marketing mixes for each segment.

Direct channels: Marketing channels that lack intermediaries, in which producers and customers interact directly.

Direct cost: Costs that are directly attributes to the area inside the company that incurred the costs.

Direct exporting: Selling goods or services directly to another country without the use of an intermediary.

Direct investment: Acquiring ownership interest in a foreign company or investment in foreign production and marketing facilities.

Direct marketing: All the activities in which producers or intermediaries communicate directly and individually with target customers.

Direct selling: Selling that utilizes direct, face-to-face contact between buyer and seller.

Discount retailers: Retailers that offer both high- and low-quality products at prices lower than those of full-price retailers.

Discounts: Direct reductions from the list price.

Discretionary income: The portion of disposable income the consumer retains after paying for food, shelter, and other necessities.

Discrimination: The ability to distinguish between similar stimuli.

Disposable income: Income the consumer retains after paying taxes.

Distinctive competencies: Those things that a particular firm does better than any other firm in its industry.

Distribution: The process of moving products from the producer to the consumer, which may involve several steps and the participation of multiple companies.

Distribution center: A private warehouse specially designed to provide the fast transfer of goods from suppliers to retailers or final customers.

Distributor: A general term usually applied in organizational markets to intermediaries that perform the equivalent functions of both wholesalers and retailers.

Diversified growth: A broad growth approach in which a firm enters a new markets with new products.

Dumping: The combination of price discrimination and predatory pricing in international marketing situations; this occurs when a company tries to sell products below cost to customers in another country.

Durable goods: Goods that are used or consumed over a long period of time, usually at least several years; examples include houses and automobiles.

E

Economic elements: Factors in the marketing environment that are shaped by or are part of the economic climate, such as consumer wealth, buying power, and income.

Effective buying income (EBI): The consumer's total income after taxes.

Elastic demand: A price-demand relationship in which a decrease in price increases total revenue.

Empathy: The ability to put oneself in another person's place.

Employee empowerment: Transferring decision-making power to frontline employees so that they are better able to satisfy customers.

Encoding: The process of converting an idea into symbols (words and images) to make it compatible with transmission and decoding facilities.

End-use segmentation: A type of behavioral segmentation in which organizational marketers first identify the ways their goods will be used in the final products and then divide the market according to these uses.

Environmental analysis: The interpretation of data generated in environmental scanning.

Environmental scanning: The process of gathering data on the marketing environment from people and publications.

Evaluative criteria: The attributes, features, and standards used when comparing alternatives.

Exchange: The transfer between two or more parties of tangible or intangible items of value.

Experience curve pricing: A pricing technique that relies on the experience curve theory of cost reduction to set current prices based on future (lower) costs.

Experience qualities: Product attributes that can be evaluated only after consumption of the product.

Exploratory research: A type of research conducted to clarify the problem definition and prepare for additional research to prove or disprove the hypothesis.

Export: To sell goods and raw materials to another country.

F

Family brand: A brand assigned to an entire line of product items.

Feedback: Communication from the audience back to the source.

Field warehouse: A public warehouse set up at the location of the customer's inventory.

Filtered pricing: A strategy of variable pricing that tries to restrict discounts and allowances to only those customers who probably won't buy without them.

Fixed costs: The portion of a company's production and marketing costs that remains constant regardless of the level of production.

Foreign exchange market: All the institutions and people throughout the world who buy and sell currency.

Franchise: A business entity licensed to use the trademarks, operations, and other attributes of a business.

Free-trade area: A multinational market that encourages the free flow of goods and services between member countries but does not provide for the free flow of labour and capital or impose uniform tariffs on imports.

Frequency marketing: Programs that reward customers for repeat purchases of specific goods and services.

Functional intermediaries: Intermediaries that, unlike merchants, do not assume ownership of the products they are selling.

Functional middleman: A marketing intermediary- a broker or agent – who expedites exchanges for a fee but does not purchase products outright.

