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Principles of Marketing Teaching Material

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Introduction

Marketing is the term given to those activities, which occur at the interface between the organisation and its customers. It comes from the original concept of a marketplace, where buyers and sellers would come together to conduct transactions (or exchanges) for their mutual benefit. The aim of marketing as a discipline is to ensure that customers will conduct exchanges with the marketer's organisation, rather than with the other 'stakeholders'. To do this effectively, marketers must provide those customers with what they want to buy, at prices, which represent value for money.

Marketers are well aware that the average customer will not keep coming back to a firm that does not provide good products at an acceptable price, and without customers there is no business.

Competition in many markets is fierce. If there is room for four companies in a given market, there will be five companies in there, each trying to maximize their market share; the customer is king in that situation, and the firms that ignore the customer's needs will go to the wall. Marketers therefore focus their attention entirely on the customer, and put the customer at the centre of the business.

Course Objectives

Marketing touches all of our everyday lives. Market oriented thinking is thus a necessity in today's competitive world. Hence, this course is designed with the following objectives.

Up on completion of the course, students will be able to:

- ✓ To develop the themes of marketing management as a process function and people management activity with respect to the four strategic elements of marketing its product, pricing strategy, distribution system and promotional activities.
- ✓ To develop the students' abilities to apply their marketing knowledge and skills in their special field.
- ✓ To familiarize students with the concepts and principles of marketing and the significance of different forces that influence the marketing effort.

Chapter One
Nature and Scope of Marketing

Contents:

1.1 Basic concepts and definitions
1.2 Evolution and Philosophies of marketing
1.3 Importance of marketing

1.1 Basic concepts and definitions

Many people associate marketing with selling or advertising. Although these are part and parcel of marketing, the latter is much broader than the former. Marketing is not solely advertising or selling. Real marketing is less about selling and more about knowing what to make! Organizations gain market leadership by understanding customer needs and finding solutions that delight through superior value, quality and service.

Marketing has been defined in various ways. Different scholars define marketing as follows: -

- **Marketing** is defined as the process of planning and executing the conception, pricing, promotion and distribution of ideas, goods, and services to bring about exchanges that satisfy individual and organizational objectives (**American Marketing Association**) .
- **Marketing** is a social and managerial process by which individuals and groups obtain what they want through creating and exchanging products and value with others (**Kotler**).
- **Marketing** is the total business activity designed to plan, price, promote and distribute want satisfying products to target market to achieve organizational goal (**William J.Stanton**)
- **Marketing** is the creation and delivery of standard of living to society (**Paul. Mazor**)
- **Marketing** process by which companies create value for customers and build strong customer relationships in order to capture value from customers in return.

The above definition of marketing resets on the following core concepts: needs, wants, and demands, products (goods, service and ideas), value, satisfaction and quality, exchange and transaction , relationship and networks ,markets and marketers and prospects

1. Needs, Wants and Demand

The starting point for the discipline of marketing lies in human needs and wants. People need food, air, water, clothing and shelter to survive. Beyond this, people have a strong desire for recreation, education and other services. They have strong preferences for particular versions of basic goods and service. It is important to distinguish among needs, wants and demands.

Needs: A human need is a state of felt deprivation of some basic satisfaction. People require food, clothing, shelter, safety, belonging, esteem and few other things for survival. These needs are not created by their society or by marketers; they exist in the very texture of human biology and human condition.

Wants: Wants are desire for specific satisfiers of these deep needs. For example, a person who needs food wants Kitfo, Tibs, or Shiro Wot with Injera, while people's needs are few, their wants are many. Human wants are shaped and reshaped continually by social forces and institutions such as families, schools and others.

Demands: People have almost unlimited wants but limited demands. They therefore choose products that may generate the most satisfaction for their money. demands are wants for specific product that are backed up by an

ability and willingness to buy them. Wants become demand when backed up by purchasing power.Entrepreneurs must,therefore, measure, not only how many people want their product but, more important how many would actually be willing and able to buy it.

2. Product & service

Human needs, wants, and demands suggest that there are products and service to satisfy them. In other words, there should be some kind of product or service to satisfy human needs, wants, and demands. The concept of product is not limited to physical objectives. Anything capable of satisfying a need or want can be called a product. In addition to tangibles goods, products include services, persons, places, organizations, activities, and ideas. Therefore a **product** is anything that can be offered to a market for attention, acquisition, use or consumption that may satisfy a need or want. **services** are activities or benefits offered for sale that are essentially intangible and do not result in the ownership of any thing. E.g banking ,airline ,hotel and repair services.

3. Value, Satisfaction and quality

How do consumers choose among the products that might satisfy a given need? A number of products can satisfy a need. We call these alternative products the consumers product choice set. The consumer has to decide on the most satisfying product from among the product choice set.

The guiding concepts here are value and satisfaction. *Value* is the consumer’s estimate of the product’s overall capacity to satisfy his or her need. *Customer value* is the difference between the values the customer gains from owning and using a product and the costs of obtaining the product.

Customer satisfaction is the extent to which a product’s perceived performance matches a buyer's expectations. If the product's Performance falls short of the customer's expectations ,the buyer is **dissatisfied**. If performance matches expectations, the buyer is **satisfied**. If performance exceeds expectations ,the buyer is **delighted**.

Customer satisfaction is closely linked to quality. In recent years, many companies have adopted **total quality management (TQM)** :- programmes, designed constantly to improve the quality of their products, services and marketing processes. Quality has a direct impact on product performance, and hence on customer satisfaction. In the narrowest sense, quality can be defined as 'freedom from defects'. But most customer-centered companies go beyond this narrow definition of quality. Instead, they define quality in terms of customer satisfaction. **Quality** is the totality of features and characteristics of a product or service that bear on its ability to satisfy stated or implied needs. i.e. quality begins with customer needs and ends with customer satisfaction.

4. Exchange, Transactions and Relationships

Exchange: Marketing emerges when people decide to satisfy needs and wants through exchange. Exchange *is the act of obtaining a desired product from someone by offering something in return.*

The following conditions must exist for a marketing exchange to take place:

- Two or more social units – people or organizations – must be involved, and each must have wants to be satisfied. If someone is totally self-sufficient in some area, there is no need for an exchange.
- The parties must be involved voluntarily.
- Each party must have something of value to contribute in the exchange, and each must believe that it will benefit from the exchange.
- The parties must be able to communicate with each other. If the exchanging parties could not communicate, there will be no exchange.
- Each party is free to accept or reject the exchange offer

Transaction: A trade of values between two parties . Transaction takes place when the two parties in the exchange process reached to an agreement at mutually agreeable terms. exchange must be seen as a process rather than an event.

Barter-trading goods and services that they make or provide for other goods and services that they need

Relationships: Relationship marketing *is the practice of building long term satisfying relation with key party's customer, supplier, and distributor*. In order to retain their long term preferences and businesses, smart marketers try to build up long term trusting "win-win" relationships with customers, distributors, dealers and suppliers. This is accomplished by promising and delivering high quality good and service and fair price to the other party overtime.

The ultimate outcome of relationship marketing is building a unique marketing asset called **Marketing Network**. A marketing network consists of the company and all the supporting stakeholders, customers, employees, suppliers, distributors, retailers, advertising agents and other with whom it has built mutually profitable business relationship.

5. Markets

The concept of exchange leads to the concept of market. The term marketing comes from the word market. Market is a group of sellers and buyers who are willing to exchange goods and/or services for something of value. The concept of "market", of course, denotes a set of actual and potential buyers of a product.

When an exchange takes place in a market, some negotiation may be needed. This can be done face-to-face at some physical location or it can be done indirectly – through a complex network of middlemen who link buyers and sellers who are far apart.

All markets are activated by people. Even when we say a firm bought a computer, we mean one or several people in the firm decided to buy it. People who are aware of their unmet needs may have the desire to buy the product, but that alone isn't sufficient. People must also have the ability to buy, such as the authority, time and money. Therefore a market consists of all the potential customers sharing a particular need or want who might be willing and able to engage in exchange to satisfy that need or want.

Marketplaces, Market spaces, And Meta markets

market place:- is physical place where buyers and sellers can meet face-to face to exchange goods and services., such as a store you shop in; Ethiopian rural markets and super markets

market space:- a digital market place where one does the shopping on the Internet.

Meta markets :-is the whole cluster of activities which precede the purchase decision process.

6. Marketers And Prospects

Marketers :- two parties seeking to sell something to each other, or a party who actively participate (initiate) exchange. Marketers are work to understand the needs and wants of specific marketers and select the market that they can serve best. They are also responsible for demand management.

Prospects:-is one identified by marketers as potentially capable willing to have a product.

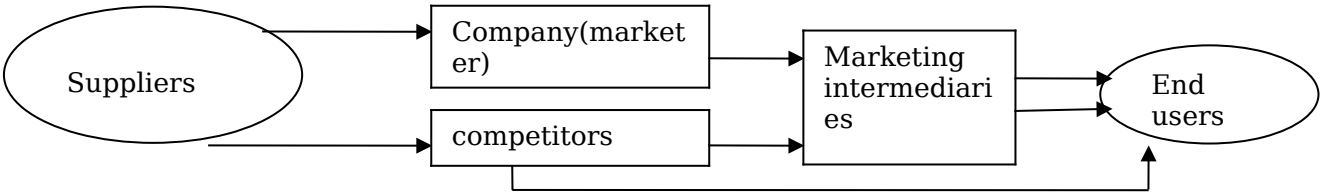


Figure 1. 1. Main actors and forces in a modern marketing system

once it fully understands consumers and the marketplace, marketing management can design a customer-driven marketing strategy. ***Marketing management*** can be defined as the process of analysis, planning, implementation and control of programs designed to create, build and maintain beneficial exchanges with target buyers for the purpose of achieving organizational objectives. thus, marketing management involves managing demand, which in turn involves managing customer relationships marketing managements *the art and science of choosing target markets and building profitable relationships with them*. The marketing manager's aim is to find, attract, keep, and grow target customers by creating, delivering, and communicating superior customer value.

1.2. Evolution and Philosophies of Marketing

There are five competing concepts under which organizations conduct their marketing activities. These are:

1. The production concept
2. The product concept
3. The selling concept
4. The marketing concept
5. The societal marketing concept

1. The Production Concept

The production concept holds that consumers will favor products that are available and highly affordable, and therefore management should focus on improving production and distribution efficiency. The production concept, as one of the oldest philosophies, is believed to be a proper philosophy under following situations:

- When the demand for a product is bigger than the supply, in the case of which management tries to increase production.
- When the product's cost is high and improved productivity is needed to bring it down.
- when accompany wants to expand the market

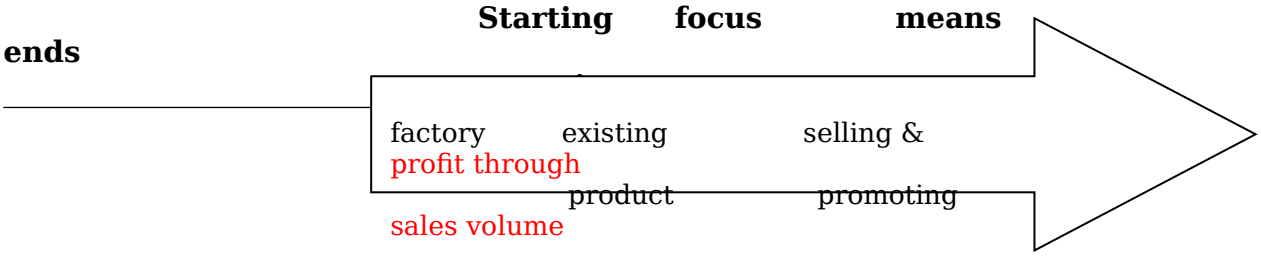
However, production concept useful in some situations, the production concept can lead to **marketing myopia**.:- arises when marketers lose sight of what is driving the consumer's purchasing decision satisfying their needs. It occurs when the firm starts to market a product,
not a solution to a need. In other words, they pay more attention to the product as a stand-alone object instead of highlighting the benefits and experiences a product offers a customer.

2. The Product Concept

The product concept holds that consumers will favor products that offer the most quality, performance, and features, and therefore the organization should devote its energy to making continuous product improvements. Many manufacturers believe that if they manufacture a better product, they will dominate the whole market. However, a better product may not sell unless the manufacturer designs, packages, and prices the new product attractively, places it in convenient distribution channels, brings it to the attention of people who need it, and convinces them that it is a better product.

3. The Selling Concept

Many business firms follow the selling concept, which holds that consumers will not buy enough of the firm's products unless the firm undertakes a large selling and promotion effort. The selling concept is mainly practiced to promote unsought goods, those that buyers normally do not think of buying.
Most firms practice the selling concept when they have overcapacity. Their aim is to sell what they make rather than make what the market wants-launch marketing carries high risks. It focuses on sales, transaction rather than building long-term, profitable relationship with customers.



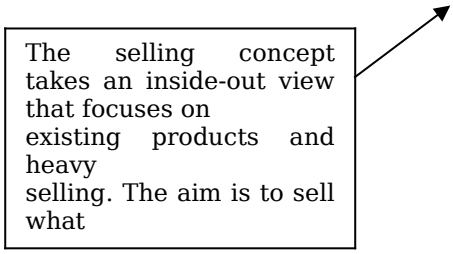


Figure 1.2: The selling concept

4. The Marketing Concept

The concept holds that achieving organizational goals depends on determining the needs and wants of target markets and delivering the desired satisfactions more effectively and efficiently or better than competitors do.

Business firms can benefit from practicing the marketing concept. They do not waste money on developments in which customers are not interested. Also, customers pay more for products they believe will provide greater value and satisfaction; they come back, and they refer to business. Repeated business lowers sales costs and boost profits – objectives of firms can safely be achieved through the instrumentality of identifying and satisfying customer needs and wants. We usually hear the popular motto stated as "the customer is the boss" – perhaps, to confirm that, in the modern competitive world, customer needs and wants do determine and shape the way business firms operate.

The marketing concept rests on four pillars: **target market, customer needs, integrated marketing, and profitability** . It starts with a well defined market, focuses on customers needs, integrates all the activities that will affect customers, and produces profit by satisfying consumers.

A. **Target market:** -

No company can operate in every market and satisfy every market and every need. No can it always do a good job in this one broad market: even Microsoft cannot offer the best solution for every information processing need. Companies do best when they define their target market(s) carefully and prepare a tailored marketing program.

B. **Customer Needs**: -

All planning and operations should be customer-oriented. This means that the organization and its employees have to focus on determining and satisfying customer's needs and wants. because understanding customer needs and wants is not always a simple task.

To achieve business objectives, firms must begin with identifying the needs and wants of customers. Customers, therefore, constitute the focal point of business efforts.

C. Integrated marketing:

All marketing activities in an organization must be coordinated. This means that marketing efforts (product planning, pricing, distribution, and promotion) should be designed and combined in a coherent, consistent way, under one responsibility center for the complete set of marketing activities.

When all the company's departments' work together to serve the customer's interest, the result is integrated marketing. Unfortunately, not all employees are trained and motivated to work for the customer. An engineer complained that the sales people were "always protecting the customer and not thinking of the company's interest".

D. Profitability

Customer orientation and a highly coordinated marketing effort will lead to higher sales volume, which in turn leads to the ultimate goal of business – profit .In the case of non-profit and public organizations, it is surviving and attracting enough funds to perform their work or might be the number of people served or the variety of services offered.

The marketing concept has been stated in a color- full way, such as ‘‘**find a need and fill it’’**, ‘‘make what you can sell instead of trying to sell what you can make’’. ‘‘Going to great length to please’’ (Ethiopian Airlines).

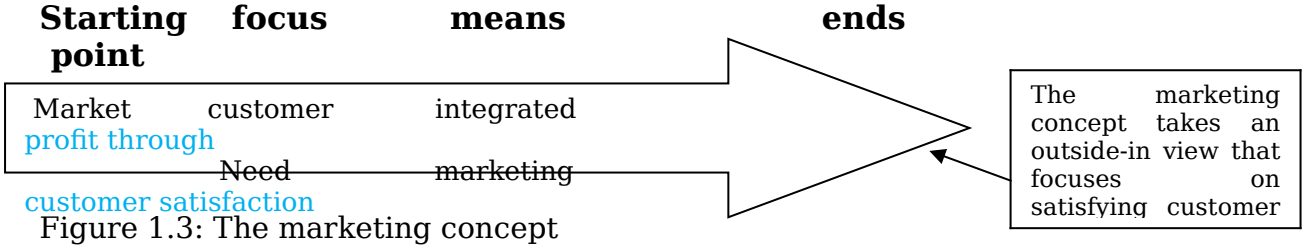


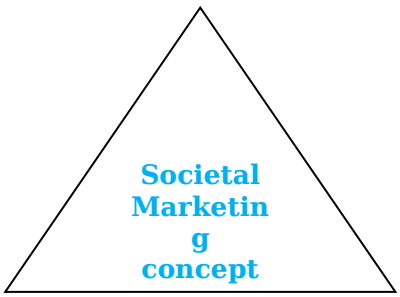
Figure 1.3: The marketing concept

5. The Societal Marketing Concept

The societal marketing concept holds that the organization should determine the needs, wants, and interests of target markets and deliver the desired satisfactions more effectively and efficiently than competitors in a way that maintains or improves the consumer’s and the **society’s well-being**. The societal marketing concept is the newest of the five marketing management philosophies.

The societal marketing concept questions whether the pure marketing concept is adequate in an age of environmental problems, resource shortages, rapid population growth, world hunger and poverty, and neglected social services. It asks if the firm that senses, serves, and satisfies individual wants is always doing what is best for consumers and society in the long run. The pure marketing concept overlooks possible conflicts between short-run consumer wants and long-run consumer welfare. Example, DKT Ethiopia

Right business company knows that doing what’s right benefits both consumers and the company. By operating efficiently and acting responsibly, it can “meet the needs of the enterprise . . . while protecting and enhancing the human and natural resources that will be needed in the future.” Social responsibility “isn’t just good for the planet,” says the company. “It’s good for business.



(want satisfaction)

(profit)

Figure 1.4: The considerations underlying the Societal marketing concept

1.3. Importance of Marketing

Marketing is the distinguishing and the unique functions of business. A business is set apart from all other human organizations by the fact that it markets a product or service. Any organization that fulfils itself through marketing a product or a service is a business. Any organization in which marketing is either absent or incidental is not a business and should never be run as if it were one."

A high level of marketing activity is a prerequisite for a high level of economic activity it has been aptly remarked, "***Nothing happens until somebody sells something***." At present, the urgency is for increased marketing and not merely for increased production. This alone shows the importance of marketing as a potential force that commands high significance for society as a whole. The following points will testify this fact:

1. The nation's income is composed of goods and services which money can buy. Any increase in the efficiency of marketing really results in lower cost of distribution. Lower prices to consumers mean a real **increase in the national income**;
2. Any reduction in the cost of marketing is really a benefit to society. Low prices are a **benefit to the entire population**;
3. Marketing process brings new varieties of useful and quality goods to consumers. This **raises the standard of living of the people**;
4. Marketing provides wide **employment opportunities**;
5. It is marketing which has converted "**yesterday**'s luxuries into today's necessaries'.
6. Marketing converts latent demand into effective demand;
7. Increase in the marketable surplus leaves the final output to be sold in cheaper rates;
8. Improved marketing ensures stable price, avoids hoarding, black marketing and over-profiteering;
9. The peasants are benefited by getting improved inputs through scientific marketing;
10. By the use of the different methods of transport, the market area is widened;
11. The perishable commodities can be distributed in different markets through different transport systems;
12. Marketing adds value of the goods by changing their ownership and changing their time and places of consumption.

Thus, marketing plays an important role. Otherwise, the producers will get stagnated in one place. So their will be wastage of products and the products have to be sold at lesser prices. The producers may not get back the cost they incurred for the production of the output. In case of mass production in modern times, the marketing provides a neat and profitable mass distribution. Marketing is a total function, total of all activities of product planning, product development, product change, pricing,

packaging, selling, marketing research, advertising and public relations. Marketing management involves several parts of decision making. In the modern concept, “marketing is a creative management function which promotes trade and employment. It denotes all those business activities that are concerned with the flow of goods or services from the producer or suppliers to the consumers or the end users”.

1.4. Marketing Tasks

1.4.1. Building Customer Relationships

Managing demand means managing customers. A company's demand comes from two groups: **new customers** and **repeat customers**. Traditional marketing theory and practice have focused on attracting new customers and making the sale. Today, however ,the emphasis is shifting Beyond designing strategies to attract new customers and create transactions with them, companies are now going all out to retain current customers and build lasting customer relationships.

Attracting new customers remains an important marketing management task. However, the focus to day is shifting to wards retaining current customers and Building profitable ,long-term relationships with them. The key to customer Retention is superior customer value and satisfaction.

1.4.2. Demand Management

Marketers are skilled at stimulating demand for their products, but that’s a limited view of what they do. Just as production and logistics professionals are responsible for supply management, marketers are responsible for demand management. They seek to influence the level, timing, and composition of demand to meet the organization’s objectives. Eight demand states are possible:

1. **Negative Demand** :-Negative demand arises when the targeted market *dislikes* the product offered. They actively avoid it, and actively dissuade others from consuming it.
   Marketing strategy :-**conversional marketing.**
   - ✓ Indentify (analyze) why the market dislike the product.
   - ✓ Use different strategies to convince the market (buyer) and change their beliefs and attitudes .these strategies are like positive promotion ,price reduction and product redesign or changing product future.
2. **No Demand** :- During a period of no-demand, a customer is *unaware* of the product or is disinterested. This type of demand is common place for new products that serve a need or want that the customer is unaware can be satisfied.
   Marketing strategy(task) **:- stimulation marketing**
   - ✓ Release information to increase general awareness of product
   - ✓ Relate the function of the product with individuals natural need.
3. **Latent Demand**:- A market is in a period of latent demand when *existing products fail* to completely satisfy customer need. This occurs due to a variety of reasons: it is not economically feasible, the technology hasn’t been invented yet, the producer misunderstands their customer, or the customer cannot express their need clearly. Producers actively scan the economy for markets with latent demand.
   Marketing strategy(task) :- **developmental strategy**

- ✓ Measure the size of the potential market.
- ✓ Develop new and commercialize the products that satisfy these needs

4. **Declining Demand** :-Declining demand occurs when customers are losing interest in the good or service because of changing attitudes, tastes, or cultural trends.

   Marketing strategy(task) **:-Remarketing /Re stimulating**

   - ✓ Analyze why demand declines
   - ✓ Find new target ,price reduction ,applying more effective promotional packages

5. **Irregular Demand**:- Many organizations face irregular demand because their sales are correlated to a particular season, the time of day, or the whims of shoppers.

   Marketing strategy(task):-**synchronic marketing**

   ✓ Is to find ways to alter the pattern of demand through flexible pricing discount ,promotion and other incentives.

6. **Full Demand**:- Full demand situations arise when the company is selling as much as they expected the market could bear. In this type of market, marketers need only maintain the current level of demand by modifying the marketing mix accordingly.

   Marketing strategy(task):-**maintain marketing**

   ✓ Maintain the level of demand by measuring the satisfaction level of consumers along with quality controlling.

7. **Overfull Demand**:- Overfull demand arises when the market demand exceeds supply. Such a situation is initially good for sellers.

   Marketing strategy(task):- **De marketing**

   De marketing :-refers to techniques of reducing demand temporarily or permanently

   - ❖ **General de marketing:-**discourage the over all demand by raising prices and reducing promotional work.
   - ❖ **Selective de marketing:-** tries to cut or reduce the demand for those products which are less profitable

8. **Unwholesome Demand** :- Products that are harmful to society, but are still demanded by consumers create a market characterized by unwholesome demand. Marketers wanting to deter users attempt to dissuade consumers by pointing out the negative aspects. Shock advertising, price increases, restricted supply, government regulation of consuming a particular product and awareness programs can dampen consumption. Tobacco, illegal drugs and excessive consumption of alcohol are all targets for this type of marketing.

   Marketing strategy(task):-

   - ❖ To tell the people that consumption of such product is harmful.
   - ❖ Get people who like that product given it up by using fear message ,price raise, reduce availability
   - ❖ This because the company has work as per the regulation of the organized parties and at the same time does its business.

Unit Two
The Marketing Environment

2.1 Meaning of Marketing Environment
2.2 Micro Environment and Macro Environment Elements
2.2.1. Micro Environment Elements
2.2.2. Macro Environment Elements

2.1. Meaning of Marketing Environment

Marketing Environment is factors and forces outside marketing's that directly control and affect marketing's management ability to develop and maintain successful transaction with its customers. The marketing environment offers both opportunities and threats, and the marketing firm must use its marketing research and marketing intelligence systems to watch the changing environment. the firm should watch the ever-changing situation of the environment: it should monitor the environment. By conducting systematic environmental scanning, marketers are able to revise and adapt marketing strategies to meet new challenges and opportunities in the marketplace.

Environmental Scanning is the process of collecting information about the external marketing environment to identify and interpret potential trends. environmental scanning, also called environmental monitoring is the process of gathering information regarding the firm's external environment, analyzing it, and forecasting the impact of whatever trends the analysis suggests. successful marketing depends largely on a firm's ability to manage its marketing programs within its environment. To do this, marketing people must determine what makes up the firm's environment and then monitor it in a systematic, ongoing manner. These marketing people must be alert to spot environmental trends that could be opportunities or problems for their organization. And they must be able to respond to these trends with the resources they can control. This concept ultimately leads you to study environmental management.

Environmental Management is marketers' efforts toward achieving organizational objectives by predicting and influencing the competitive, political-legal, economic, technological, and social-cultural environments.

2.2. Micro Environment and Macro Environment Elements

Marketing does not take place in a vacuum. Several force outside and inside the organization influence its marketing decisions. These environmental forces can be categorized as micro and macro environments.

2.2.1. Micro Environment Elements

microenvironment of marketing consists of the forces close to the firm - but not part of it - that affects its ability to serve its customers. Even though these forces are not part of the firm, they are part of its marketing system. The external, micro-environmental, forces are largely uncontrollable variables. But, these forces are not totally uncontrollable: The marketing management may be able to influence its external forces to some extent. Microenvironment consists of the following forces .these are

a) The company
b) The Market (the customers)
c) The Suppliers
d) The Marketing Intermediaries
e) The Competitors.
f) The public

a) The company

In designing marketing plans, marketing management takes other company groups into account -- that are said to be controllable by management. these includes Management ,Employees ,Policy ,Production Activities, Marketing, Personnel, Finance, Purchasing, Research and Development & accounting . All these interrelated groups form the internal environment. Therefore company is also known as internal micro environment . To be successful, management must coordinate the firm's marketing and non-marketing activities.

b) The Market (Customers)

The market is the focus of all marketing decisions in an organization. A market is the demand made by a certain group of potential buyers for a good or service. A market constitutes customers (people or organizations) with needs and wants to satisfy. In the market demand for any given goods or services, there are three factors to consider: People or organizations with wants, their purchasing power and their buying behavior.

An organization needs to study its customer markets closely. It can operate in six types of customer markets. These are:

- ***Consumer markets*:** individuals and households that buy goods and services for personal consumption, not for business purposes (example, for reselling purpose).
- ***Industrial markets* :** Organizations that buy goods and services for *further processing* or for use in their production process.
- ***Reseller markets*:** Organizations that buy goods and services in order to resell them for profit.
- ***Institutional markets:-*** are made up of schools ,hospitals, nursing homes, prisons and other institutions that provide goods and services to people in their care.
- ***Government markets*:** government agencies that buy goods and services in order to produce public services or transfer these goods and services to others who need them.
- ***International markets*:** buyers in other countries (foreign buyers), including consumers, producers, resellers and governments.

c) The suppliers

Suppliers are individuals and firms that provide the resources needed by a producing company to produce goods and services. Suppliers provide inputs that would be processed into final goods and services.

Marketing firms cannot sell a product if they cannot first make it or buy it. That is why the people or firms who supply the goods or services that organizations need to produce what they sell are critical to the success of marketing. Furthermore, this is the reason why suppliers are considered to be part of a firm's marketing system.

d) The marketing intermediaries

Marketing intermediaries are firms that help the company to promote, sell and distribute its goods to final buyers. They are independent business organizations that directly aid in the flow of goods and services between a marketing organization and its markets. there are different types of intermediaries: these are

- *Resellers* :-are distribution channel firms that help the company find customers or make sales to then. these include wholesalers and retailers which buy and resell merchandise.
- *Physical distribution*:- firms help the company to stock and move goods from their points of origin to their destinations. these include warehouse and transportation firms

- *Marketing services agencies*:- are the marketing firms that help the company target and promote its products to the right markets. these include marketing research firms, advertising agencies ,media firms and marketing consultancies.
- *Financial intermediaries* :- businesses firms that help finance transactions or insure against the risks associated with the buying and selling of goods. These include banks, credit companies, insurance companies and other business firms.

Marketing intermediaries operate between the firm and its markets and between the firm and its suppliers.

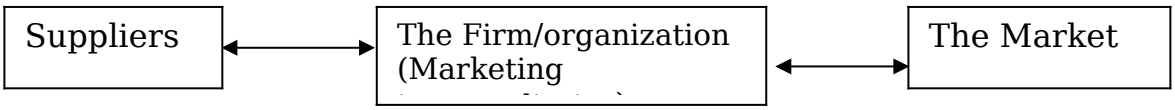


Figure 1.5 : Marketing Intermediaries.

In the illustration provided above, the arrows represent a set of marketing intermediaries that operate between the firm and its suppliers and markets.

e) Competitors

Competition is natural in most marketing systems. Every marketing firm faces a wide range of competitors. The marketing concept states that to be successful the firm must satisfy the needs and wants of consumers better than its competitors; thus, competitors constitute one of the major forces in the organization's microenvironment.

An organization's competitive environment is a major influence on its marketing programs. Marketing firms should constantly monitor all aspects of competitor's marketing activities: their products (including product designs), distribution systems, and promotional programs. A marketing firm generally faces three types of competition:

- *Brand competition*: Brand competition comes from marketers of directly similar products. For example, the Ethiopian coffee competes with the Brazilian coffee. The Ethiopian Airlines competes with Alitalia and Lufthansa, or Kenyan Airways.
- *Substitute products:* Substitute products are those products (goods or services) that can satisfy the same need. For example, the Addis Ababa Stadium and Cinema Ethiopia compete for the entertainment birr of the consumer. In either of these cases, the consumer can satisfy the same need – entertainment need.
- *More general type of competition:* Consumers have limited buying power. Every business firm, therefore, is a rival (a competitor) for the consumer's limited buying power.

f) Public

Public is any group that has an actual or potential interest in or impact on an organization's ability to achieve its objectives. There are different types of public .these are.

- ✓ *Financial publics* :- Financial publics influence the company's ability to obtain funds. Banks, investment houses and stock holders are the principal financial publics.
- ✓ *Media publics*:- Media publics are those that carry news, features and editorial opinion. They include news papers, magazines and radio and television stations.

- ✓ *Government public*:- Management must take government developments into account. Marketers must often consult the company's lawyers on issues of product safety, truth-in-advertising and other matters.
- ✓ *Citizen action publics* :- A company's marketing decisions may be questioned by consumer organizations, environmental groups, minority groups and other pressure groups. Its public relations department can help it stay in touch with consumer and citizen groups.
- ✓ *Local publics* :- Every company has local publics, such as neighborhood residents and community organizations. Large companies usually appoint a community-relations officer to deal with the community, attend meetings, answer questions and contribute to worth while causes.
- ✓ *General public*:-a company needs to be concerned about the general public's attitude towards its products and activities. The public's image of the company affects its buying. Thus, many large corporations invest huge sums of money to promote and build a healthy corporate image .
- ✓ Internal publics:- a company's internal publics include its workers, managers, volunteers and the board of directors. Large companies use news letters and other means to inform and motivate their internal publics. When employees feel good about their company, this positive attitude spills over to their external publics.

2.2.2 Macro Environment Elements

Macro-environmental forces are affect all firms in the economy. Some major external Macro-environmental forces have considerable influence on any organization's marketing system. A change in any one of them can cause changes in one or more of the others. Hence, they are interrelated. One thing they all have in common is that they are dynamic forces- i.e. they are subject to change at an increasing rate. A marketing firm operates in a larger macro-environment of forces that shape opportunities and pose threats to the success of the organization. The organization, therefore, must carefully watch and respond to these forces.

The macro-environment of a marketing organization consists of the following major forces:

a. Demography
b. Economic Environment
c. Natural Environment
d. Technological Environment
e. Political and Legal Forces
f. Social and Cultural Forces

a. Demography environment

Demography is the study of human population and its distribution. Demographic study is conducted in terms of size, density, location, age, sex, race, occupation, and other statistical elements of the population. The demographic environment is considerable interest to marketers because it involves people, and people make up markets.

b. *The Economic environment*

People alone do not make up a market. They must have money to spend and be willing to spend it. As a result, the economic environment is a significant force that affects the marketing activities of any organization.

Markets require both people who buy as well as their buying power. Total purchasing power depends on current income, prices, savings, and credit. Marketing firms should be aware of major trends in income and of changing consumer-spending patterns. The economic environment consists of factors that affect consumer purchasing power and spending patterns.

A marketing program is affected especially by such economic factors as the current and anticipated stage of the business cycle, as well as inflation and interest rates. The business cycle goes through stages of prosperity, recession, depression, and recovery.
Marketing firms need to know which stage of the business cycle the economy currently is in, because a company usually operates its marketing system quite differently during each economic stage.
Prosperity is a period of economic growth. During this stage, organizations tend to expand their marketing programs as they add new products and enter new markets. The stage of prosperity is characterized by higher volume of production, higher volume of sales and successful (favorable) business return.
Recession is a period of retrenchment for consumers and businesses. People can become discouraged, scared, and dissatisfied. Naturally, these feelings affect their buying behavior, which, in turn, has major marketing implications for companies, often leading to economic losses. Recession can ultimately develop in to a period of drastic economic decline, characterized by decreasing business transactions, falling prices, and high rates of unemployment. This phase (stage) of a business cycle is termed as depression.
Recovery is a period when the economy is moving from recession (and depression) to prosperity. At this stage of the business cycle, unemployment declines and disposable income increases. Organizations will regain strength and expand their marketing efforts to improve sales and profits.

Inflation and competition are also forces in the marketing macro-environment. Inflation is a rise in the prices of goods and services. When prices rise at a faster rate than personal incomes, consumer-buying power declines.

c. The natural environment

It is obvious that nature provides many things for business firms. Every business firm functions within a certain natural setting. The natural environment mainly involves natural resources that are needed as inputs by marketing firms or that are needed as inputs by marketing firms or that are affected by marketing activities. The natural environment constitutes land, water, air, minerals, forest, animals, other raw materials, etc.

d. The technological environment

The technological environment consists of forces that affect new technology, creating new product and market opportunities. The explosion of technological innovations has deeply affected marketing decisions for many organizations. Dramatic developments such as the microchip, robotics, and satellite communications offer great potential for the design, production, distribution, and promotion of products.
Technology has a tremendous impact on peoples' life-styles, their consumption patterns, and their economic well being. Technological breakthroughs can affect markets in three ways:

- Start entirely new industries
- Radically alter, or destroy, existing industries.
  Example: What will oil companies do when we have autos that will operate without fuel?
- Stimulates markets and industries not related to the new technology.

e. Political and legal environment

The conduct of every marketing firm is influenced more and more by the political and legal processes in the society. Marketing decisions are strongly affected by developments in the political-legal environment. The political-legal environment is made up of laws, government agencies, and pressure groups that influence and limit various organizations and individuals in society. For any

organization, the marketing and broader business decisions are constrained, directed and influenced by regulatory forces. Regulations consist of restrictions that government laws place on business with regard to the conduct of its activities. Regulations exist to protect marketing firms , consumers as well as protect the interests of society against unrestrained business behavior.

Generally speaking, the political and legal environment furnishes favorable or unfavorable situations for business operations. Stable political climate is usually said to be favorable for the growth and smooth functioning of marketing firms. On the other extreme, unstable and turbulent political climate creates unfavorable conditions for business operations.

f. Social and cultural forces

Complex social and cultural forces affect marketing firms in many ways. these forces of the external environment include the characteristics of the population and its values. Changes in social and cultural forces can have a dramatic impact on marketing strategy. the cultural environment is generally made up of institutions and other forces that affect society's basic values, perceptions, preferences, and behaviors.

People grow up in a particular society that shapes their basic beliefs and values. Some people seek personal pleasure, wanting fun, change, and escape. Others seek self realization through religion, recreation, or the avid pursuit of careers or other life goals. Some people see themselves as sharers and joiners; others see themselves as individualists.

People use products, brands, and services as a means of self-expression, and they buy products and services that match their beliefs and values, company take in to consideration this factors when produce their products.

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Unit Three
Understanding The Market

3.1 Consumer Markets and Consumer Buying Behavior
3.2 The Buyers Decision Process
3.3 Major Factors Influencing Buying Behavior
3.4 Organizational/Business Buying Behavior
3.5 Characteristics of Business Markets
3.6 Buying Situation in Organizational Buying
3.7 Decision Making Process in Organizational Buying
3.8 Influence on Organizational Buying Decision

3.1. Consumer Markets and Consumer Buying Behavior

Consumer behavior is the study of how individuals, groups, and organizations select, buy, use, and dispose of goods, services, ideas, or experiences to satisfy their needs and wants**. Consumer Buying Behavior** refers to the buying behavior of the ultimate consumer -individuals and households that buy goods and services for personal consumption. **consumer market** is the individuals and households who buy or acquire goods and services for personal consumption. Consumers vary tremendously in age, income, education level, and tastes. And they buy an incredible variety of goods and services. as marketers – it is important for you to recognize how these diverse consumers relate with each other and with other elements of the world around them impacts their choices among various products, services, and companies.

3.1.1. model of consumer

Consumers make many buying decisions every day, and the buying decision is the focal point of the marketer's effort. companies research consumer buying decisions in great detail to answer questions about what consumers buy, where they buy, how and how much they buy, when they buy, and why they buy. Marketers can study actual consumer purchases to find out what they buy, where, and how much.