Functional organization: An organization structure in which jobs are grouped according to similarity, such as advertising, marketing research, and sales.

G

Generalization: The tendency to respond in the same way to similar stimuli.

Generic brand: A nonbranded product that is identified only by its product category.

Geographic organization: An organization structure in which jobs are grouped geographically.

Geographic segmentation: A way to separate large markets into smaller groupings according to country, region, state, city, community, or block divisions.

Global approach: Using the same product and promotion strategies in all markets.

Global corporation: A corporation that has operations in more than one country, exploits the countries similarities to enhance competitive advantage, and operates from a one-world, one-market perspective.

Goods: Tangible products that customers can evaluate by touching, seeing, tasting, or hearing.

Goods-dominant products: Products for which the main benefits to customers are derived from goods.

Government market: Federal, state, local, and foreign governments that buy goods and services.

Green marketing: Developing products and packages that are less harmful to the environment.

Gross domestic product (GDP): A measure of the purely domestic output of a country.

Gross national product (GNP): The total market value of a nation's goods and services produced during a given period of time (usually one year).

Growth phase: The second phase of a product's life cycle when sales increase rapidly and profits peak and begin declining.

Growth/share matrix: A portfolio analysis technique developed by the Boston Consulting Group that categorizes SBUs for investment based on their current market share and the prospects for growth of their market.

Guarantee: An assurance, written or implied, that a product is as represented and will perform satisfactorily.

H

Heterogeneous market: A market in which people or organizations have differing characteristics.

Homogeneous market: A market in which people or organizations have similar characteristics.

Horizontal diversification: A diversified growth approach based on introducing to current markets new products that are technologically unrelated to the firm's current products.

Horizontal integration: The integration of intermediaries in one level of the marketing process, such as retail outlets.

Household: All the people who occupy a housing unit.

Hypothesis: The marketer's untested assumption about the probable solution to the marketing problem.

I

Ideas: Concepts, philosophies or images that can be exchanged in the marketplace.

Idea generation: Searching for new product ideas that will help firms achieve their objectives.

Import: To purchase goods and raw materials from one country and bring them into another country.

Income: The consumer's financial gain from all sources, usually specified over some time interval.

Incremental method: A way of determining personnel needs based on the assumption that the addition of salesperson is justified when the additional sales generated exceed the cost of hiring the salesperson.

Independent retailers: Retailers that are not part of large retail organizations, but are owned by one person, two or more partners, or a family.

Indirect channels: Marketing channels that rely on intermediaries to move products from producers to customers.

Indirect exporting: Selling goods or services to another country through an intermediary.

Individual brand: A separate brand assigned to an individual product item within a product line.

Industrial/commercial market: The portion of the organizational market made up of companies that produce goods and services to be sold to other businesses or to consumers.

Industrial product: A product bought for use in the production of other products or in a business's operations.

Inelastic demand: A price-demand relationship in which a decrease in prices decreases total revenue.

Information: Data that are useful in a specific marketing situation to help marketers to make decisions.

Infrastructure: A nation's energy (gas and electric utilities), transportation, and communication systems.

Institutional advertising: Advertising that promotes the name or image of an organization, rather than its goods or services.

Intangibility: The characteristic of services that prevents customers from evaluating products according to sensory criteria.

Integrated growth: A growth approach in which a firm develops a stronger position within its industry by getting greater control over its distribution system, by getting control over its suppliers, or by absorbing its competition.

Intense growth: A growth approach that depends on products or markets that have not yet achieved full potential; it might involve further development of existing products in current markets, introduction of current products into new markets, or development of new products for current markets.

Intensive distribution: A channel strategy that seeks to make products available in as many appropriate places as possible.

Interactive marketing: Marketing situations in which the customer is actively involved in the production/performance and delivery of products.

Internal marketing: Marketing to employees, with the ultimate goal of improving customer satisfaction.

International marketing: Marketing across national boundaries.