The model of consumer (buyer) behavior provides answers to the central question of consumer behavior. The question can be put as: "How do consumers respond to various marketing stimuli the company might use?". Their starting point is the stimulus-response model of buyer behavior. The following figure shows that marketing and other stimuli enter the consumer's "black box" and produce certain responses. Marketers must figure out what is in the buyer's "black box".

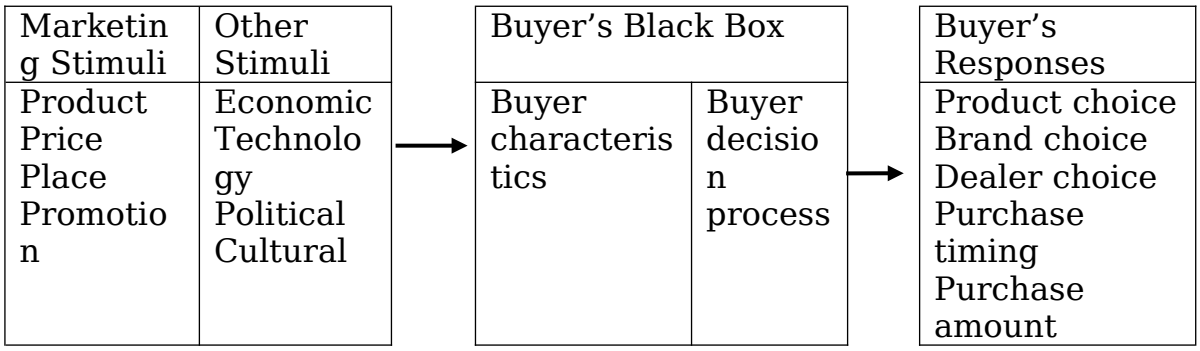


Figure 1.6: The model of consumer behavior

On the left, marketing stimuli consist of the four P's, namely, product, price, place, and promotion. Other stimuli include major forces and events in the buyer's environment – economic, technological, political, and cultural. All these stimuli enter the buyer's black box, where they are turned into a set of observable buyer responses shown on the right - product choice, brand choice, dealer choice, purchase timing, and purchase amount.

Marketers want to understand how the stimuli are changed into responses inside the consumer's black box, which has two parts. First, the buyer's characteristics influence how he or she perceives and reacts to the stimuli. Second, the buyer's decision process itself affects his or her behavior.

3.2. Major Factors (characteristics) Influencing Buying Behavior

Consumer purchases are strongly influenced by cultural, social, personal, and psychological characteristics. For the most part, these factors cannot be controlled by the marketer, but they must be taken into account. Personal characteristics can be studied under four headings: cultural factors, social factors, personal factors, and psychological factors.

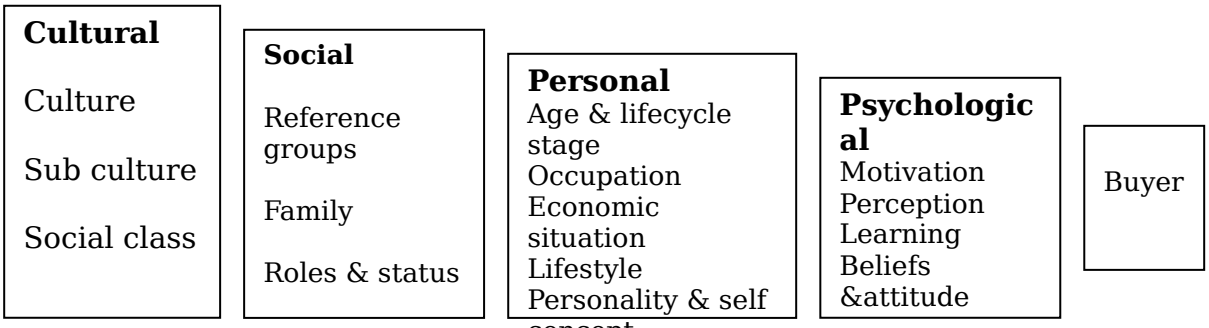


Figure 1.7. Personal characteristics affecting consumer behavior

A. Cultural Factors

Cultural factors are the most fundamental determinant of the person's wants and behavior. It is the most fundamental determinant of the person's wants and behavior. A child growing up in a certain particular place acquires a set of values, perceptions, preferences and behaviors and behaviors through his or her family and other key institutions. Cultural factors exert the broadest and deepest influence on consumer behavior. Cultural factors can be discussed under the following factors: culture, subculture, and social class.

Culture:- is the set of basic values, perceptions, wants, and behaviors learned by a member of society from family and other important institutions. it is the most basic cause of a person's wants and behavior. Human behavior is largely learned.

Every group or society has a culture, and cultural influences on buying behavior may vary greatly from country to country. Marketers must closely attend to cultural values in every country to understand how to best market their existing products and find opportunities for new products. Unless and otherwise failure to adjust to these differences can result in ineffective marketing or embarrassing mistakes

Subcultures :- A group of people with shared value systems based on common life experiences and situations. each culture contains smaller subcultures that provide more specific identification and socialization for their members. Subcultures include *nationality groups* that are found within larger

communities, for instance, have distinct ethnic tastes, interests, culture styles and attitudes, *religious groups*, *racial groups* , *geographical areas* and *age groups*. Many of these subcultures make up important market segments, and marketers often find it worthwhile to design products and marketing programs tailored to the needs of these subculture groups.

Social classes :- are relatively permanent and ordered divisions in a society whose members share similar values, interests, and behaviors. Almost every society has form of social class structure. Social class is not determined by a single factor such as income but is measured as a combination of occupation, income, education, wealth, and other variables. Marketers are interested in social class because people within a given social class tend to have similar behavior, including buying behavior. Social class shows distinct products and brand preferences in such areas as clothing, home furnishings, leisure activity, and automobiles.

B. Social Factors

A consumer's behavior is also influenced by social factors, such as the consumer's reference groups, family, and social roles and status.

Reference groups:- are groups that have a direct (face-to-face) or indirect influence on the person's attitudes or behavior. Reference groups that have a direct influence and to which a person belongs are called ***membership groups***. Some are primary groups with whom there is regular informal interaction, such as family, friends, neighbors, and co-workers. Some are secondary groups, which are more formal and have less regular interaction. They include organizations such as religious, professional associations, and trade unions. People are also influenced by reference groups to which they do not belong. ***An aspiration group*** is one to which the individual wishes to belong. ***A dissociative group*** is one whose values or behavior a person rejects. ***Opinion leaders*** are people within a reference group who, because of special skills, knowledge, personality, or other characteristics, exert influence on others. That means this persons offers informal advice or information about a specific product or product category, such as which of several brands is best or how a particular product may be used. Therefore, Marketers try to identify the reference groups of the target market they are selling & try to influence the opinion leaders in the reference group. Manufacturers of products and brands subject to strong group influence must figure out how to reach the opinion leaders in the relevant reference groups.

Family:- is two or more persons related by blood, marriage, or adoption who reside together . Family members can strongly influence buyer behavior. We can distinguish between two families in the buyer's life. The buyer's parents make up the ***family of orientation***:, From parents a person acquires an orientation toward religion, politics, and a sense of personal ambition, self worth, and love. Even if the buyer no longer interacts very much with his parents, the parents can still significantly influence the buyer's unconscious behavior. The ***family of procreation***, the buyer's spouse and children, have a more direct influence on everyday buying behavior. The family is the most important consumer-buying organization in society. Marketers are interested in the roles and relative importance of the husband, wife, and children on the purchase of a large variety of goods and services.

The marketer needs to know what people are involved in the buying decision and what role each person plays. For many products it is fairly easy to identify the decision maker. Some other products, however, involve a decision-making unit consisting of more than one person. The roles of consumers in buying goods and services of a company can be described as follows:

- **Initiator**: the person who first suggests or thinks of the idea of buying a particular product or service;
- **Influencer**: a person whose advice or views carry some weight in making a final buying decision;
- **Decider**: the person who ultimately makes a buying decision or any part of it, whether to buy, what to buy, how to buy, or where to buy;
- **Buyer:** the person who makes an actual purchase; user: the person who consumes or uses the product. A company needs to identify who occupies these roles because they affect product design and advertising message decisions.
- **User**:-The person who consumes or uses a product or service .

Roles and Status :- A person belongs to many groups, such as family, clubs, and organizations. The person's position in each group can be defined in terms of role and status. We can define a person's position in each group in terms of role and status. A role consists of the activities a person is expected to perform. Each role in turn connotes a **status** .People usually choose products that show their role and status. Marketers must be aware of the status-symbol potential of products and brands.

C. Personal Factors

A buyer's decisions are also influenced by personal characteristics such as the buyer's age and life-cycle stage, occupation, economic situation, life-style, and personality and self-concept.

Age and lifecycle stage: People change the goods and services they buy over their lifetimes. People's taste in foods, clothes, furniture, recreation, etc is all age-related. Buying is also shaped by the stage of the family life cycle. Marketers often define their target markets in terms of life-cycle stages (childhood, adulthood, etc) and develop appropriate products and marketing plans accordingly.

Occupation: A person's occupation affects the goods and services bought. A company manager and worker have different buying habits as shaped by their relative occupation. Marketers try to identify the occupational groups that have an above-average interest in their products and services. A company can even specialize in making products needed by a given occupational group.

Economic Situation: A person's economic situation will greatly affect product choice. People's economic circumstances consist of their level of spendable income, savings and assets, borrowing power, and attitudes toward spending and saving. Marketers of income-sensitive goods closely watch trends in personal income, savings and interest rates. If economic indicators point to a boom or recession, marketers can take steps to redesign, reposition, and re-price their products.

Lifestyle: People coming from the same subculture, social class, and even occupation may have quite different life styles. Life style is a person's pattern of living as expressed in his activities, interests, and opinions. Life style captures something more than the person's social class or personality. If we know a person's social class, for example, we can infer many things about likely behavior but fail to see him as a complete individual. If we know someone's personality, we can infer several things about his unique psychological characters but not much about activities, interests, and opinions. Life style profiles a person's whole pattern of acting and interacting in the world. The technique of measuring life styles is known as psychographics. It involves measuring the major dimensions of life style (activities, interests, opinions and demographic variables).

Personality and self-concept: Each person's distinct personality will influence his buying behavior. Personality is the person's distinguishing psychological characteristics that lead to relatively consistent and lasting responses to his environment. An individual's personality is usually described in terms of such traits as achievement, aggressiveness, autonomy, defensiveness, dominance, emotionality, self-confidence, sociability, adaptability, affiliation, etc. Personality can be useful in analyzing consumer behavior for some product or brand choice. Many marketers use a concept related to personality – a person's self-concept (also called self-image). Self-concept refers to a complex mental picture of how a person views himself.

4. Psychological Factors

A person's buying choices are also influenced by four major psychological factors, namely, motivation, perception, learning, and beliefs and attitudes.

Motivation: A person has many needs at any given time. Some needs are biological, arising from states of tension such as the need for recognition, esteem, or belonging. Most of these needs will not be strong enough to motivate the person to act at a given point in time. A need becomes a motive when it is aroused to a sufficient level of intensity. A motive (or drive) is a need that is sufficiently pressing to direct the person to seek satisfaction of the need.

According to Abraham Maslow's famous model of motivation, human needs are arranged in a hierarchy, from the most pressing to the least pressing. In the order of their importance, human needs are described as: physiological needs, safety needs, social needs, esteem needs, and self-actualization needs. A person will try to satisfy the most important needs first. When the most important need is satisfied, it will stop being a motivator for the present time, and the person will be motivated to satisfy the next most important need.

Perception: A motivated person is ready to act. How the motivated person acts is influenced by his perception of the situation. Two people with the same motivation and in the same situation may act quite differently because they perceive the situation differently. **Perception** is the process by which people select, organize, and interpret information to form a meaningful picture of the world. People can form different perceptions of the same stimulus because of three perceptual processes: selective exposure, selective distortion, and selective retention.

Selective attention:- the tendency for people to screen out most of the information to which they are exposed—means that marketers must work especially hard to attract the consumer's attention. People are exposed to a great number of stimuli every day. It is however impossible to pay attention to all these stimuli; most will be screened out. People are more likely to notice stimuli that relate to a current need; people are also more likely to notice stimuli that they expect; and finally, people are more likely to notice stimuli that deviate a lot from the normal. Selective exposure implies that marketers have to work especially hard to attract the consumer's attention.

Selective distortion:- describes the tendency of people to twist information into personal meanings. even stimuli that consumers notice do not always come across in the intended way. Each person tries to fit incoming information into his existing mindset. People tend to interpret information in a way that will support what they already believe. Selective distortion means that marketers must try to understand the mindset of consumers and how they will affect interpretations of advertising sales information.

selective retention:- tendency of retaining information that supports one's attitudes, beliefs or views . People will forget much that they learn. They will tend to retain only information that supports their attitudes and beliefs.

Learning: When people act they learn. *Learning* describes changes in an individual's behavior arising from experience. Most human behavior is learned. Learning theorists say that learning occurs through the interplay of drives, cues, responses and reinforcement. The practical significance of "learning" for marketers is that they can build up demand for a product by associating it with strong drives, using motivating cues, and providing positive reinforcement. A new company can enter the market by appealing to the same drives as competitors and providing similar cues because buyers are more likely to transfer loyalty to similar brands than to dissimilar ones.

Beliefs and Attitudes: Through acting and learning, people acquire their beliefs and attitudes. These in turn influence their buying behavior. A belief is a descriptive thought that a person holds about something. Beliefs may be based on real knowledge, opinion, or faith. Marketers are very interested in people's beliefs about specific products and services. These beliefs make up product and brand images, and people act on their beliefs. If some of the beliefs are wrong and prevent purchase, the marketer would want to launch a campaign to correct these beliefs.

People have attitudes regarding almost everything like religion, politics, clothes, music, and food. An attitude is a person's consistently favorable or unfavorable evaluations, feelings, and tendencies toward an object or idea. Attitudes put people into a frame of mind of liking or disliking things, moving toward or away from them. A company would benefit greatly from researching the various attitudes people have that might bear on its products. Attitudes lead people to behave consistently toward similar objects. Attitudes economize on energy and thought; people do not have to interpret and react to everything in a fresh way. Attitudes are also very difficult to change. A person's attitudes fit into a pattern, and to change one attitude may require difficult adjustments in many others. Thus a company should usually try to fit its products into existing attitudes, rather than to try to change people's attitudes.

3.3. The Buyers Decision Process

3.3.1. Types of Buying Decision Behavior

Consumer decision making varies with the type of buying decision. Consumer buying behavior differs greatly & more complex decisions usually involve more buying participants and more buyer deliberation. We can classify buying behavior into four types based on the degree of buyer involvement and the degree of differences among brands. these are :- Complex buying behavior, Dissonance-reducing buying behavior, Habitual buying behavior, Variety-seeking buying behavior.

a) Complex buying behavior

Consumers undertake complex buying behavior when they are highly involved in a purchase and perceive significant differences among brands. Consumers may be highly involved when the product is expensive, risky, purchased infrequently, and highly self-expressive. Typically, the consumer has much to learn about the product category.

This buyer will pass through a learning process, first developing beliefs about the product, then attitudes, and then making a thoughtful purchase choice. Marketers of high involvement products must understand the information-gathering and evaluation behavior of high-involvement consumers. They need to help buyers learn about product-class attributes and their relative importance. They need to differentiate their brand's features, perhaps by describing the brand's benefits using print media with long copy.

b) Dissonance-reducing buying behavior

This occurs when consumers are highly involved with an expensive, infrequent, or risky purchase but see little difference among brands. In this case, because perceived brand differences are not large, buyers may shop around to learn what is available but buy relatively quickly. They may respond primarily to a good price or purchase convenience.

After the purchase, consumers might experience post-purchase dissonance(after-sale discomfort) when they notice certain disadvantages of the purchased brand or hear favorable things about brands not purchased. To counter such dissonance, the marketer's after-sale communications should provide evidence and support to help consumers feel good about their brand choices

c) Habitual buying behavior

This occurs under conditions of low-consumer involvement and little significant brand difference. Consumers appear to have low involvement with most low-cost, frequently purchased products. In such cases, consumer behavior does not pass through the usual belief-attitude behavior sequence. Consumers do not search extensively for information about the brands, evaluate brand characteristics, and make weighty decisions about which brands to buy. Instead, they passively receive information as they watch television or read magazines. Ad repetition creates brand familiarity rather than brand conviction. Consumers do not form strong attitudes toward a brand; they select the brand because it is familiar. Because they are not highly involved with the product, consumers may not evaluate the choice, even after purchase. Thus, the buying process involves brand beliefs formed by passive learning, followed by purchase behavior, which may or may not be followed by evaluation.

d) Variety-seeking buying behavior

Consumers undertake variety-seeking buying behavior in situations characterized by low consumer involvement but significant perceived brand differences.

In such cases, consumers often do a lot of brand switching. For example, when buying cookies, a consumer may hold some beliefs, choose a cookie brand without much evaluation, and then evaluate that brand during consumption. But the next time, the consumer might pick another brand out of boredom or simply to try something different. Brand switching occurs for the sake of variety rather than because of dissatisfaction.

The market leader and the minor brands in this product category have different marketing strategies. The market leader will try to encourage habitual buying behavior by dominating the shelf space with a variety of related but different product versions, avoiding out-of-stock conditions, and sponsoring frequent reminder advertising. Challenger firms will encourage variety seeking by offering lower prices, deals, coupons, free samples, and advertising that tries to break the consumer's purchase and consumption cycle and presents reasons for trying something new.

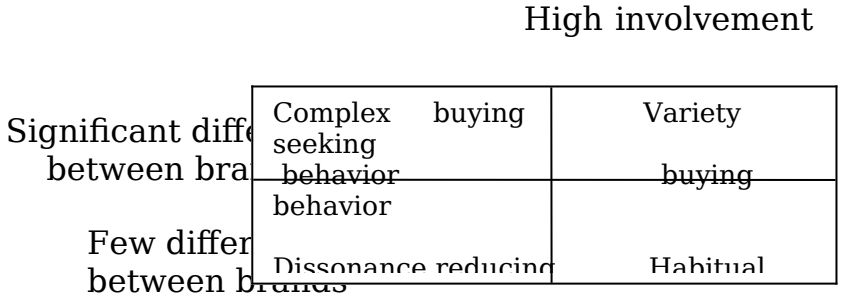


figure 1.8. Four Types of Buying Behavior

3.3.2. Stages Of Buyer Decision Process

Buyers pass through five stages in order to reach a buying decision. These five stages are: problem recognition, information search, evaluation of alternatives, purchase decisions, and post-purchase evaluation/decision. Buyers may not need to pass through all stages with every purchase they make. In more routine purchases, consumers may skip some of these stages. However consideration of all the stages arises when a consumer faces a new purchase situation, especially one involving extensive problem solving.

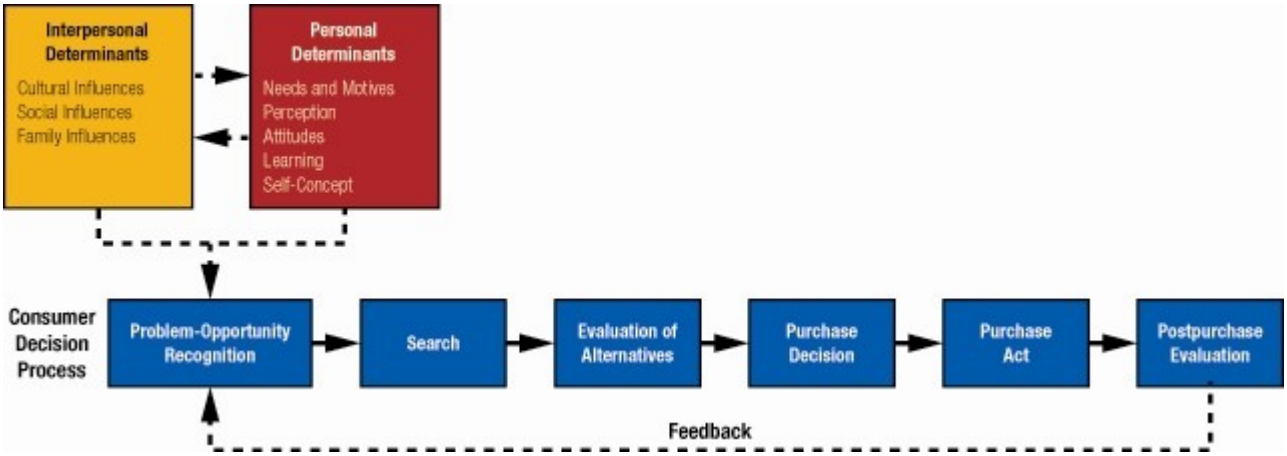


Figure 1.9. Integrated model of the consumer decision process
Source: South Western, a Division of Tomson Learning, (2008)

1. Problem or need recognition

The first stage of the buyer decision process in which the consumer recognizes a problem or need. The buying process starts when the buyer recognizes a problem or need .The need can be triggered by internal when one of the person's normal needs—for example, hunger or thirst—rises to a level high enough to become a drive or external stimuli when an advertisement or a discussion with a friend might get you thinking about buying a new car. The buyer senses a difference between his actual state and a desired state.

2. Information search

An interested consumer may or may not search for more information. If the consumer's drive is strong and a satisfying product is near at hand, he or she is likely to buy it then. If not, consumer may store the need in memory or undertake an information search related to the need. Consumers can obtain information from any of several sources. These include **personal sources**(family, friends, neighbors, acquaintances),**commercial sources**(advertising, salespeople, dealer Web sites, packaging, displays),**public sources**(mass media, consumer rating organizations, Internet searches), and **experiential sources**(handling, examining, using the product). With this the buyer can increase his awareness and knowledge of the available brands and their features. The marketers should carefully identify consumer's sources of information and the importance of each source.

3. Evaluation of Alternatives

Once the information is gathered, the next question will be: how does the consumer choose among alternative brands? The marketer needs to know about evaluation of alternatives – how the consumer uses information to evaluate the options and arrive at brand choices. In the evaluation stage, the consumer ranks

brands and forms purchase intentions in order to ultimately make purchase decisions.

4. Purchase decisions and Purchase Act

Consumer narrows the alternatives down to one. Normally the consumer will buy the most preferred brand. The purchase location is decided.

5. Post purchase Evaluation

The marketer's job does not end when the product is bought. After purchasing the product, the consumer will be satisfied or dissatisfied with it. The consumer will also engage in post purchase behavior that is of interest to the marketer. There will be a **Cognitive dissonance:** Post-purchase anxiety that results from an imbalance among an individual's knowledge, beliefs, and attitudes after an action or decision is taken. So the marketer's interest in the consumer continues into the post purchase stage.

3.4. Organizational/Business Buying Behavior

Organizational buying is the decision-making process by which formal organizations establish the need for purchased products, and identify, evaluate, and choose among alternative brands and supplies. Companies that sell to other organizations must do their best to understand organizational buyer behavior. The business market consists of four major categories of customers: **producers(industrial) , resellers, governments, and institutions.**

The industrial market consists of all the individuals and organizations that acquire goods and services that enter into the production of other products and services that are sold, rented, or supplied to others. The industrial market is huge. **The reseller market** consists of all the individuals and organizations that acquire goods for the purpose of reselling or renting them to others at a profit. Resellers purchase goods for resale and goods and services for conducting their operations. In their role as purchasing agents for their own customers, resellers purchase a vast variety of goods for resale. **The government market** consists of governmental units (federal, state, and local) that purchase or rent goods and services for carrying out the main functions of government. Government buyers purchase products and services for defense, education, public welfare, and other public needs. Government buying practices are highly specialized and specified, with open bidding or negotiated contracts characterizing most of the buying. **The institutional market** consists of schools, hospitals, prisons, and other institutions that provide goods and services to people in their care. These markets are characterized by low budgets and captive patrons.

3.4.1. Characteristics of Business Markets

In some ways, organizational markets are similar to consumer markets. Both involve people who assume buying roles and make purchase decisions to satisfy needs. But in many ways, organizational markets differ from consumer markets. The main differences are in market structure and demand, the nature of the buying unit, and the types of decisions and the decision process.

market structure and demand,:-

- ✓ normally deals with far fewer, larger buyers than the consumer marketer.
- ✓ more geographically concentrated than consumer markets.
- ✓ Many organizational markets have inelastic demand.

- ✓ Demand in business markets fluctuates more and more quickly.
- ✓ Business buyer demand is derived from final consumer demand

Nature of the Buying Unit:-

- ✓ Business purchases involve more buyers.
- ✓ Business buying involves a more professional purchasing effort

Types of Decisions and the Decision Process:-

- ✓ Business buyers usually face more complex buying decisions.
- ✓ The business buying process is more formalized.
- ✓ In business buying, buyers and sellers work more closely together and build close long-term relationships.

3.6. Buying Situation in Organizational Buying

The business buyer faces a whole set of decisions in making a purchase. The number of decisions depends on the type of buying situation.

There are three main types of buying situation. At one extreme is the **straight rebuy**, which is a fairly routine decision. At die other extreme is the **new task**, which may call for thorough research. In the middle is the **modified re-buy**, which requires some research.

a. Straight rebuy:

In a straight rebuy, the buyer reorders something without any modifications. It is usually handled on a routine basis by the purchasing department. Based on past buying satisfaction, the buyer simply chooses from the various suppliers on its list. 'In' suppliers try to maintain product and service quality. They often propose automatic reordering systems so that the purchase agent will save reordering time. The 'out' suppliers try to offer something new or exploit dissatisfaction so that the buyer will consider them, 'Out' suppliers try to get their foot in the door with a small order and then enlarge their purchase share over time.

b. **Modified rebuy**:

In a modified rebuy, the buyer wants to modify product specifications, prices, terms or suppliers. The modified rebuy usually involves more decision participants than the straight rebuy. The 'in' suppliers may become nervous and feel pressured to put their best foot forward to protect an account. 'Out' suppliers may see the modified rebuy situation as an opportunity to make a better otter and gain new business. Modified rebuy is a business buying situation in which the buyer wants co modifies product specifications, prices, terms or suppliers.

c. New task:

A company buying a product or service for the first time faces a new task situation. In such cases, the greater the cost or risk, the larger will be the number of decision participants and the greater their efforts to collect information. The new-task situation is the marketer's greatest opportunity and challenge.

3.4.2 Decision Making Process in Organizational Buying

Organizational buyers usually face more complex buying decisions than consumer buyers. Purchases often involve large sums of money, complex,

technical and economic considerations, and interactions among many people at many levels of the buyer's organization. Because the purchases are more complex, organizational buyers may take longer to make their decisions. The organizational buying process tends to be more formalized than the consumer buying process. Large organizational purchases usually call for detailed product specifications, written purchase orders, careful supplier searches, and formal approval. The purchase process may be spelled out in detail in policy manuals.

In the organizational buying process, buyer and seller are often much more dependent on each other. Consumer marketers usually stay at distance from their customers. Organizational marketers often customize their offerings to fit individual customer needs. In the short-run, sales go to suppliers who closely cooperate with the buyer on technical specifications and special delivery requirements. But organizational marketers must also build close long-run relationships with customers. In the long run, sales are kept by companies that build lasting relationships by reliably meeting and anticipating the customer's immediate and future needs.

Organizational marketers want to know how organizational buyers will respond to various marketing stimuli. The following simple model of organizational buyer behavior shows that marketing and other stimuli affect the organization, and produce certain buyer responses.

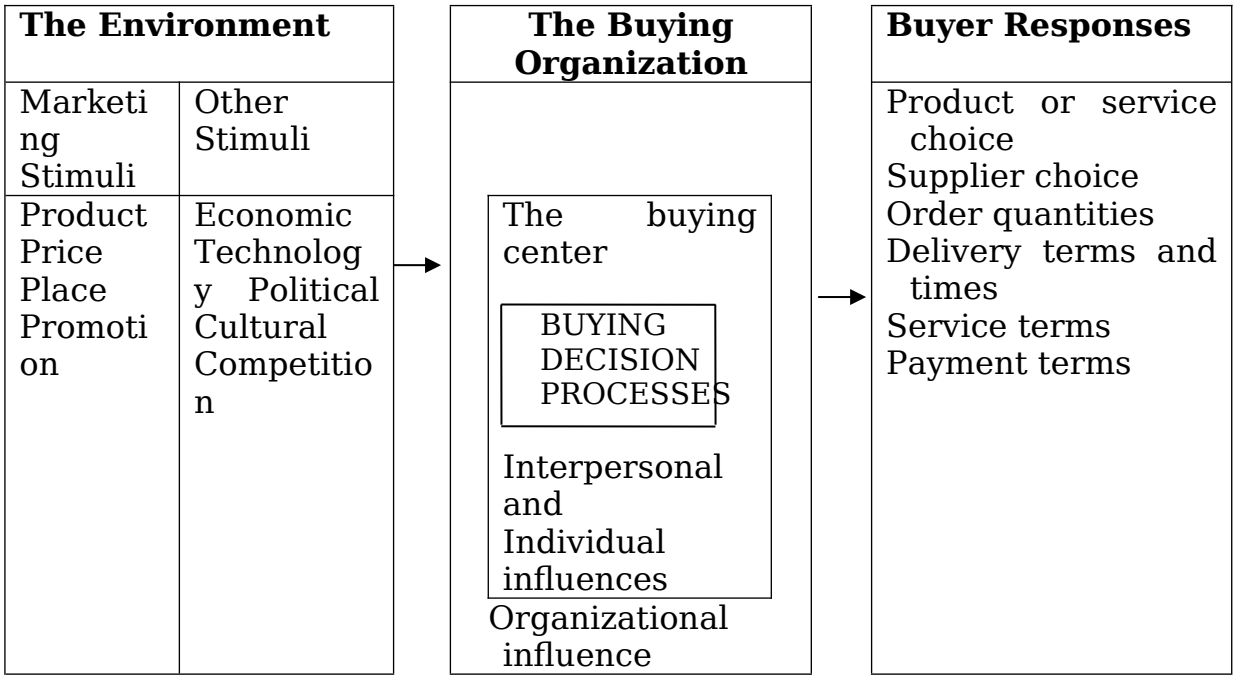


Figure 7. A Model of Organizational Buying Behavior
Source: Kotler and Armstrong, 1992

The marketing stimuli consist of the four Ps: product, price, place, and promotion. The other stimuli consist of major forces in the environment: economic, technology, political, cultural, and competition. All these stimuli enter the buying organization and are turned into buyer responses: product or service choice, supplier choice, order quantities, delivery terms and times, service terms, and payment terms. To design good marketing mix strategies, the marketer must understand what happens within the organization to turn the stimuli into purchase responses.

Within the organization, the buying activity consists of two major parts – the buying center (made up of all the people involved in the buying decision) and the buying decision process. The figure shows that the buying center and the buying

decision process are influenced by internal organizational, interpersonal, and individual factors as well as by external environmental factors.
Buyers who face a new-task buying situation usually go through all stages of the buying process.

1. Problem Recognition

The buying process begins when someone in the company recognizes a problem or a need that can be met by acquiring a specific good or a service. Problem recognition can result from internal or external stimuli. Internally, the company may decide to launch a new product that requires new production equipment and materials. Externally, the buyer may get some new ideas at a trade show, see an advertise or receive a call from a sales person who offers a better product or a lower price.

2. General Need Description

Having recognized a need, the buyer next prepares a general need description that describes the characteristics and quantity of the needed item. For standard items, this process presents few problems. For complex items, however, the buyer may have to work with others - engineers, users, consultants - to define the item. The team may want to rank the importance of reliability, durability, price and other attributes desired in the item. In this phase, the alert business marketer can help the buyers define their needs and provide information about the value of different product characteristics.

3. Product Specification

The buying organization next develops the item's technical product specifications, often with the help of a value analysis engineering team. Value analysis is an approach to cost reduction in which components are studied carefully to determine if they can be redesigned, standardized or made by less costly methods of production. The team decides on the best characteristics and specifies them accordingly. Sellers, too, can use value analysis as a tool to help secure a new account. By showing buyers a better way to make an object, outside sellers can turn straight rebuy situations into new-task situations that give them a chance to obtain new business.

4. Supplier Search

The buyer now conducts a supplier search to find the best vendors. The buyer can compile a small list of qualified suppliers by reviewing trade directories, doing a computer search or phoning other companies for recommendations.

5. Proposal solicitation

In the proposal solicitation stage of the business buying process, the buyer invites qualified suppliers to submit proposals. In response, some suppliers will send only a catalogue or a salesperson. However, when the item is complex or expensive, the buyer will usually require detailed written proposals or formal presentations from each potential supplier.
Business marketers must be skilled in researching, writing and presenting proposals in response to buyer proposal solicitations. Proposals should be marketing documents, not just technical documents. Presentations should inspire confidence and should make the marketer's company stand out from the competition.

6. Supplier Selection

The members of the buying centre now review the proposals and select a supplier or suppliers. During supplier selection, the buying centre will often

draw up a list of the desired supplier attributes and their relative importance. In one survey, purchasing executives listed the following attributes as most important in influencing the relationship between supplier and customer: quality products and services, on-time delivery, ethical corporate behavior, honest communication and competitive prices.

7. Order-Routine Specification

The buyer now prepares an order-routine specification. It includes the final order with the chosen supplier or suppliers and lists items such as technical specifications, quantity needed, expected time of delivery, return policies and warranties.

8. Performance Review

In this stage, the buyer reviews supplier performance. The buyer may contact users and ask them to rate their satisfaction. The performance review may lead the buyer to continue, modify or drop the arrangement. The seller's job is to monitor the same factors used by the buyer to make sure that the seller is giving the expected satisfaction.

3.4. 3 Influence on Organizational Buying Decision

Business buyers are subject to many influences when they make their buying decisions. Some marketers assume that the strongest influences are economic. They think buyers will favor the supplier that offers the lowest price or the best product or the most service. They concentrate on offering strong economic benefits to buyers. However, business buyers actually respond to both economic and personal factors.

When suppliers' offers are very similar, business buyers have little basis for strictly rational choice. Because they can meet organizational goals with any supplier, buyers can allow personal factors to play a larger role in their decisions. However, when competing products differ greatly, business buyers are more accountable for their choice and tend to pay more attention to economic factor.

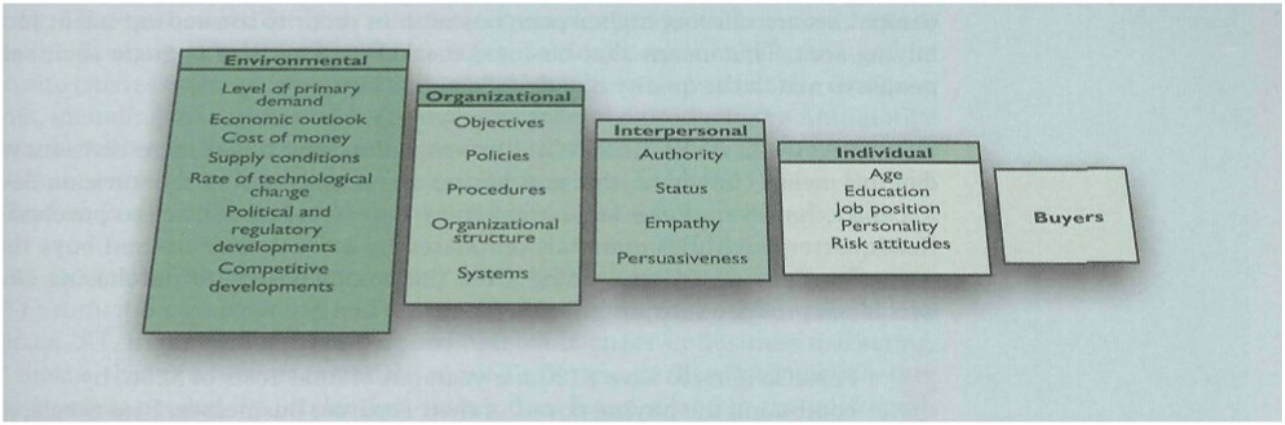


Figure 8. Main influences on business buying

Source: Kotler, Philip and Gary Armstrong (1999)

As you see in the figure above the various groups of influences on business buyers are - environmental, organization, interpersonal and individual.

I. Environmental Factors

Business buyers are influenced heavily by factors in the current and expected economic environment, such as the level of primary demand, the economic outlook and the cost of money. As economic uncertainty rises, business buyers cut back on new investments and attempt to reduce their inventories. An increasingly important environmental factor is shortages in key materials. Many

companies are now more willing to buy and hold larger inventories of scarce materials to ensure adequate supply. Business buyers are also affected by technological, political and competitive developments in the environment. Culture and customs can strongly influence business buyer reactions to the marketer's behavior and strategies, especially in the international marketing environment. The business marketer must watch these factors, determine how they will affect the buyer, and try to turn these challenges into opportunities.

II. Organizational Factors

Each buying organization has its own objectives, policies, procedures, structure and systems, which must be understood by the business marketer. Questions such as these arise; how many people are involved in the buying decision? Who are they? What arc their evaluative criteria? What are the company's policies and limits on its buyers?

III. Interpersonal Factors

The buying centre usually includes many participants who influence each other. The business marketer often finds it difficult to determine what kinds of interpersonal factors and group dynamics enter into the buying process. As one writer notes; 'Managers do not wear tags that say "decision maker" or "unimportant person". The powerful are often invisible, at least to vendor representatives.'2" Nor does the buying-centre participant with the highest rank always have the most influence. Participants may have influence in the buying decision because they control rewards and punishments, are well liked, have special expertise, or have a special relationship with other important participants. Interpersonal factors are often very subtle. Whenever possible, business marketers must try to understand these factors and design strategies that take them into account.

IV. Individual Factors

Each participant in the business buying-decision process brings in personal motives, perceptions and preferences. These individual factors are affected by personal characteristics such as age, income, education, professional identification, personality and attitudes towards risk. Also, buyers have different buying styles. Some may be technical types who make in-depth analyses of competitive proposals before choosing a supplier. Other buyers may be intuitive negotiators who are adept at pitting the sellers against one another for the best deal.