Introduction phase: The first phase of a product's life cycle when sales growth is slow and profits are low or nonexistent.

Intuition: The personal beliefs, experiences, and views of a marketer.

Involvement: The degree of personal importance or relevance a decision has for a consumer.

J

Job enrichment: A method of motivating employees that is based on making the job more psychologically rewarding by allowing employees to set their own goals and expand the scopes of their jobs.

Joint venture: Collaboration by two or more companies on a task or product, sharing assets, risks, and profits.

Judgment sample: A non-probability sample in which items are chosen from the population because the researcher believes they are appropriate for the study.

Just-in-time inventory management: A technique that seeks to decrease costs by maintaining lower inventories of parts and materials.

L

Laboratory experiment: An experiment set in an environment where all the factors can be controlled.

Leader pricing: The strategy of pricing one or more products at attractively low prices (and usually with low profits as well), with the purpose of attracting customers; the intent is to sell a mix of other products in addition to your leaders so that your overall profit picture remains acceptable.

Life-style: A person's interests, activities, likes and dislikes, and consumption patterns.

Limited-line retailers: Retailers that restrict their product lines to just a few that are carried in great depth.

Limited-line wholesalers: Full-service merchant wholesalers that carry only a few lines; however, they typically carry deeper selections in their lines than do general merchandisers.

List price: The "official" price of a product, even if the product is sold at that price only occasionally.

Logo: A unique symbol that represents a specific firm or organization, or a brand name written in a distinctive type style.

Low-contact services: Services in which customers experience a low degree of involvement with the service providers.

M

Mail-order wholesalers: Limited-service merchants that operate in the same manner as mail-order retailers but focus on retailers and organizational customers rather than consumers.

Make/buy decision: The choice organizations face between making a product themselves and buying it from an outside supplier.

Manufacturer brand: A brand that is designated, owned, and used by the manufacturer or the product.

Marginal analysis: A method of cost analysis that identifies maximum potential profit by showing when marginal cost is equal to marginal revenue.

Marginal cost: The expense required to produce one more unit; in other words, the incremental cost of increasing production by one unit.

Marginal revenue: The revenue generated by selling one additional unit; this figure is used in marginal analysis to help you identify maximum potential profit.

Market: The customers and potential customers who want or need a product and who are willing and able to exchange something for it.

Market attractiveness/business position model: Developed by General Electric and the consulting firm of Mc Kinsey & Company, this portfolio analysis model, evaluates market attractiveness and business position in terms of multiple criteria.

Market penetration: An intense growth strategy based on increasing the intensity of the firm's marketing effort in its current markets with current products.

Market price: The actual price at which a product sells (to consumers and organizational customers other than resellers); equal to list price minus discounts and allowances.

Market segmentation: A way of dividing a large market into smaller groupings of consumers of organizations in which each subset has a common characteristic such as needs, wants or behavior.

Market segmentation matrix: A grid that illustrates the marketing segments formed when two or more segmentation variables are applied to a market.

Market share: An organization's portion of the total sales in a given market, expressed as a percentage.

Marketing: The process of developing and exchanging ideas, goods, and services that satisfy customers, using the principles of pricing, promotion, and distribution.

Marketing audit: A comprehensive, systematic, periodic review of a firm's marketing environment, objectives, strategies, and activities.

Marketing channel: A system designed to move goods and services from producers to customers, which consists of people and organizations supported by various facilities, equipment, and information resources.

Marketing communications: The specific use of communication applied to the problem of sending messages to a target market.

Marketing concept: The idea of maximizing long-term profitability while integrating marketing with other parts of the company and meeting customers needs and wants.

Marketing control: Reviewing marketing plans and modifying them as market conditions develop and change.

Marketing cost analysis: Examining marketing costs, their sources, why they are incurred, their size, and their change over time.

Marketing culture: A corporate culture geared toward customer satisfaction through marketing concepts and procedures.

Marketing database: A computerized system to store and retrieve data as needed by marketers.

Marketing decision support system (MDSS): A computerized system of accessing and handling MIS data and other data so that marketer can apply analysis and modeling methods and immediately see the results.

Marketing environment: The general atmosphere in which marketers operate and are influenced by such external elements as competitors, economics, nature, politics, regulations, technology, and society.

Marketing ethics: The moral sensibility that guides marketing choices and activities.

Marketing Information System (MIS): An established series of procedures and methods to collect, sort, analyze, store, and distribute marketing information on an ongoing basis.

Marketing intermediaries: People or organizations that assists in the flow of products in a marketing channel.

Marketing mix: The four key elements of marketing strategy: product, promotion, distribution, and price.

Marketing myopia: Product orientation without regard for customer benefits.

Marketing plan: A formal document that details your objectives, your situation analysis, your marketing strategy, and the elements of your marketing mix.

Marketing research: The systematic collecting, recording, and analyzing of information to support marketing, decision making.

Marketing strategy: The overall plan for marketing a product that includes selecting and analyzing a target market and creating and maintaining a marketing mix.

Mass merchandisers: Retailers that offer wide selections of goods at prices below traditional department store prices.

Maturity phase: The third phase in a product's life cycle when sales level off and profits decline.

Merchandising: The process of planning the merchandise assortment for a retail store, making sure the right products are available for target customers; also refers to the presentation of products in retail environment.

Merchant wholesalers: Independent businesses that buy products from producers and then resell them to retailers and organizational customers.

Merchants: Intermediaries that assume ownership of the goods they sell to customers or other intermediaries; merchants usually take physical possession of the goods they sell.

Message: An idea that has been encoded and is capable of being transmitted.

Middleman: An outdated term that is synonymous with marketing intermediary-a person or organization that helps producers move products through marketing channels.

Monopolistic competition: A competitive structure in which many marketers compete to sell similar products and in which marketing strategies typically emphasize product differentiation.

Monopoly: A competitive structure in which one marketer controls the supply of a product that has no direct substitutes.

Motives: Internal factors that activate and direct behavior toward some goal.

Multinational corporation: A corporation that has operations in more than one country, exploits the countries differences to enhance competitive advantage, and operates primarily from a domestic perspective.

Multinational market: A group of individual countries that band together to reduce trade barriers among participating countries.

Multiple-zone pricing: A modification of single-zone pricing that uses more than one zone and calculates an average shipping charge for each zone.

N

Natural elements: Factors in the marketing environment that are not human made, such as natural resources, weather, and geological and astronomical events.

Need: A felt discrepancy between your actual state and your desired state.

Need-satisfaction approach: An approach to selling that focuses on identifying the customer's needs and then creating a presentation that addresses those needs.

Noise: Anything that detracts from the effectiveness of communication, ranging from actual audio noise to competing advertisement.

Nondurable goods: Goods that are used or consumed over a short period of time or after one or few uses; examples include food and office supplies.

Nonstore retailing: A retailing method that creates a marketing channel between producers and consumers without physical stores.

O

Objective and task budgeting: An approach to setting promotional budgets that starts with a clearly defined objective and then derives the budget needed to execute the tasks necessary to meet that objective.

Oligopoly: A competitive structure in which a small number of competitors control the market.

Opportunity cost: The value of sacrifices customers are asked to make when choosing among available alternatives.

Optimal quality: The level of quality that meets customer specifications while providing the best balance of satisfaction and cost.

Order processing: The systems used to receive orders, route them to appropriate supplying functions, and then arrange customer billing.

Organizational buying process: The steps that organizations go through to purchase goods and services.

Organizational market: Group that buys goods and services for use in its operations, for resale, or as raw materials or components for other products.

Organizational mission: A statement of the firm's desired role in its sphere of business often stated in terms of long-term goals and objectives.

Organizational structure: A formal definition of people's responsibilities and the allocation of authority in a company.