Unit Four

Market Segmentation, Targeting, and Positioning

4.1 Market Segmentation
4.2 Market Targeting
4.3 Market Positioning

4.1. Market Segmentation

4.1.1. Meaning of Market Segmentation

Markets consist of buyers, and buyers differ in one or more ways. They may differ in their wants, resources, locations, buying attitudes, and buying practices. Any of these variables can be used to segment a market. There is no single way to segment a market. A marketer has to try different segmentation variables, alone and in combination, hoping to find the best way to view the market structure.

Market segmentation is dividing a market into smaller segments with distinct needs, characteristics, or behavior that might require separate marketing strategies or mixes . The key for most small firms is to concentrate their efforts and resources on one – or at most two or three – clearly defined market segments in this way resource can be focused on the needs of that group. Research studies show a relationship between profitability and firms that do this and thereby gain a high share of that market segment. It is the act of dividing the total heterogeneous Market into smaller homogeneous markets having same or similar needs and wants.

4.1.2. level of marketing segmentation

Sellers have passed through the following level of marketing segmentation :

1. Mass Marketing

In mass marketing, sellers mass-produce, mass-distribute, and mass-promote one product to all buyers. The argument for mass marketing is that it should lead to the lowest costs and prices and create the largest potential market.

2. Product-variety Marketing(segment marketing)

In product-variety marketing, sellers produce two or more products that have different features, styles, and sizes. Here products are designed to offer variety to buyers rather than appeal to different market segments.

3. Niche marketing

Is focuses on subgroups within these segments. A niche is a more narrowly defined group, usually identified by dividing a segment into sub segments or by defining a group with a distinctive set of
traits who may seek a special combination of benefits. Whereas segments are fairly large and normally attract several competitors, niches are smaller and normally attract only one or a few competitors.

4. Micro marketing

Micro marketing is the practice of tailoring products and marketing programs to suit the tastes of specific individuals and locations. Micro marketing includes **local marketing** (Local marketing involves tailoring brands and promotions to the needs and wants of local customer groups—cities, neighborhoods, and even specific stores. Citibank provides different mixes of banking services in its branches depending on neighborhood demographics) and **individual marketing** (tailoring products and marketing programs to the needs and preferences of individual customers).

4.1.3. Importance of Market Segmentation

The purpose of segmentation is to find away of describing groups of customers so that the firm can better communicate with them. This allows the firm to tailor the marketing mix to the needs of that segment and communicate the offering in an appropriate way, through and appropriate medium. Some of the importance of market segmentation are;

- to design appropriate marketing mixes for each segments
- for best satisfaction of customers or consumers
- to know potential buyers
- for efficient utilization of resources or cost effective marketing work

It is particularly important for small business, which often lacks the resource to target large aggregate markets or to maintain wide range of differentiated product for varied market. Market segmentation allows a small business to develop a product and a market mix that fit a relatively homogeneous part of the total market. By focusing its resource on a specific customer base in this way, a small business may be able to carve out a market niche that it can serve better than its larger competitive.

Market segmentation allows a company to find a new approach for business and customer. When a company implements market segmentation, they are able to determine the needs and wants of customers and it is easier for them to satisfy a variety of people. Market segmentation will allow organizations the opportunity to develop new product that are based on the needs of the target market.

4.1.4. Basis of Segmenting the Market

The major variables used for segmenting the market are: *geographic, demographic, psycho-graphic,* and *behavior variables*.

a) Geographic Segmentation

Geographic segmentation calls for dividing the market into different geographical units such as nations, states, regions, cities, south, north, west, east, central, etc. The company can decide to operate in one or a few geographical areas. Many companies today are "regionalizing" their marketing programs – localizing their products, advertising, promotion, and sales efforts to fit the needs of individual regions, cities, and even neighborhoods.

b) Demographic Segmentation

Demographic segmentation consists of dividing the market into groups based on demographic variables such as age, sex, family size, family lifecycle, income, occupation, education, religion, race, and nationality. Demographic factors are the most popular bases for segmenting customer groups. One reason is that consumer needs, wants, and usage rates often vary closely with demographic variables. Another is that demographic variables are easier to measure than most other types of variables.

Consumer needs and wants change with age. Some companies offer different products or use different marketing approaches for different age and life cycle. Sex segmentation has long been used in clothing, hairdressing, cosmetics, and magazines. Income segmentation has long been used by the marketers of such products and services as automobiles, jewelry, clothing, and cosmetics. Most companies will segment a market by combining two or more demographic variables. For instance, age, sex, and income can be used as combined criteria for segmentation. Occupation, education, religion, and race can also be used singly or in combination for the purpose of segmentation.

c) Psycho-graphic Segmentation

In the psycho-graphic segmentation, buyers are divided into different groups based on social class, life style, or personality characteristics. People in the same demographic group can have very different psycho-graphic profiles. Social class has a strong effect on preferences in cars, clothes, home furnishings, leisure activities, and retails. Many companies design products or services for specific social classes, building in features that appeal to the target social class. People's interest in various goods is affected by their life styles and that the goods they buy express their life styles. Marketers are increasingly segmenting their markets by consumer life styles. Marketers also use personality variables to segment their markets. They give their products personalities that correspond to consumer personalities. Successful market segmentation strategies based on personality have been used for different types of products such as women's cosmetics, clothing, and liquor.

d) Behavior Segmentation

In behavior segmentation, buyers are divided into groups based on their knowledge, attitude, use, or response to a product. Many marketers believe that behavior variables are the best starting point for building market segments.

Buyers can be grouped according to occasions when they get the idea, make a purchase, or use a product. Many buyers may tend to buy some types of commodities for special occasions such as holidays. A powerful form of

segmentation is to group buyers according to the different benefits that they seek from the product. Benefit segmentation requires finding out the major benefits people look for in the product class, the kinds of people who look for each benefit, and the major brands that deliver each benefit.

Many markets can be segmented on the basis of user status as ex-users, non-users, first-time users, potential users, and regular users of a product. High-market-share companies are particularly interested in attracting potential users, whereas smaller firms will try to attract regular users to their brand. Potential users and regular users require different kinds of marketing appeals. Markets can also be segmented into light-, medium-, and heavy-user groups. Heavy users are often a small percentage of the market but account for a high percentage of total buying.

A market can also be segmented by consumer loyalty. Consumers can be loyal to brands, stores, and companies. Buyers can be divided into groups according to their degree of loyalty. Some consumers are completely loyal – they buy one brand all the time. Others are somewhat loyal – they are loyal to two or three brands of a given product, or favor one brand but sometimes buy others. Still other buyers show no loyalty to any brand. They want something different each time they buy, or always buy the brand on sale.

4.1.5. Requirements for Effective Segmentation

There are many ways to segment, but not all segmentations are effective. To be useful, market

segments must have certain characteristics. Among the most significant of these are:

- ***Measurability*:** the degree to which the size and purchasing power of the segments can be measured: Certain segmentation variables are difficult to measure.
- ***Accessibility*:** the degree to which the segments can be reached and served.
- ***Sustainability*:** the degree to which the segments are large or profitable enough. A segment should be the largest possible homogeneous group that goes with a tailored marketing program.
- ***Action ability***: the degree to which effective programs can be designed for attracting and serving the segments. A small company, for example, identified about six market segments, but its staff was too small to develop separate marketing programs for each segment.
- ***Homogeneity***: The segment must share at least one variable in common.
- ***Differentiable***: The segment must react differently to a marketing mix than another segment.

4.1.6. Procedures of Market Segmentation

The 5 stages of Market segmentation are discussed as follows;

i. Identify Market Segmentation Bases

The process starts when a company looks at the potential customers and identifies those customers as having particular characteristics - these characteristics will allow the marketing company to classify them into market segments. The segments should be selected so that you can group together customers who have similar needs.

ii. Develop Relevant Profiles for each Segment

Once the segments have been identified -You should develop a profile of the relevant customer needs and behaviors in each segment.

-What does your customer look like (profile)!!
-What do they like!!
-What do they do!!

You need this description to be very precise in order to make your marketing "match" the needs of the customer.

iii. Forecast Market Potentials

You create a "Forecast" of the market potential within each segment. This is the "go, no-go" stage. When you are at this stage you gather the information on sales potential to determine whether you can go further ahead and justify further analysis.

iv. Forecast Probably Market Share

Once the market potential has been estimated, you have to determine how much of that market you can obtain (what "market share" can you capture. Then you develop specific marketing strategy for the segments you are trying to develop.

v. Select Specific Market Segments

Finally, you take all this information, and identify specific target markets. For example, University students who have part-time jobs, and do not have credit cards.

4.2. Market Targeting

Market targeting :-the process of evaluating each market segment's attractiveness and selecting one or more segments to enter. in market targeting the firm has evaluate the various segments and decide how many and which segments it can serve best.

In evaluating Market Segments a firm must look at three factors:

- **segment size and growth:-** The company must first collect and analyze data on current segment sales, growth rates, and expected profitability for various segments.
- **segment structural attractiveness:-** The company also needs to examine major structural factors that affect long-run segment attractiveness. For example, a segment is less attractive if it already contains many strong and aggressive competitors.
- **company objectives and resources:-** Even if a segment has the right size and growth and is structurally attractive, the company must consider its own objectives and resources in relation to that segment. Some attractive segments could be dismissed quickly because they do not mesh with the company's long-run objectives. Even if a segment fits the company's objectives, the company must consider whether it possesses the skills and resources it needs to succeed in that segment. If the company lacks the strengths needed to compete successfully in a segment and cannot readily obtain them, it should not enter the segment. Even if the company possesses the required strengths, it needs to employ skills and resources superior to those of the competition in order to really win in a market segment. The company should enter only segments in which it can offer superior value and gain advantages over competitors.

After evaluating different segments, the company must decide which and how many segments it will target. In selecting target market the firm can adopt one of three market-coverage strategies. The three strategies are known as:

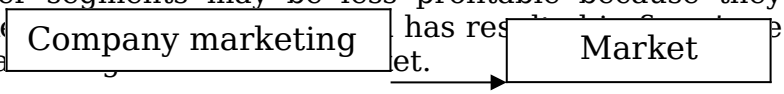
1. *Undifferentiated marketing*
2. *Differentiated marketing*
3. *Concentrated marketing*

1. Undifferentiated Marketing

The firm might decide to ignore market segment differences and go after the whole market with one market offer. The approach is called undifferentiated marketing. It focuses on what is common in the needs of consumers rather than on what is different. It designs a product and marketing program that appeal to the most buyers. It relies on mass distribution and mass advertising. It aims to give the product a superior image in people's minds.

Undifferentiated marketing provides cost economies. The narrow product line keeps down production, inventory, and transportation costs. The undifferentiated advertising program keeps down advertising costs. The absence of segment marketing research and planning lowers the costs of marketing research and product management.

It is very difficult to develop a product or brand that will satisfy all consumers. The firm using undifferentiated marketing typically develops an offer aimed at the largest segments in the market. When several firms do this, there is heavy competition in the largest segments and less satisfaction in the smaller ones. The result is that the larger segments may be less profitable because they attract heavy competition. R[illegible] has res[illegible]e being more interested in sma[illegible]et.

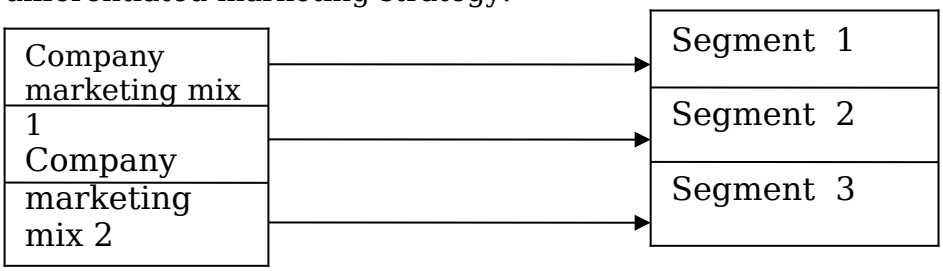


Undifferentiated Marketing

1. Differentiated Marketing

The firm may decide to target several market segments and design separate offers to each. This approach is called differentiated marketing. By offering product and marketing variations, the firm hopes for higher sales and a stronger position within each market segment. The firm hopes that a stronger position in several segments will strengthen consumers' overall identification of the company with the product category. And it hopes for greater repeat purchasing because the firm's offer better matches the customer's desire.

Differentiated marketing typically creates more total sales than undifferentiated marketing. But it also increases the cost of doing business. Modifying a product to meet different market segment requirements usually involves some research and development, engineering, or special tooling costs. It is usually more expensive to produce, for instance, seven units of seven different products than fifty units of one product. Developing separate marketing plans for the separate segments requires extra marketing research, forecasting, sales analysis, promotion planning, and reseller management. Trying to reach different market segments with different advertising increases promotion costs. Therefore, the company must weigh increased sales against increased costs when deciding on a differentiated marketing strategy.



Differentiated marketing

2. Concentrated Marketing

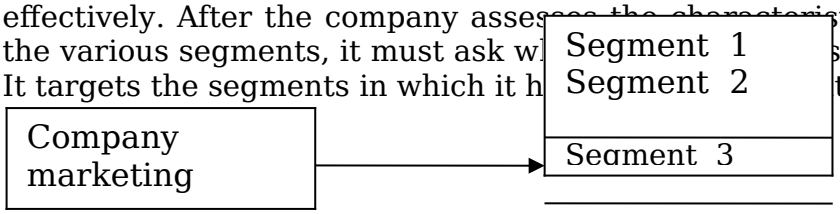
Many firms see a third possibility that is especially appealing when company resources are limited. Instead of going after a small share of a large market, the firm goes after a large share of one or a few sub-markets. This approach is called concentrated marketing. Through concentrated marketing the firm achieves a strong market position in the segments it serves, owing to its greater knowledge of the segment's needs and the special reputation it acquires. And it enjoys many operating economies because of specialization in production, distribution, and promotion. If the segment is chosen well, the firm can earn a high rate of return on its investment. At the same time, concentrated marketing involves higher than normal risks. Sales in the particular market segment can at any time dry up.

Many factors need to be considered when choosing a market-coverage strategy. Which strategy is best depends on company resources. When the firm's resources are limited, concentrated marketing makes the most sense. The best strategy also depends on the degree of product homogeneity. Undifferentiated marketing is more suited for homogeneous products. Products that can vary in design, such as automobiles, are more suited to differentiation or concentration.

The product's stage in the life cycle must also be taken into account. When a firm introduces a new product, it is practical to launch only one version, and in that case undifferentiated marketing or concentrated marketing makes the most sense. In the mature stage of the product lifecycle, differentiated marketing starts making more sense.

Another factor is market homogeneity. If buyers have the same tastes, buy the same amounts, and react the same way to marketing efforts, undifferentiated marketing is appropriate.

Finally, any company must identify the most attractive segments to target. The company first needs to collect data on the various market segments. The data would include current sales, projected sales-growth rates, expected profit margins, strength of competition, and marketing channel needs. Often, the company will want to target segments with large current sales, high growth rate, a high profit margin, weak competition, and simple marketing channel requirements. Usually no segments will be best in all these areas, and tradeoffs would have to be made. The largest segment, for instance, is not attractive unless the company has the skills and resources to serve the segment's needs effectively. After the company assesses the characteristics and requirements of the various segments, it must ask wh s business strengths best. It targets the segments in which it h tegic advantage.



Concentrated Marketing

4.3. Market Positioning

Once a company has decided which segments of the market it will enter, it must decide what positions it wants to occupy in those segments. The product of the company occupies some positions in the market. A product position is the way the product is defined by consumers on important attributes. Shortly, a product position can be described as the place the product occupies in consumers' minds relative to competing products.

Consumers are overloaded with information about products and services. They cannot reevaluate products every time they make a buying decision. To simplify buying decision making, they organize products into categories, they "position" products, services, and even companies in their minds. A product's position is a complex set of consumer perceptions, impressions, and feelings consumers hold

for the product compared with competing products. Consumers position products with or without the help of marketers. But marketers would not want to leave their products' positions for chances. They plan positions that will give their products the greatest advantage in selected target markets, and they design marketing mixes to create the planned positions.
The marketer can follow several positioning strategies. such as

- It can position its product on specific product attributes (price, performance, durability, etc).
- products can be positioned on the needs they fill or the benefits they offer (what actually buyers want out of the product).
- Products can also be positioned according to usage occasions (summer,winter,night,new-year, etc).
- A product can be positioned directly against a competitor (as leader, equivalent, second, etc).

The positioning task consists of three steps:

- Identifying a set of possible competitive advantages upon which to build a position
- Selecting the right competitive advantages
- Communicating and delivering the chosen position to the market

A company differentiates itself from competitors by better handling competitive advantages. It gains competitive advantages by offering consumers lower prices than competitors for similar products or by providing more benefits that justify higher prices. Thus the company must do a better job than competitors of keeping costs and prices and products to those of competitors and look for possible improvements. To the extent that it can do better than its competitors, it has achieved a competitive advantage.
Once the company has chosen a position, the company must take concrete steps to communicate and deliver the position to target consumers. All of the companies marketing mix efforts must support the positioning strategy. Positioning the company calls for concrete action. Thus if the company decides to build service superiority, it should go about quietly hiring and training more service people, find retailers who have a good reputation for service, and develop sales and advertising messages that broadcast its service superiority.
The company's positioning decisions determine who its competitors will be. When setting its positioning strategy, the company should look at its competitive strengths and weaknesses compared to those of competitors, and select position in which it can attain a strong competitive advantage.

IV.4. Differentiation

A company must try to identify the specific may it can differentiate its products to obtain a competitive advantage. ***Differentiation*** *is the act of designing a meaningful differences to distinguish the company's offering from competitors offering.* How exactly can a company differentiate its market offering from competitors? Here we will examine how a market offering can be differentiated along time dimensions: - product, services, personnel, channel or image.

A. Product Differentiation

Differentiation of physical products takes place along a continuous. At one extreme we find highly standards products that allow little variation. At the other extreme are products capable of high differentiation, such as automobiles, commercial holdings, and furniture. Here the seller faces an abundance of design parameters. The main product differentiations are features, performance, conformance, durability, reliability, reparability, style and design.

a. **Features: -** Features are characteristics that supplement the products basic function. The starting point of feature differentiation is a stripped

down, or “bare bones”, version of the product. The company can create additional version by adding extra features.

b. **Performance quality:-** Most products are established initially at one of four performance levels, low, average, high and superior. Performance quality refers to the level at which the products primary characteristics operate.

c. **Conformance quality:-** Buyers expect products to have a high conformance quality. Conformance quality is the degree to which all the produced units are identical and meet the promised target specifications.

d. **Durability: -** Durability is a very important product attribute to most buyers. Durability is a measure of the product’s expected operating life under natural and/or stressful conditions.

e. **Reliability:-** Buyers normally will pay a premium for product with more reliability. Reliability is a measure of the probability that a product will not manufacture or fail within a specified time period.

f. **Reparability: -** Buyers prefer products that are easy to repair. Reparability is a measure of the ease of fixing a product that manufactures or fails.

g. **Style: -** Buyers are normally willing to pay a premium for products that are attractively styled. Style describes the product’s looks and feel to the buyer. Style has the advantage of creating product distinctiveness that is difficult to copy. Under style differentiation, we must include packaging as a shying weapon, especially in food products, cosmetics, toiletries, and small-consumed appliances.

h. **Design:-** As competitions intensify, design will offer one of the most patent ways to differentiate and position a company’s products and services. Design is the totality of features that affect how a products look and functions in terms of customer requirements. Design is particularity important in making and marketing durable equipment, apparel, retail services and packaged goods. All of the qualities we’ve discussed under the meaning “Product differentiation are design parameters. The design has to figure out how much to invest in feature development, performance, conformance, reliability, reparability, style and so forth.

B. Service Differentiation

In addition to differentiating its physical products, a firm can also differentiate its services. When the physical product cannot easily be differentiated, the key to competitive success often lies in adding more value-adding service and improving their quality. The main service differentiation are ordering ease, delivery, installation, customer training, customers consulting, maintenance and repair, and a few others.

a. **Ordering Ease: -** Ordering ease refers to how easy it is for the customer to place an order with the company. For example, some company’s has eased the ordering process by supplying customers with computer terminals through which they send orders directly to the seller. Many banks are now providing home banking software to help customers get information and transact with the bank more efficiently.

b. **Delivery: -** Delivery refers to how well the product or service is delivered to the customers. It includes the speed, accuracy, and care attending the delivery process. Buyers will often choose the supplier with a better reputation for on-time delivery.

c. **Installation: -** Installation refers to the work done to make a product operational in its planned location. Buyers of heavy equipment expect good installation service from the vendor. For examples, some companies deliver all the purchased equipment to the site at the same time rather than sending in different components at different times.

d. **Customer Training: -** Customer training refers to training the customer's employees to use the vendor's equipment properly and efficiently. Some companies are not only selling and installs this expensive equipments but also takes on the responsibility for training the uses of this equipment.
e. **Customer Consulting: -** Customers consulting refer to data, information systems, and advising services that the seller offers free or for a price to buyers. Some sellers consult their buyers in setting up accounting and inventory systems, computer ordering systems and so forth.
f. **Maintenance and Repair:-** Maintenance and repair describes the company's service program for helping customers keep this purchased product in good working order. Automobile buyers are especially concerned with the quality of repair service that they can expect from this dealer.
g. **Miscellaneous Services:-** Companies can find many other ways to add value by differentiating their customer services. They can offer a better product warranty or maintenance contract than their competitors. They can establish patronage awards, as the airlines have done with their frequent-flyer programs.

C. Personnel Differentiation

Companies can gain a strong competitive advantage through hiring and training better people than their competitors do. Better-trained personnel exhibit six characteristics:

- Competence –The employees possess the required skill and knowledge.
- Courtesy –The employees are friendly, respectful and considerate.
- Credibility –The employees are trust worthy.
- Reliability –The employees perform the service consistently and accurately.
- Responsiveness –The employees respond quickly to customer's requests and problems.
- Communication –The employees make an effort to understand the customer and communicate clearly.

D. Channel Differentiations

Companies can achieve differentiation through the way they shape their distribution channel, particularly these channels coverage, expertise, and performance. For example, caterpillars success in the construction – equipment industry is based partly on its superior channel development. Its dealers are found in more locations than competitor's dealers and caterpillars dealers are typically better trained and perform more reliably.

E. Image Differentiations

Image is the way the public perceives the company or its products. The company designs an identity or positioning to shape the publics image, but other factors may intervene to determine each person's resulting image. An effective image does three things for a product. First, it conveys a singular message that establishes the product's character and value propositions. Second, it conveys this message in a distinctive way so that it is not confused with similar messages from competitors. Third, it delivers emotional power so that it stirs the hearts as well as the minds of buyers.

Symbols

A strong image consists of one or more symbols that trigger company or brands recognition. The company and brand logos should be designed for instant recognitions. The company might choose some object as a lion, a famous person, companies may also choose a color identifiers such as blue or red.

Written and audiovisual media

The chosen symbol must be worked into advertisements that convey the company or brand personality. The ads should convey a strong line, a mood, a performance level –Something distinctive. The messages should be replicated in other publications, such as annual reports, brochures, and catalogs. The company's stationery and business cards should reflect the same image that the company wants to convey.

Atmosphere

The physical space in which the organizations produces or delivers its products and services that looks friendly must choose the right building design, interior design, layout, colors, materials and finishing's.

Events: -

A company can tried an identity through the type of events it sponsors. The bottled water company came into prominence by laying at exercise tracks and sponsoring health sports events.

Chapter Five

Managing Products

7.1 The Meaning of Product
7.2 Classifications of Products
7.3 Development of New Product
7.4 Product Life Cycle
7.5 Branding, Packing, and Labeling

7.1 The Meaning of Product

In a narrow sense, a product is a set of attributes assembled in an identifiable form. Each product is identified by a commonly understood descriptive (or generic) name, such as steel, armament, insurance, tennis rackets, or entertainment. Product attributes such as brand name and post sale service that appeal to consumer motivation or buying patterns play no part in this narrow interpretation.

In marketing we need a broader definition of product to indicate that consumers are not really buying a set of attributes, but rather benefits that satisfy their needs. Thus consumers do not want sandpaper; they really want a smooth surface. To develop a sufficiently broad definition, let's start with product as an umbrella term covering goods, services, places, persons and ideas. Throughout this text, when we speak of products, we are using this broad connotation.

Thus, a product that provides benefits can be something other than a tangible good. Inn's product is a service that provides the benefit of a comfortable night's rest at a reasonable price. The MEDROC travel agency's product is a place that provides romance, sun & sand, relaxation, cross-cultural experiences, and other benefits. In a political campaign, the Democratic Party's product is a person

(Candidate) whom the party wants you to buy (vote for). The health society is selling an idea and the benefits of “not smoking”.
To further expand our definition, we treat each brand as a separate product. But the brand name suggests a product difference to the consumer, and this brings the concept of consumer want satisfaction into the definition. Going a step further, some consumers prefer open brand and others favor a different brand of a similar product.
Any change in a feature (design, color, size, packaging), however minor, creates another product. Each such change provides the seller with an opportunity to use a new set of appeals to reach what essentially may be a new market.
We are now ready for a definition that is useful to marketers. A product is a set of tangible and intangible attributes, including packaging, color, price, quality, and brand plus the sellers' services and reputation. A product may be goods, service, or place. Buyers are buying want satisfaction in the form of the benefits they expect to receive from the product.
Phillip Kotler defined a product as anything that can be offered to satisfy a need or want. A product many, therefore, be seen to embrace more than a brand, packaged good offered for sale. The definition has been widened to include services.
It is always important to know why customers buy products and what package and, among many other elements, for any product or service that might include:

- Design and Technical features
- Performance
- Quality
- Range (size, color etc)
- Maintenance and Running cost.
- Safety
- Before and After sales service
- Pollution and Environmental characteristics
- Product availability
- Image (fashion)

7.2. Levels of Product

In planning its market offering, the marketer needs to address five product levels. Each level adds more customer value, and the five constitute a customer-value hierarchy.

1. **The core product** :- is the core, problem solving benefits that consumers are really buying when they obtain a product or service. It answers the question what is the buyer really buying?
   Example . A hotel guest is buying rest and sleep.
2. **basic product:-** the marketer must turn the core benefit into a basic product. Thus a hotel room includes a bed, bathroom, towels, desk, dresser, and closet.
3. **expected product**:- a set of attributes and conditions buyers normally expect when they purchase this product. Hotel guests minimally expect a clean bed, fresh towels, working lamps, and a relative degree of quiet.
4. **augmented product**:- includes any additional consumer services and benefits built around the core and actual products. A Hotel can augment its product by including a remote control television set, fresh flowers, rapid check-in, express check-out, fine dining and room service and so on.
5. **potential product**:- which encompasses all the possible augmentations and transformations the product or offering might undergo in the future. While the augmented product describes what is included in the product today, the potential product points to its possible evolution. Here is where companies

search aggressively for new ways to satisfy customers and distinguish their offer. The recent emergence of all site hotels where the guest occupies a set of rooms represents an innovative transformation of the traditional hotel product. Some of the most successful companies add benefit to their offering that not only satisfying customers but also surprise and delight them. Delighting is a matter of exceeding the normal expectations and desires with in anticipated benefits Thus the hotel guests find candy on the pillow, or a bowl of fruit, or a video recorder with optional video tapes.

7.3. Classifications of Products

Both the government and private companies classify products but for different purposes. The government's classification method helps it collect information on industrial activity. Companies classify products to help develop similar marketing strategies for the wide range of products offered. Two major ways to classify products are by *degree of product tangibility and durability,* and by *type of user*.

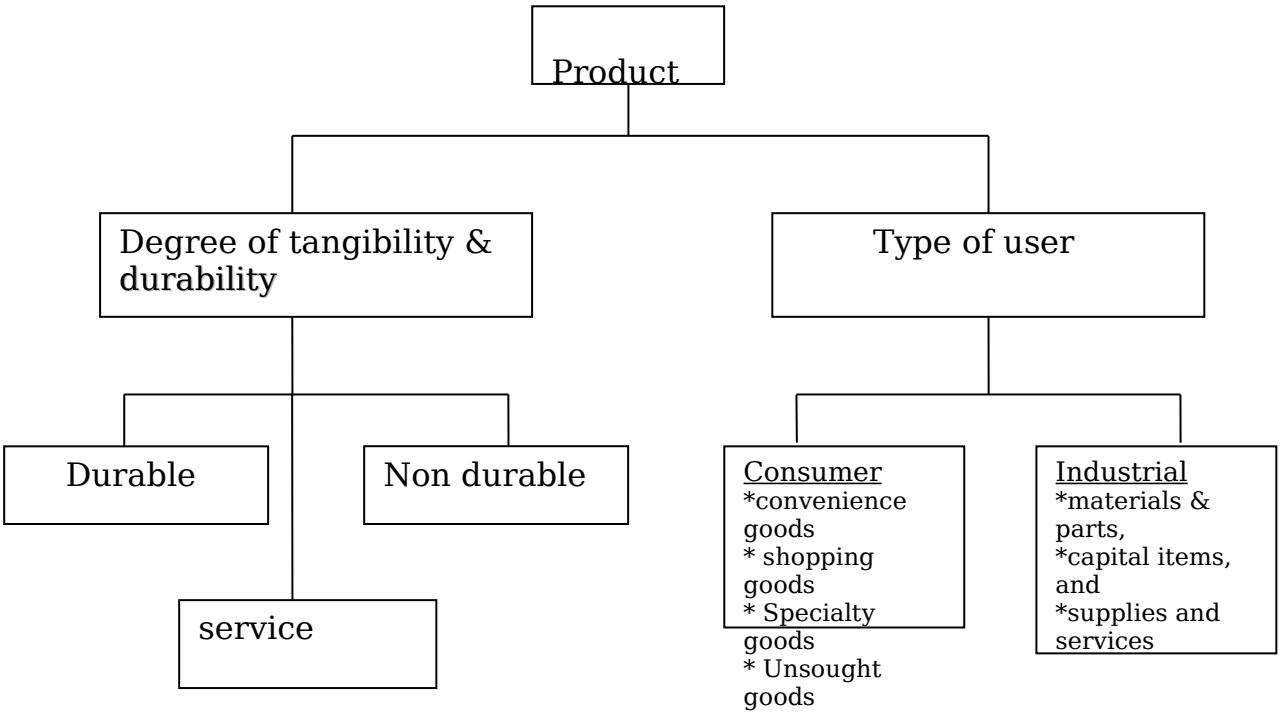


Figure 7. 2. Classification of Products

Degree of Product Tangibility and Durability

Classification by degree of tangibility divides products into one of three categories. First is ***non-durable good***, an item consumed in one or a few uses, such as soap, soft drinks, cigarettes, etc. This classification method also provides direction for marketing actions. Non-durable products are purchased frequently and with relatively low cost. Advertising is important to remind consumers of the item's existence, and wide distribution in retail outlets is essential.

Durable products, however, generally cost more than non-durable goods and last longer, so consumers usually deliberate longer before purchasing them. Such items as automobiles, machines, furniture, equipment, etc., can be considered as durable goods. Therefore personal selling is an important component in durable product marketing because it assists in answering consumer questions and concerns.

Services are defined as intangible activities, benefits, or satisfactions offered for sale, such as marketing research, health care, and education. Marketing is increasingly being used with services. People who provide the service are often the key to its success in the market because consumers often evaluate the product against the service provider they meet.

Type of User

The second major type of product classification is according to the user, as consumer goods and industrial goods. Consumer goods are products purchased by the ultimate consumer whereas industrial goods are products used in the production of other products, which are intended for resale. There are difficulties, however, with this classification because some products can be considered both as consumer and industrial items. The two broader classifications are given as *classifications for consumer goods* and *classifications for industrial goods.*

7.3.1. Classification of Consumer Goods

There are four types of consumer goods. They differ in terms of the effort the consumer spends on the decision, attributes used in purchase, and frequency of purchase. The four types of consumer goods are:

1. Convenience goods
2. Shopping goods
3. Specialty goods
4. Unsought goods

1. Convenience goods

A convenience good is a tangible product that the consumer knows enough about before going out to buy it and then actually buys it with a minimum of effort. Normally the advantages resulting from shopping around to compare price and quality are not considered worth the extra time and effort required to shop and compare. Convenience goods typically have a low unit price, are not bulky, and are not greatly affected by fade and fashion. Examples include soft drinks, sugar, cigarettes, ballpoint pen, soap, salt, etc.

2. Shopping goods

Shopping goods are items for which the consumer compares several alternatives against criteria, such as price, quality, or style. The process of searching and comparing continues so long as the customer believes that the potential benefits from a better purchase more than off sets the additional time and effort spent on shopping. With shopping goods, buying habits affect the distribution and promotion strategies of both the middlemen and manufacturer. Shopping goods manufacturers require fewer retail outlets because consumers are willing to look around for what they want. To facilitate comparison-shopping, manufacturers that believe their products are superior in price and/or quality try to place their products in stores located near other stores carrying competing items. Examples include shoes, trousers, furniture, utensils, etc.

3. Specialty goods

Specialty goods refer to tangible products for which consumers have strong brand preference and are willing to expend substantial time and effort in locating the desired brands. The consumer is willing to forgo more accessible substitutes to search for and purchase the desired brand.

Since consumers insist on a particular brand and are willing to expend considerable effort to find it, manufacturers can use fewer retail outlets. Because relatively few outlets are used and the product's brand name is important to buyers, both manufacturer and retailer advertise the product extensively. Examples include, cars, cameras, some kinds of tablets, TV set, etc.

4. Unsought goods

An unsought good is a new product that the consumer is not yet aware of or a product that the consumer is aware of but does not want right now. As the name suggests, a firm faces a very difficult, perhaps impossible, advertising and personal-selling job when trying to market unsought goods. The best approach may be to make consumers aware of the products so they will buy the advertised brand when the need arises.

7.3.2. Classification of Industrial Goods

A major characteristic of industrial goods is that sales of items are often the result of derived demand; that is, sales of industrial products frequently result (or are derived) from the sale of consumer goods. Industrial goods are classified not only on the attributes the consumer uses, but also on how the item is to be used. Thus industrial products may be classified as:

1. materials and parts,
2. capital items, and
3. supplies and services

1. Materials and parts

materials and parts are goods that enter the manufacturer's product completely or Items used in the manufacturing process that become part of the final product are production goods . They fall into two classes: **raw materials**, and **manufactured materials and parts**.

a. **Raw materials**

raw materials are fall into two major groups: ***farm products*** (wheat, cotton, livestock, fruits, and vegetables). Farm products are supplied by many producers, who turn them over to marketing intermediaries, who provide assembly, grading, storage, transportation, and selling services.. and ***natural products***(fish, lumber, crude petroleum, iron ore). Natural products are limited in supply. They usually have great bulk and low unit value and must be moved from producer to user. Fewer and larger producers often market them directly to industrial users. Because users depend on these materials, long-term supply contracts are common. The homogeneity of natural materials limits the amount of demand-creation activity. Price and delivery reliability are the major factors influencing the selection of suppliers.

b. Manufactured materials and parts

Manufactured materials and parts are fall into two categories: ***component materials*** (iron, yarn, cement, wires) Component materials are usually fabricated further—pig iron is made into steel, and yarn is woven into cloth. The standardized nature of component materials usually makes price and supplier reliability key purchase factor. ***component parts*** (small motors, tires, castings). Component parts enter the finished product with no further change in form, as when small motors are put into vacuum cleaners, and tires are put on automobiles. Most manufactured materials and parts are sold directly to industrial users. Price and service are major marketing considerations, with branding and advertising less important.

2. Capital items

Capital items are long-lasting goods that facilitate developing or managing the finished product. They include two groups: installations and equipment.

a. Installations

Installations consist of ***buildings*** (factories, offices) and ***heavy equipment*** (generators, drill presses, mainframe computers, elevators). Installations are major purchases. They are usually bought directly from the producer, whose sales force includes technical personnel, and a long negotiation precedes the typical sale. Producers must be willing to design to specification and to supply post sale services. Advertising is much less important than personal selling.

b. Equipment

Equipment includes portable factory equipment and tools (hand tools, lift trucks) and office equipment (personal computers, desks). These types of equipment don't become part of a finished product. They have a shorter life than installations but a longer life than operating supplies. Although some equipment manufacturers sell direct, more often they use intermediaries, because the market is geographically dispersed, buyers are numerous, and orders are small. Quality, features, price, and service are major considerations. The sales force tends to be more important than advertising, although advertising can be used effectively.

3. Supplies and services

Supplies and services are short-term goods and services that facilitate developing or managing the finished product.

- ***Supplies*** are of two kinds: maintenance and repair items(paint, nails, brooms) and operating supplies(lubricants, coal, writing paper, pencils) . Supplies are the equivalent of convenience goods; they are usually purchased with minimum effort on a straight-rebuy basis. They are normally marketed through intermediaries because of their low unit value and the great number and geographic dispersion of customers. Price and service are important considerations, because suppliers are standardized and brand preference is not high.
- ***services*** are intangible activities to assist the industrial buyer .it include maintenance and repair services(window cleaning, copier repair) and business advisory services(legal, management consulting, advertising). Maintenance and repair services are usually supplied under contract by small producers or from the manufacturers of the original equipment. Business advisory services are usually purchased on the basis of the supplier's reputation and staff.

7.3. Development of New Products

Competition is strong and dynamic in most markets. So a firm must keep developing new products – as well as modifying its current products – to meet changing customer needs and competitors' actions. Not having an active new product development process means that consciously – or sub-consciously – the firm has decided to work only with its current products and go out of business. New product development is not an optional matter. It has to be done just to survive in today's dynamic markets. Here you will study two basic issues: *A new product* and the *stages involved in the development of a new product.*

What is a "New" Product?

Just what is a "new" product? Must a product be revolutionary, never before seen, before we can class it as new? How new a product is affects how it should be marketed. There are numerous connotations of "new product," but we will focus our attention on four distinct categories of new products:

- products that are really innovative – truly unique. Any new product in this category satisfies a real need that is not being satisfied at the time it is introduced.
- if a product is functionally different from existing offerings, it can be defined as new. but for most products the innovation is more a modification of an old product than a dramatic functional change. Replacements that is significantly different from benefits provided fall in this category. Example: the proposed electrical car.
- initiative products that are new to a particular company but not new to the market. This is a product new to the company but offered by competing firms.