P

Penetration pricing: A value-pricing technique in which you set prices aggressively low in order to gain as much market share as possible; the opposite of skim pricing.

Perceived risk: The extent of uncertainty and potential losses that a buyer perceives about a purchase decision.

Perception: Reception and interpretation of sensory stimuli.

Perfectly elastic demand: The case when changes in demand have no effect on price; the opposite of perfectly inelastic demand.

Perfectly inelastic demand: The most extreme case of inelastic demand, in which changes in price have no effect on demand; this applies to products that people can't or won't live without.

Performance evaluation: The process of comparing actual results with expected performance.

Perishability: The quality of services that prevents the creation or storage of inventory.

Personal selling: In-person communication between a seller and one or more potential buyers.

Personality: A person's consistent way of responding in a wide range of situations.

Point-of-purchase (POP) materials: Advertising, displays, and other materials that are placed in stores to catch shoppers' attention as they are selecting products.

Political elements: Factors in the marketing environment related to domestic and international politics and governmental policies.

Population: The universe of people, places, or things to be investigated in a specific research study.

Positioning: The process of achieving a desired spot in the minds of customers and potential customers; you can position your company, your products, your technologies, or any other entity that commands customer attention.

Predatory pricing: The practice of lowering prices to a point where they inflict financial damage on competitors; the extreme case of predatory pricing seeks to drive competitors out of business entirely, and it is illegal.

Premium: An item given away with a product as part of sales promotion.

Prestige pricing: A technique that attempts to use a high price to establish an image of quality or exclusivity.

Pretesting: The practice of testing ads before they are run.

Price: The value, usually in monetary terms, that sellers ask for in exchange for the products they are offering.

Price discrimination: The practice of offering attractive discounts to some customers but not to others for the same product; it is usually illegal.

Price elasticity of demand: The measure of price sensitivity, expressed as the ratio of percentage change in demand to percentage change in price.

Price fixing: An illegal collaboration between two or more competitors who agree on the prices they'll charge for products in the same category.

Price leadership: The position in a given market held by the company that takes the lead in raising or lowering prices.

Price lining: The establishment of a limited number of price levels that cover an entire product line.

Price sensitivity: An indication of the effect price has on buyers' intentions to purchase a given product or class of product; if buyers are considered price sensitive, changes in price will cause definite changes in their buying behavior.

Price war: A market situation in which competitors constantly try to beat each other's prices; a frequent result is that prices are driven down so low that companies sell at a loss.

Primary data: Data that are gathered directly from the subjects or through on-site research for a specific marketing research program.

Private brand: A brand that is designated, owned and used by a wholesaler or retailer.

Proactive marketing: A marketing style in which organizations take steps to change the marketing environment so that it will be more conducive to their needs.

Problem definition: A clear description of the marketing problem being researched.

Product: A good, service, or idea for which customers will exchange money or something else of value; a product is a bundle of features and benefits designed to meet needs of target customers.

Product advertising: Advertising that promotes specific goods and services while promoting the supplying company to a lesser degree or not at all.

Product-based organization: An organization structure that uses product managers to handle the marketing mix for each of the products in the firm's marketing portfolio.

Product development: A type of intense growth strategy that improves present products or develops new ones for the firm's current markets.

Product diffusion process: The acceptance of new products by various segments of a market.

Product life cycle: A model that describes the stages that a product or a product category passes through, from its introduction to its removal from the market.

Product line: A group of closely related product items.

Product line depth: The number of products in each product line.

Product line extension: A method of adding products to the product mix by introducing products into an existing product line.

Product line width: The number of product lines in a company's product mix.

Product mix: A company or strategic business unit's complete assortment of products and product lines.

Product portfolio: A combination of products and product lines balanced to achieve the company's profitability goals and to satisfy the needs of the target market.

Product position: How the product is perceived by consumers, particularly in relation to how competing products are perceived.

Product repositioning: Changing the way in which existing products are perceived by consumers.