- new markets can lead to new products. Sometimes existing products can become "new" products in a new market.

Ultimately, of course, whether a product is new or not depends on how the intended market perceives it. If buyers consider it to be significantly different from competitive product in some relevant characteristic (such as appearance or performance), then it is indeed a new product.

To achieve strong sales and healthy profits, every producer of business goods or consumer goods should have an explicit strategy with respect to developing and evaluating new products. This strategy should guide every step in the process of developing a new product.

A new-product strategy is a statement identifying the role a new product is expected to play in achieving corporate and marketing goals. For example, a new product might be designed to protect market share or maintain the company's reputation as an innovator. Or a new product's role might be to meet a specific return-on-investment goal or establish a position in a new market. A new product's intended role will also influence the type of product to be developed.

A new-product strategy has been identified only in recent years. The process of developing new products has become more efficient and more effective for turns with strategies because they have a better idea of what they are trying to accomplish.

Stages in the Development Process

Guided by a company's new-product strategy, a new product is best developed through a series of six stages. Compared to unstructured development, the formal development of new products provides benefits such as higher success rates, increased customer satisfaction, and greater achievements of time, quality, and cost objectives for new products.

At each stage, management must decide whether to proceed to the next stage, abandon the product, or seek additional information. The stages in new product development include: *idea generation, screening ideas, business analysis, development, market test,* and *commercialization*.

1. Idea generation

New product development starts with an idea. New ideas can come from a company's own sales or production staff, middlemen, research and development unit, competitors, or other sources, such as trade associations, advertising agencies, or government agencies. Analyzing new and different views of the company's markets helps a marketing manager spot opportunities that have not yet occurred to competitors or even to potential customers.

No one firm can always be first with the best new ideas. So the search for ideas should include attention to what current or potential competitors are doing.

Finding new-product ideas should not be left to chance. Companies need a format procedure for seeking new ideas to assure a continual flow of new-but sound- ideas. The importance of a continual flow is obvious. It makes it possible to spot an opportunity early-while there is still time to do something about it. Although later steps will eliminate many ideas, a company must have some that succeed.

2. Screening ideas

At this stage new-product ideas are evaluated to determine which ones warrant further study. A "good" new idea should eventually lead to a product that will give the firm a competitive advantage-hopefully one that will last. Typically, a management team screens the pool of ideas.

3. Business analysis

A surviving idea is expanded into a concrete business proposal. That means management:

- Identifies product features,
- Estimates market demand, competition, and the product's profitability,
- Establishes a program to develop the product, and
- Assigns responsibility for further study of the product's feasibility.

Business analysis involves specifying the features of the product and the marketing strategy needed to commercialize it and making necessary financial projections. This is the last checkpoint before significant capital is invested in creating a prototype of the product. Economic analysis, marketing strategy review, and legal examination of the proposed product are conducted at this stage. It is at this point that the product is analyzed relative to its existing synergies with the firm's marketing and technological strengths.

The marketing strategy review studies the new product idea in relation to the marketing program to support it. The proposed product is assessed to determine whether it will help or hurt sales of existing products. Likewise, the product is examined to assess whether it can be sold through existing channels or if new outlets will be needed.

After the products' important features are defined, economic considerations focus on several issues, starting with costs of research and development, production and marketing. For financial projections, the firm must also forecast the possible revenues from future product sales and forecast market shares.

As an important aspect of the business analysis, the proposed new product is studied to determine whether it can be protected with a patent. An attractive new product proposal is one in which the technology can be patented or not easily copied.

4. Development

If the results of the business analysis are favorable, then a prototype (or trial model) of the product is developed. In the case of goods, a small quantity of the trial model is manufactured to designated specifications. Laboratory tests and other technical evaluation are carried out to determine whether it is practical to produce the product. A firm may be able to construct a prototype of a new product but be unable to manufacture the new product in large quantities or at a cost that is low enough to stimulate sales and still yield a profit. In the case of services, the facilities and procedures necessary to produce and deliver the new product are designed and tested.

Outsiders seldom understand the technical complexities of the development stage, which involves not only manufacturing the product but also performing laboratory and consumer tests to ensure that it meets the standards set.

5. Market tests

Unlike the internal tests conducted during proto-type development, these tests involve actual consumers. A new tangible product may be given to a sample of people for use in their households (in the case of consumer goods) or their organizations (in the case of a business good). Following this trial, consumers are asked to evaluate the product. Consumer-use tests are less practical for services due to their intangible nature. This stage in new-product development often entails test marketing, in which the product is placed on sale in a limited geographical area. Results, including sales and repeat purchases, are monitored by the company that developed the products, and perhaps by competitors as well. In this stage the product's design and production plans may have to be adjusted as a result of test findings. Following market tests, management must make a final "go–no go" decision about introducing the product.

6. Commercialization

In this stage, full-scale production in marketing programs is planned and, finally, implemented. Up to this point in development, management has virtually

complete control over the product. Once the product is "born" and enters its life cycle, however, the external competitive environment becomes a major determinant of its destiny.

In the six-stage process, the first three stages are particularly critical because they deal with ideas and, as such, are the least expensive. More important, many products fail because the idea or the timing is wrong and the first three stages are intended to identify such situations. Each subsequent stage becomes more costly in terms of finance and human resources necessary to carry out the required tasks. Some companies are trying to bring new products to market faster than their competitors, skip stages in the development process. The most common omission is the fifth stage i.e. market tests. Without this stage, however, the company lacks consumer reactions to the proposed product.

The development process of new products is expensive and often time consuming, but the results can lead to commercialize a product for the market place. This topic covers the marketing of a new product, its entry into the market, its life, its brand name and package design. Consumers first see new products at the commercialization stage but these products don't always live forever.

7.4. Product Life Cycle

Products, like people, have been viewed as having a life cycle. A product's life cycle can have a direct bearing on a company's survival. A product lifecycle consists of four stages: introduction, growth, maturity, and decline. The concept of product life applies to a generic category of product and not to specific brands. A life cycle can be graphed by plotting aggregate sales volume for generic product category over time, usually years. It is also worthwhile to accompany the sales volume curve with the corresponding profit curve for the product category.

The shapes of these two curves vary from one product to another. Still, for most categories, the basic shapes and the relationship between the sales and the profit curves are illustrated below. In this typical life cycle, the profit curve for most new products is negative (signifying a loss) through much of the introductory stage. In the latter part of the growth stage, the profit curve starts to decline while sales volume is still rising. Profits decline because companies in an industry usually must increase their advertising and selling efforts or cut their prices (or both) to sustain sales growth in the face for intensifying competition during the maturity stage.

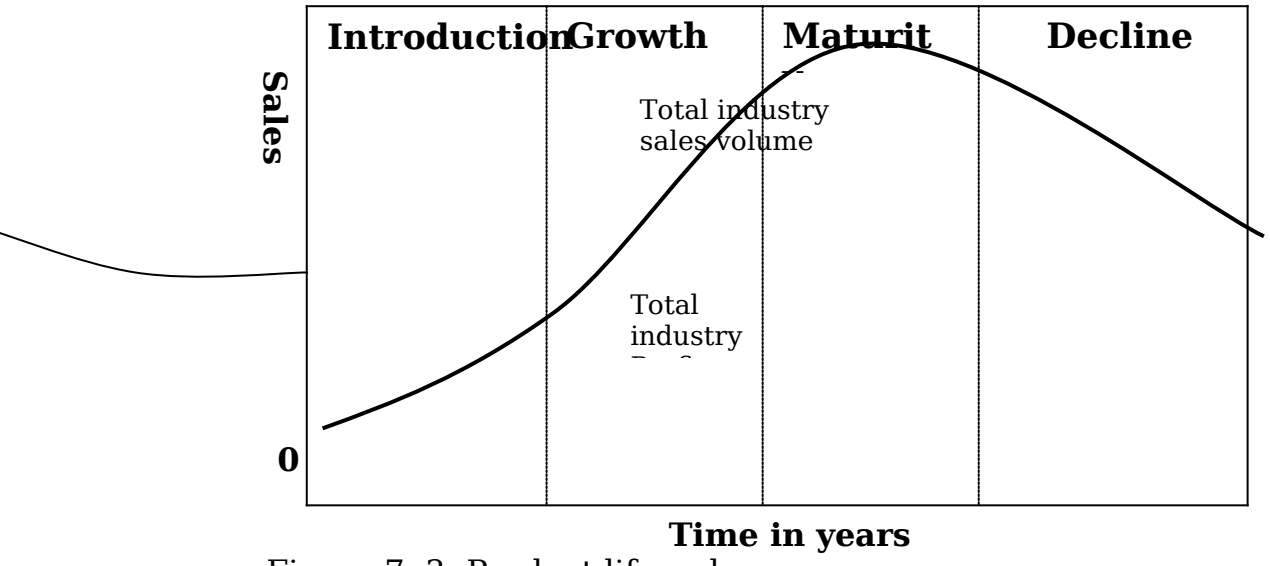


Figure 7. 3: Product lifecycle

Source: Skinner and Ivancevich, (1992)

Introduction Stage

The introduction stage of the product life cycle occurs when the product first enters the market. At this stage, sales grow slowly and profit is little.

This introductory (sometimes called pioneering) stage is the most risky and expensive one, because substantial amount of money must be spent in seeking consumer acceptance of the product. But many products are not accepted by a significant number of consumers and fail at this stage. For really new products, there is very little direct competition. Thus, the promotional program is designed to stimulate demand for the entire product category rather than only the seller's brand. Demand for a specific brand is referred to as a selective demand and occurs later in the life cycle.

Other marketing mix variables also are important at this stage. Gaining distribution outlets for the product is often difficult because retailers may be hesitant to carry a new product. Moreover, in this stage a company often restricts the number of variations of the product to ensure comfort of the product quality. During introduction, pricing can be either high or low. A high initial price may be used as part of a skimming strategy to help the company recover the costs of development, as well as capitalize on the price insensitivity of early buyers. However, high prices also tend to make competitors more eager to enter the market because they see the opportunity for profit. To discourage competitive entry, a company can price low, a condition referred to as penetration pricing. This pricing strategy also helps build market share, but a company must closely monitor costs.

Marketing Strategies during Introduction Stage

During this stage, the firm used several strategies; some of the strategies are:

4. A rapid skimming strategy consists of launching the new product at a high price and a high Promotion level.

Assumptions.

1. A large part of the potential market is unaware of the product,
2. Those who asking price,
3. The firm faces potential competition and wants to build up brand preference.

2. A slow skimming strategy consists of launching the new product at a high price and low promotion.

- Assumptions.

1. The market is limited in size:
2. Most of the market is aware of the product.
3. Buyers are willing to pay a high price, and
4. Potential competition is not imminent.

3. A rapid penetration strategy

- Consists of launching the product at a low price and spending heavily on promotion.
- This strategy promises to bring about the fastest market penetration and the largest market share.
- This strategy makes sense when
  - ✓ The market is large;
  - ✓ The market is unaware of the product.

- ✓ Most buyers are price sensitive
- ✓ There is strong potential competition, and
- ✓ The company's unit manufacturing costs fall with the scale of production and accumulated manufacturing experience.

4. A slow-penetration strategy
   - ☛ Consists of launching the new product at a low price and low level of promotion.
   - ☛ The low price will encourage rapid product acceptance, and the company keeps its promotion costs down in order to realize more net profit.
   - ☛ This strategy makes sense when
     1. The market is larger
     2. The market is highly aware of the product
     3. The market is price sensitive, and
     4. There is some potential competition.

Growth Stage

The second stage of the product life cycle, growth, is characterized by rapid increase in sales, and it is in this stage that competitors appear. The result is that industry profit usually peaks during the growth stage. The emphasis of advertising shifts to selective demand, in which product benefits are compared with those of competitors' offerings.

Products in the growth stage have an increase in sales because of new people trying the product and a growing proportion of repeat purchaser-people who tried the product, were satisfied, and buy again. As a product moves through the life cycle, the ratio of repeat to trial purchase grows. Failure to achieve substantial repeat purchase usually means an early death for a product. At the growth stage changes start to appear in the product. To help differentiate the brand from those of competitors as improved version or new features may be added to the original design.

Marketing Strategies in the Growth Stage –

During this stage, the firm used several strategies to sustain market growth as long as possible:

1) the firm improves product quality and adds new product features and improved styling.
2) the firm adds new models and flanker products.
3) it enters new market segments.
4) it enters new distribution channels.
5) it shifts some advertising from building product awareness to bringing about product conviction and purchases.
6) It lowers prices at the right time to attract the next layer of price-sensitive buyers.

Maturity Stage

The third stage, maturity, is characterized by a leveling off of total industry sales revenue. Also, marginal competitors begin to leave the market. Most consumers who would buy the product are either repeat purchasers of the item or have tried and abandoned it. Profit declines because there is fierce price competition among sellers and the cost of gaining each new buyer at those stages is greater than the resulting revenue.

Promotion becomes more important during the market maturity stage. Products may differ only slightly if at all. Most competitors have discovered the most effective appeals – or copied the leaders. Increasingly the various products become almost the same in the minds of potential consumers.

The stage can be divided into three phases.

In the first phase, Growth Maturity,

- The sales – growth rate starts to decline.
- There are one new distribution channels to fill, although some laggard buyers still enter the market.

In the second phase, stable maturity

- Sales become level on a per capital basis because of market saturation, most potential consumers have tried the product, and future sales are governed by population growth and replacement demand.

The third Phase, Decline maturity

- Sales now starts to decline and customers start moving towards other products and substitutes.

Marketing Strategies during the Decline Stage

Harrison distinguished five decline strategies open to the firm:

1) Increasing the firm's investment (to dominate or strong then its competitive position)
2) Maintaining the firm's investment level until the uncertainties about the industry resolved.
3) Decreasing the firm's investment level selectively, by sloughing off the unpromising customer groups, while simultaneously strengthening the firm's investment: posture within the lucrative nieces of enduring customer demands.
4) Harvesting for (milking) the firm's investment to recover cash quickly, regardless of the resulting investment posture. Divesting the business quickly by disposing of its assets as advantageously as possible.

Decline Stage

For most products, a decline stage, as gauged by sales volume for the total category, is inevitable for one of the following reasons:

- The need for the product disappears
- A better or less expensive product is developed to fill the same need
- People simply grow tired of a product (a clothing style, for instance) so it disappears from the market

The decline stage is the beginning of the end and occurs when sales and profits are steadily dropping.

Products in decline tend to consume a disproportionate share of management time and financial resources relative to their worth. To handle a declining product, a company follows one of three strategies.

- *Deletion*: the most drastic action, deletion, is dropping the product from the line. Companies that delete a product have specified policies to meet customer obligations, but customer objections to a product deletion are common.
- *Harvesting*: A second strategy, harvesting, is when a company retains the product but reduces support costs. The product continues to be offered, but sales people do not allocate time in selling, nor are

advertising costs spent. The purpose of harvesting is to maintain the ability to meet customer requests.

- *Contracting*: Some companies operate on a scale that makes it financially unwise for them to carry a product after sales decline below a certain level. However, this same sales level might be profitable for a smaller company, and the larger firm may contract with a smaller company to manufacture the product. In this way its production budget is freed for more profitable items, but the item is still available to customers. An alternative to contracting manufacturing is to contract the marketing. Some companies find that there manufacturing efficiencies allow them to continue producing the product but require others to sell it.

The Role of the Product Manager

An important task for a firm is to manage its products through the successive stages of their life cycles. This section discusses the *role of the product manager* who is usually responsible for this and who analyses three ways to manage a product through its life cycle:

1. Modifying the product,
2. Modifying the market, and
3. Repositioning the product.

1. Modifying the product

Product modification involves altering a product's characteristics, such as its quality, performance, or appearance, or tries to increase and extend the product's sales. New features or packages can be used to change a product's characteristics and give the sense of a revised product.

2. Modifying the market

With marketing modification strategies, a company tries to increase a product's use among existing customers, create new use situations, or find new customers.

3. Repositioning the product

Often a company decides to reposition its product or product line in an attempt to prevent sales decline. Product repositioning is changing the place a product occupies in a consumer's mind relative to competitive products. A firm can reposition a product by changing one or more of the four marketing mix elements: the product, price, distribution channel, or promotion mix.

5.4. Product attributes

Developing a product or service involves defining the benefits that it will offer. These benefits are communicated and delivered by product attributes such as quality, features, and style and design.

1. **Product Quality :-**The characteristics of a product or service that bear on its ability to satisfy stated or implied customer needs.
2. **Product Features:** - are a competitive tool for differentiating the company's product from competitors' products.
3. **Product Style and Design:-** Another way to add customer value is through distinctive product style and design. Some companies have reputations for outstanding style and design. Design is a larger concept than style. Style simply describes the appearance of a product. Styles can be eye catching or yawn producing. A sensational style may grab attention and produce pleasing aesthetics, but it does not necessarily make the product perform better. Unlike style, design is more than skin deep—it goes to the very heart of a product. Good design contributes to a product's usefulness as well as to its looks. Good style and design can attract attention, improve product performance, cut production costs, and give the product a strong competitive advantage in the target market.

7.6. Branding, Packaging, and Labeling

Three basic components related to a company's product include *branding, packaging, and labeling*. These components are briefly presented as follows.

1. Branding and its Types

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

- Brand name: is part of brand, which is alterable. Example: Sony, JVC
- Brand mark: is part of brand, which cannot be altered.
- Trademark: a registered symbol or a brand name for legal protection.
- Copyright: exclusive right to reproduce, publish, and sale the matter and form of literally musical and artistic work.

A) Importance of branding

Branding is important as a means of distinguishing a company's offering, and differentiating one particular product from its competitors. Some of the importance of brand includes:

- Helping the seller to process the good easily and track down problems
- Getting legal protection for your product
- Attracting loyal set of customers
- Building corporate image i.e. the moment your brand is known, you can sell other product easily
- Dealers (distributors) also prefer brand names
- Consumer identifies the product difference through brand. However, brand may have some disadvantages. This includes high production cost, high marketing cost and high legal cost.