Profit margin: The amount of profit left over after expenses have been accounted for, expressed as a percentage of revenue.

Promotion: A variety of techniques, including advertising, sales promotion, public relations, and personal selling, that are used to communicate with customers and potential customers.

Promotional discounts: Discounts given as part of promotional programs, such as when products are put on sale to increase traffic in a retail store.

Promotional mix: A combination of two or more elements of advertising, sales promotion, public relations, and personal selling.

Prospects: Consumers or organizations that are potential customers.

Psychographic segmentation: A way of dividing large markets into smaller grouping according to consumer lifestyles, activities, opinions, and beliefs.

Psychological influences: Characteristics within the individual that influence consumer behavior.

Psychological pricing: A general term encompassing all techniques that attempt to evoke a certain reaction based on price; applies both to prestige and to odd even pricing.

Public relations: Promotion that uses non-paid communication, especially publicity, to influence public opinion of a company and its products.

Publicity: A class of public relations that focuses on news about a company or its products.

Pull strategy: A promotional strategy that primarily builds demand with the final customer and relies on that customer to request the product from the marketing channel; the opposite of a push strategy.

Pure competition: The ideal competitive structure in which many marketers compete to sell the same undifferentiated product.

Push strategy: A promotional strategy that relies primarily on pushing products through each stage of the marketing channel, from producer to wholesaler to retailer to customer; push strategies can also be used in direct channels, with sales people presenting products to customers.

Q

Qualified prospect: A prospect who has been identified as being a purchasing decision maker and having the financial resources to pay for the product.

Quality: A measure of how closely a product conforms to customers' needs, wants, and expectations.

Quality circle: An informal group of people who meet to diagnose and solve problems with processes and product quality.

Quality function deployment (QFD): A technique for evaluating customer needs and linking those needs to product features; the result is higher-quality products that do a better job of meeting customers' expectations.

R

Reach: A measure of the portion of the target audience that will be exposed to an advertisement.

Reactive marketing: A marketing style in which the marketers view environmental forces as uncontrollable and tries to adjust to them.

Recession: The stage of the business cycle in which unemployment rises and consumer buying power drops.

Reciprocity: The practice of buying products from one's own customers, it is illegal if the arrangement restricts competition.

Recovery: The stage of the business cycle in which the economy moves from depression or recession towards prosperity.

Reference group: A group that has an influence on a particular consumer.

Regulatory elements: Factors in the marketing environment, specifically laws and regulations that govern pricing, distribution, promotion, and product decisions.

Relationship marketing: A strategy to build long-term customer loyalty that is based on becoming partners with customers and doing everything possible to contribute to their success.

Reliability: One of the aspects of the scientific method, requiring repeated studies to produce the same result every time.

Request for proposal (RFP): A document sent to potential suppliers, outlining requirements and requesting bids.

Research and development (R&D): A division or department of researchers, engineers, or scientists who study technical approaches to product development and proceed with product development.

Resellers: Establishments in the organizational market that help move goods and services from producers to consumers.

Retailers: Intermediaries that sell to final customers; they purchase goods from wholesalers, or in some cases, directly from producers.

Return on investment (ROI): A measure of profitability; specifically the ratio of profits to overall investment.

Return on investment pricing: A method for setting prices based on a desired level of profit; you combine the desired ROI with average total costs to obtain the selling price.

Reverse channels: Channels that are used for recycling and repair and that flow in the opposite direction of normal channels.

S

Safety stock: The minimum level to which a given inventory is allowed to fall.

Sales analysis: Comparison of current sales with past sales, industry sales, sales by competitors, and forecast sales as a method of evaluating a firm’s performance.

Sales branches: Manufacturer-owned selling locations that perform a variety of marketing functions; distinguished from sales officers by the fact that they carry inventory and usually fill orders from stock.

Sales forecast: An estimate of a firm’s sales volume in dollars or units for a specified future period.

Sales incentives: Various types of prizes awarded through sales contests.

Sales lead: The name of an individual, organization, or business that might be likely prospect for the company’s product.

Sales management: Planning the personal selling effort, organizing the sales personnel, and developing a winning sales team.

Sales officers: Manufacturer-owned selling locations that are similar in many respects to sales branches, except that sales officers don’t carry inventory.

Sales potential: The amount of product, in dollars or units, that a firm’s entire industry can be expected to sell during some specified future period.

Sales promotion: Techniques that are used to stimulate product demand, including special events and activities such as coupons, celebrity appearances, and contests.

Sales support personnel: Salespeople who generally facilitate the overall selling effort by providing a variety of services.

Sample: a portion of a population that represents the whole in a research study.

Sampling error: A measure of the discrepancy between the results of surveying a sample and the expected results of conducting a census of the entire population.

Selling agents: Agent intermediaries that go beyond manufacturers' agents by taking control of promotion, pricing, and distribution; they are used by producers that don't want to get involved in the marketing of their own products.

Service mark: A trademark that represents a service rather than a tangible good.

Service motivation: The quality that drives a salesperson to want to provide good service to a customer.

Service sector: That portion of the economy whose output is services, or opposed to goods.

Services: Intangible products that offer financial, legal, medical, recreational, or other benefits to the consumer.

Shopping products: Products that are more costly and involve more risk than convenience products, to the consumer.

Simple random sample: A probability sample in which all the members of the population have an equal probability of being picked for survey.

Simulated test marketing: A forecasting method that gathers data for predicting a product's likely market performance by marketing it in artificial settings.

Single-source data: A technique of gathering and storing data about product and brand sales, coupon redemption, and television advertising in a single database.

Skim pricing: A variation of value pricing for new products in which you attempt to recover a high level of profit for a limited period of time, based on the unique value that you're offering the market.

Social classes: Stratified groups in society made up of people with similar values, life-styles, interests, and behaviors.

Social elements: Factors in the marketing environment that correlate with social trends, including changes in consumer values and tastes.

Social marketing: Marketing that seeks to modify private or public behavior.

Social responsibility: Marketers duty to enhance the welfare of customers and the general public through their products.

Sociocultural influences: Characteristics of culture and society that influence consumer behavior.

Sorting out: Dividing one heterogeneous supply into separate, homogeneous supplies.

Source: The person or organization that originates and encodes a message.

Specialty products: Unique or specialized products on which buyers are willing to spend more.

Standard Industrial Classification (SIC) codes: A method used by the federal government to classify organizational markets.

Standard markup pricing: A version of cost-plus pricing in which you assign a predetermined markup to average total cost in order to arrive at the selling price.

Straight rebuy: An organizational buying situation in which the purchaser automatically reorders the same item from the same supplier.

Strategic business unit (SBU): A unit of the firm that can be considered a separate entity for planning purposes; it may be a single product, a product line, a division, or the entire company.

Strategic marketing planning: The process of exploring marketing opportunities, investing time and money to pursue those opportunities, and predicting the outcome of those investments.

Subculture: A group of people who share beliefs, values, and customs different from those of the larger culture.

Supermarkets: Stores that sell primarily food items with selections wide enough to meet most customers' grocery shopping needs.

Superstores: Stores that combine food and nonfood items in large retails locations; larger than supermarkets but smaller than hypermarkets.

Survey: A method of gathering data directly from consumers via a questionnaire.

T

Tactical planning: Planning typically undertaken by middle management to examine the performance over a relatively short period of time of specific products in a firm's marketing portfolio.

Target market: The market you've selected as the focus of your marketing program; it covers the potential customers you think are most likely to need or want your product.

Tariff: A tax imposed by a government on goods entering its borders.

Technical salespeople: Salespeople who contribute technical expertise and assistance to the selling function.

Technology: The result of applying scientific and engineering knowledge to practical problems.

Technology licensing: A type of licensing arrangement in which one company sells its technology to other companies.

Telemarketing: A promotional method utilizing specially trained salespeople to systematically contact a group of prospects or customers by telephone.

Television home shopping: A nonstore retailing technique in which shoppers watch product displays on special television shows and then order products by phone.

Test marketing: Marketing products on a small scale in order to test sales potential and the various elements of the marketing mix before paying for a full-scale introduction.

Third-party services: Services performed by one company on the goods that are marketed by another company.

Time series analysis: A collection of forecasting methods that predict future sales by analyzing historically sales patterns.

Total cost: The sum of variable costs and fixed cost; represents all the expenses required to make a specified number of units.

Total cost concept: The practice of considering all the costs associated with distribution in order to attain the best balance among all the cost factors.

Total quality management (TQM): A philosophy and management system that bases everything an organization does on the pursuit of quality.

Trade deficit: The amount by which a county's imports exceed its exports.

Trade marts: Permanent facilities where wholesalers and retailers can shop for various goods such as furniture and computer equipment; if they sell to final customers, those customers are charged higher prices.

Trade shows: Exhibitions that feature a specific industry's products and bring together buyers and sellers for a short period of time; many industries use trade shows as forums for technical, political, and other issues as well.

Trademark: A brand or portion of a brand that is legally registered with the U.S. government for exclusive use by the owner of the brand.

Trading company: Company that buys and distributes goods from many countries.

Trend analysis: A time series forecasting method that creates an equation to describe the expected behavior of sales in the future using sales data accumulated over some period in the past.

U

Unaided recall: A posttesting technique that, without prompting the audience's memory by showing the ads, asks people about their recall of advertising.

Uncontrollable elements: External factors in the marketing environment over which marketers have limited control, if any.

Uniform pricing: An extreme case of price lining in which all products are sold for one price

Unit pricing: Prices that are calculated in terms of some common standard of measurement, such as ounces, to make price comparisons easier for consumers.

Utilitarian needs: Needs that fulfill a functional purpose.

Utility: The ability of a product to satisfy the customer's wants or needs.

V

Validity: The ability of marketing research to measure specifically what researchers need to know.

Value-added wholesaling: Wholesaling services that exceed the normal wholesaling functions; applies to anything done by wholesalers to help customers sell more products at lower costs.

Value analysis: A comparison of the cost of a potential purchase and the benefits it promises.

Value/price ratio: A measure of how much value customers get in exchange for the price paid.

Value pricing: Traditionally, a method for selecting a price based on the value that customers place on a product relative to its competitors; the terms is increasingly used to describe the practice of adopting a lower price while maintaining the product's basic value.

Values: Beliefs about what is good or desirable.

Variable costs: The portion of a company's production and marketing costs that are dependent on the level of production.

Variety stores: General merchandise retailers that offer fewer product lines and fewer brand choices than discount department stores at low prices in self-service environments.

Vending machines: Customer-operated machines that distribute products automatically upon payment.

Vendor analysis: Formal evaluation of suppliers.

Vertical integration: The process of developing a marketing system that includes both the source of production and the distribution capabilities; the result of vertical integration is called a vertical marketing system.

Vertical marketing system (VMS): A channel that is integrated from producer down to final intermediary.

W

Warranty: A statement specifying what the producer of a product will do to compensate the buyer if the product does not live up to its promised level of performance.

Wheel of retailing: A theory that divides the cyclical patterns in retail evolution into three stages: innovation, trading up, and vulnerability.

Wholesaler-sponsored voluntary chain: A type of contractual marketing system that is led by one or more wholesalers.

Wholesalers: Intermediaries that perform a variety of marketing channel functions to move goods and services through the channel to retailers and organizational customers.

Word of mouth: Transmission of consumer information from person to person.

80/20 rule: A rule, based on the theory that 20 percent of a company's products account for 80 percent of its sales, that holds that fast-moving products generate a higher level of customer service than slow-moving products.

Subject Index

Index

Company/Brand Name Index