B) Selecting a Brand Name:

A good brand name should be able to meet a number of criteria such as being unique, short, memorable and able to connote an important quality or image.
Four criteria are mentioned most often in selecting a good brand name:

- The name should suggest the product benefits and use.
- Be easy to pronounce, spell, and remember-simple, short, one-syllable names.
- Be distinctive
- Be adaptable to new products that may be added to the product line
- Be capable of registration and legal protection

C) Types of Branding

There are different types of branding. These are:

a. Individual Brand name: - here for each product refers to many brand name. Example, Procter and gambles washing powder has separate names Arial, Tide, and Clean.
b. Blanket family name for all products: only one brand name for all products. Example, Philips TV, Philips Radio etc----
c. Company name and individual product name: Company name joined with brand name. Example, Ford Motors with Ford car

D) Brand Piracy

Brand Piracy is one of the main categories of Fraud. Kai Kati (1981) identifies five different basic ways of forging famous trade markets, which have been developed.

a. Outright piracy: false product in the same form and same trademark as the Original. Records and Tapes are common examples.
b. Reverse engineering: stripping down the original product and then coping it, under selling the original manufactures. This is happening currently in electronics industry.

c. Counterfeiting: altering the products quality without changing trade mark i.e. by attaching the brand which does not belong to the product
d. Passing off: modifying both the product and trade mark adapting a trade mark that is similar in appearance, phonetic, quality or meaning to the original product.
    Example 1: Phillips for Philips
    Example 2: Adibas for Adidas

E) Branding Strategy

A company has four choices when it comes to brand strategy (see Figure 2). It can introduce *line extensions* (existing brand names extended to new forms, sizes, and flavors of an existing product category), *brand extensions* (existing brand names extended to new product categories), *multi brands* (new brand names introduced in the same product category), or *new brands* (new brand names in new product categories).

Line Extensions*:* Line extensions occur when a company introduces additional items in a given product category under the same brand name, such as new flavors, forms, colors, ingredients, **or** package sizes.

An organization might introduce line 'extensions as a low-cost, low-risk way to introduce new products in order to meet consumer desires for variety, to utilize excess capacity, or simply to command more shelf space from resellers. However, line extensions involve some risks. An overextended brand name might lose its specific meaning or heavily extended brands can cause consumer confusion or frustration

Another risk is that sales of an extension may come at the expense of other items in the line. A line extension works best when it takes sales away from competing brands, not when it "cannibalizes" the company's other items.

Brand Extensions*:* A brand extension involves the use of a successful brand name to launch new or modified products in a new category. A brand extension gives anew product instant recognition and faster acceptance. It also saves the high advertising costs usually required to build a new brand name. At the same time, a brand extension strategy involves some risk. The extension may confuse the image of the main brand.

If a brand extension fails, it may harm consumer attitudes toward the other products carrying the same brand name. Further, a, brand name may not be appropriate to a particular new product, even if it is well made and satisfying.

Multi brands: Companies often introduce additional brands in the same category.

Multi-branding offers a way to establish different features and appeal to different buying motives. It also allows a company to lock up more reseller shelf space. Finally companies may develop separate brand names for different regions or countries, perhaps to suit different cultures or languages.

Major draw back of multi-branding is that each brand might obtain only a small market share, and none may be very profitable. The company may end up spreading its resources over many brands instead of building a few brands to a highly profitable level. These companies should reduce the number of brands they sell in a given category and set up tighter screening procedures for new brands.

New Brands: A company may create a new brand name when it enters a new product category for which none of the company’s current brand names are appropriate.

As with multi branding, offering too many new brands can result in a company spreading its resources too thin. In some industries, such as consumer-packaged goods, consumers and retailers have become concerned that there are already

too many brands, with too few differences between them.

2. Packaging

Packaging is the activity of designing and producing a container or a wrapper for product. Packaging promotes and protects the product. Packaging can be important to both sellers and customers. It can make a product more convenient to use or store-and prevent spoiling or damage. Good packaging makes products easier to identify-and promotes the brand. The packaging component of a product refers to any container in which it is offered for sale and on which information is communicated. To a great extent, the customer's first exposure to the product is the package, and it is an expensive and important part of the marketing strategy.

Despite the cost, packaging is essential because packages provide important benefits for the manufacturer, retailer, and ultimate consumer.

- *Communication benefits:* A major benefit of packaging is the information on it, which conveys to the consumer such things as directions on how to use the product and the composition of the product that is needed to satisfy legal requirements of product disclosure. Other information consists of seals and symbols, either government-required or commercial seals of approval.
- *Functional benefits:* Packaging often plays an important functional role, such as convenience, protection, or storage. Functional value of packaging is in extending storage and shelf life (the time a product can be stored before it spoils). New technology allows products requiring refrigeration to be packed in paper-sealed containers, which dramatically increase their shelf life.
- *Perpetual benefits*. A third component of packaging is the perception created in the consumer's mind. A package can connote status, economy, or even product quality.

Packaging is in the public eye today, largely because of environmental issues. Specific concerns are:

- Packaging depletes natural resources. This concern has been addressed through the use of recycled materials in packaging. A point in favor of effective packaging is that it minimizes spoilage, thereby reducing a form of resource waste.
- Packaging is too expensive. Even in seemingly simple packaging, such as for soft drinks, as much as one half of the production cost is for the container; still effective packaging reduces transportation costs and spoilage losses.
- Packaging is deceptive. Government regulations plus greater integrity on the part of business firms regarding packaging have alleviated this concern to some extent.

Marketing executives are challenged to address these criticisms. At the same time they must retain or even enhance the positive features of packaging, such as product protection, consumer convenience, and marketing support.

3. Labeling

Labeling, which is closely related to packaging, is another product feature that requires managerial attention. A label is the part of a product that carries information about the product and the seller. A label may be a part of a package, or it may be a tag attached to the product. Obviously there is a close relationship among labeling, packaging, and branding.

Labels fall into three primary kinds.

- A brand label is simply the brand alone applied to the product or package.
- A descriptive label gives objective information about the product's use, construction, care, performance, and/or other pertinent features. On a

descriptive label for a can of corn, there will be statements concerning the type of corn, style, can size, number of servings, other ingredients, and nutritional contents.

- A grade label identifies the product's judged quality with a letter, number, or word.

Brand labeling is an acceptable form of labeling, but it does not supply sufficient information to a buyer. Descriptive labels provide more product information but not necessarily all that is needed or desired by a consumer in making a purchase decision.

Unit Six
Pricing Products

8.1 Natures and Importance of Price
8.2 Pricing objectives
8.3 Factor affecting Pricing Decisions
8.4 Pricing Approaches
8.5 Pricing Strategies

8.1. Nature and Importance of Price

The price you paid for goods and services goes by many names. You pay rent for an apartment, interest for use of money, and a premium for insurance. Your dentist charges you a fee, professional or social organization charges dues, and transportation companies charge a fare. In business a consultant may require a repayment for services rendered, an executive is given a salary, a salesperson receives a commission, and a worker is paid a wage. Of course, what you pay for clothes or a haircut is termed a price.

Price is *the amount of money and /or products that are needed to acquire some combination of another product and its accompanying service.* Price is the money or other considerations (including other goods and services) exchanged for the ownership or use of goods or services. The practice of exchanging goods and services for other goods and services rather than for money is called ***barter.***

Price is often used to indicate value when it is paired with the perceived benefits of a product or service. Specifically, value can be defined as the ratio of perceived benefits to price (Value = Perceived benefits/price). This relationship shows that for a given price, as perceived benefits increase, value increases. Also, for a given price, value decreases when perceived benefits decrease. Creative marketers engage in value pricing, the practice of simultaneously increasing product and service benefits and decreasing price.

Pricing is also a critical decision made by a marketing executive, because price has a direct effect on a firm's profits. This is apparent from a firm's profit equation:

Profit = Total Revenue – Total Cost

or

Profit = (Unit price x Quantity sold) – total cost

What makes this relationship even more important is that price affects the quantity sold. Furthermore, since the quantity sold sometimes affects a firm's costs because of efficiency of production, price also indirectly affects costs. So, pricing decisions influences both total revenue and total cost, which makes pricing one of the most important decision issues that marketing executives face.

The importance of price in the marketing mix necessitates an understanding of some major concerns involved in the process of setting prices. These include:

- identifying pricing constraints and objectives
- estimating demand and revenue
- selecting an approximate price level: pricing approaches
- making special adjustment to prices

8.2. Pricing Objectives

To be useful, the pricing objective the management selects must be compatible with the overall goals set by the company and the goals for its marketing program. Let's assume that a company's goal is to increase return on investment from its present levels of 15 percent to 20 percent within 3 years. It

follows that the pricing objective during this period must be to achieve some stated percentage return on investment. It would not be logical, in this case, to adopt the pricing objective of maintaining the company's market share or of stabilizing price.

The following pricing objectives shall be discussed:

- profit-oriented: to achieve a target return; to maximize profit
- sales-oriented: to increase sales volume; to maintain or increase market share
- status quo-oriented: to stabilize prices; to meet competition

Recognize that all of these objectives can be sought and hopefully attained not just through pricing but also through other marketing activities such as product design and distribution channels.

Profit-oriented objectives

Profit objectives may be set for the short or long run. A company may select one of two profit-oriented objectives for its pricing policy.

- *Achieve a target return:* A firm may price its product to achieve a target return, a specific percentage return on its sales or its investment. Many retailers and wholesalers use a target return on sales as a pricing objective for short periods such as a year or a fashion season. They add an amount to the cost of the product, called a markup, to cover anticipated operating expenses and provide a desired profit for the period. Achieving a target return on investment is measured in relation to a firm's net worth (Its asset minus its liabilities). The leading firm in an industry often selects this pricing goal.

- *Maximizing profits:* The pricing objective of making as much money as possible is probably followed more than any other objective. The trouble with this objective is that to some people, profit maximization has an ugly connotation, suggesting profiteering, high prices, and monopoly.

  In both economic theory and business practice, however, there is nothing wrong with profit maximization. Theoretically, if profits become high in an industry because supply is short in relation to demand, new capital will be attracted to increase production capacity. This will increase supply and eventually reduce profits to normal levels. In the market place it is difficult to find many situations where profiteering has existed over an extended period of time. A profit-maximization goal is likely to be far more beneficial to company if it is pursued over the long term. To do this, however, firms may have to accept modest profit or even losses over the short term.

  The objective should be to maximize profits on total output rather than on each single product. In fact, a company may maximize total profit by setting low, relatively unprofitable prices on some products in order to stimulate sales of others.

Sales-oriented objectives

In some companies management's pricing is focused on sales volume or to maintain or increase the firm's market share.

- *Increase sales volume:* This pricing objective of increasing sales value volume is typically adopted to achieve rapid growth or to discourage potential competitors from entering a market. The goal is usually stated as a percentage increase in sales volume over some period. Management may seek higher sales volume by discounting or by some other aggressive pricing strategy. Occasionally companies are willing to incur a loss in the short run to expand sales volume or meet sales objectives.

- *Increase market share:* In some companies, both large and small, the pricing objective is to maintain or increase market share. Why is market share protected or pursued so vigorously? Most industries today are not growing much, if at all, and have excess production capacity. Many firms need added sales to more fully utilize their production capacity and in turn, gain economies of scale and better profits. Since the size of the market isn't growing in most cases, businesses that need added volume have to grab a bigger market share.

Status quo objectives

Two closely related goals – stabilizing prices and meeting competition – are the least aggressive of all pricing objectives. They are intended simply to maintain the firm's current situation – that is, the status quo. With either of these objectives a firm seeks to avoid price competition. Price stabilization often is the objective in industries where the product is highly standardized and one large firm acts as a leader in setting prices. Smaller firms in these industries tend to "follow the leader" when setting their prices. Even in industries where there are no price leaders, countless firms deliberately price their products to meet the prevailing market price. This pricing policy gives management an easy means of avoiding difficult pricing decisions. Firms that adopt status-quo pricing objectives to avoid price competition are not necessarily passive in their marketing. Quite the contrary! Typically these companies compete aggressively using other marketing mix elements – product, distribution, and especially promotion. This approach is called non-price competition.

8.3. Factors Affecting Pricing Decision

The major factors affecting pricing decision are:

A. **Demand for the product:** this is an important factor in pricing. There are two steps in demand estimation.
   i. Determine whether there is a price that the market expects.
   ii. Estimate the sales volume at different price.

B. **Target share of the market:** A company striving to increase its market share may price more aggressively (lower base price, larger discounts) than an firm that wants to maintain its present market share. The expected share of the market is influenced by present production capacity and cease of competitive entry. It would be a mistake for a firm to aim for a larger share of the market than its plant capacity can sustain.

C. **Competitive of the market**: Competition is an important influence in determining the price. It comes from three sources:
   a) Directly similar products – Bata versus Corona
   b) Available substitutes – Air freight versus Rail freight
   c) Unrelated products – Tape recorder versus Bicycle.

D. **Other parts of the marketing mix: -** the other promotion mi that affect price are as follows
   - **Product:** Product features, quality, package and other allied items may influence price. There may be significant price difference between the new and old products. The price may also greatly be influenced by the product life cycle.
   - **Channels of distribution.** The channels selected and the types of middlemen used will influence a manufacturers pricing.
   - **Promotional methods:** The promotional method soused, and the extent to which the manufacturer promotes the product or middlemen, are still other factors to consider in pricing. The heavy advertisement of manufactures make the price higher than retailers does.

8.4. Pricing Approaches

The price the company charges will be somewhere between one that is too low to produce a profit and one that is too high to produce any demand. Product costs set a floor to the price; consumer perceptions of the product's value set the ceiling. The company must consider competitors' prices and other external and internal factors to find the best price between these two extremes. Any firm can set prices by selecting a general pricing approach that includes one or more of these sets of factors. The basic pricing approaches may include:

1. Cost-based approach
2. Buyer-based approach
3. Competition-based approach

1. Cost-Based Pricing Approaches

There are two major types of cost-based approaches:

- Cost-plus Pricing
- Breakeven Pricing

Cost-plus pricing

Cost-plus pricing method is assumed to be the simplest pricing approach. This method adds a standard mark-up to the cost of the product. To illustrate markup pricing, suppose a given manufacturer had the following costs and expected sales:

- Variable cost (VC) = birr 24
- Fixed cost (FC) = birr 600000
- Projected unit sales (PUS) = 100000 units

Then the manufacturer's cost per unit is given by:

- Unit cost (UC) = VC + (FC/PUS) = 24 + (600000 / 100000) = birr 30

Assume the manufacturer wants to earn a 25 percent markup (desired rate of return) on sales. Then the manufacturer's markup price would be given by:

- Markup price = UC / (1 – desired return on sales)
  = 30 / (1 – 0.25) = Birr 40

Therefore, the said manufacturer would charge dealers Birr 40 per unit and make a profit of Birr 10 a unit.

Unit price can be calculated as follows;

Unit price= cost + (mark up*cost)
= 30 + (0.25*30)
= 37.5 birr

Markup pricing remains popular for many reasons. First, sellers are more certain about costs than about demand. By tying the price to cost, sellers simplify pricing – they do not have to make frequent adjustments as demand changes. Second, when all firms in the industry use this pricing method, prices tend to be similar and price competition is minimized. Third, many people feel that cost-plus pricing is fairer to both buyers and sellers. Sellers do not take advantage of buyers when buyer's demand becomes great, yet the sellers earn a fair return on their investment.

This activity helps you calculate the cost, the price, and the profit of a product based on some given variables. Suppose a manufacturer of a given product had the following costs and projected sales:

- Variable cost = birr 5
- Fixed cost = birr 25 000
- Projected sales = 5000

On the basis of the data, find out:

- the unit cost
- the markup price

- the total profit for the projected sales

Comments:

1. *The unit cost = 10 birr*
2. *The markup price (given 25 % markup on sales) = 13 birr*
3. *The total profit for the projected sales = 15000 birr*

Breakeven pricing

Breakeven pricing, also called target profit pricing, is another cost-oriented pricing approach. The manufacturer in this case wants to determine the price at which it will break even or make the profit it seeks. Breakeven pricing uses the concept of a breakeven chart. A breakeven chart shows the total cost and total revenue expected at different sales volume levels. Fixed costs remain constant regardless of sales volume. Variable costs are added to fixed costs to form total costs, which may rise with volume of sales. The total revenue curve starts at zero and rises with each unit sold. The slop of the total revenue curve reflects the price per unit.

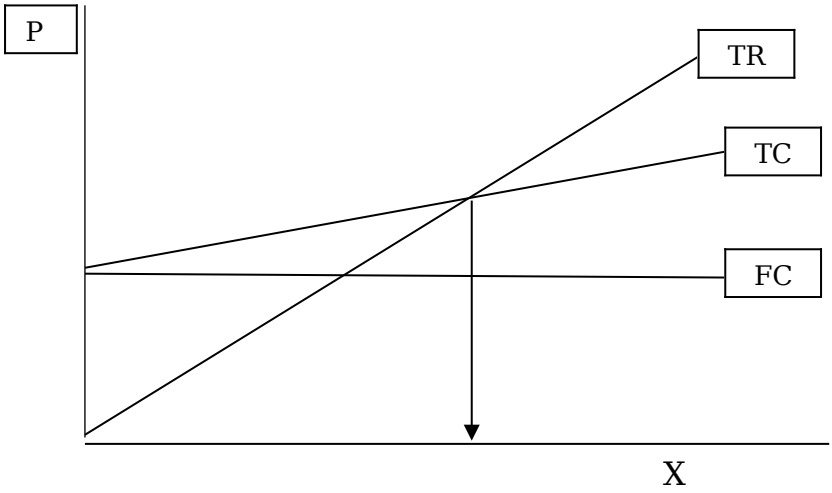


Figure 8.5: The breakeven chart

Then total revenue (TR) and total cost (TC) curve cross at X (= 37500 units). This is the breakeven volume. At birr 40, the manufacturer must sell at least 37500 units to break even. At that level of sales volume, the total revenue covers the total cost. Breakeven volume can be calculated using the following formula:

- Breakeven Volume = FC / (Price – VC) = 600000 / (40 – 24) = 37500
- Breakeven revenue =FC/(1-VC/P) =600000/(1-24/40) = 1500000 Birr

If the manufacturer wants to make a target profit, it must sell more units at birr 40 each.

On the basis of the data given below, calculate the breakeven volume and break-even revenue for a hypothetical manufacturer.

- Fixed cost = birr 450 000
- Unit price = birr 37
- Variable cost = birr 27

Comments: *If fixed costs = birr 450000, unit price = birr 37, and variable cost = birr 27; then the breakeven volume and break even revenue would be 45000 and 1,664,817*

2. Buyer-based Approach

An increasing number of companies are basing their prices on the product's perceived value. Perceived-value pricing uses buyers' perceptions of value, not the seller's cost, as the key to pricing. The company uses the non-price variables in the marketing mix to build up perceived value in the buyers' minds. Price is designed to match the perceived value of the product and its accompanying services.

Consider the various prices different sellers charge for the same items. A bottle of beer that can be bought at 3 birr at the nearby grocery will perhaps take 5 to 7 birr in three-star hotels, and 20 to 25 birr at Sheraton Addis. Each succeeding hotel can charge more because of the value added by the particular atmosphere in and around that hotel.

3. Competition-based Approaches

Rather than emphasizing demand, cost, or profit factors, a price setter can stress what competitors or "the market" is doing. Marketers can use either *pricing below competition* or *pricing above competition*.

Pricing below competition

A variation of competition based pricing is to set a price below the level of your main competitors. Pricing below competition is done by discount retailers, which stress low marks high volume and a few customer services. Even full service retailers may price below the competitive level by eliminating specific services. The risk in pricing below competition is that consumers begin to view the product as undifferentiated commodities with all off the focus on price differences. If that happens, then consumers choose the brand with the lowest price. In turn, competing firms are likely to wind up in a price war that diminishes or eliminates profits.

Pricing above competition

Producers or retailers some times set their prices above the prevailing market level. Usually, pricing above competition occurs when the product is distinctive or when the seller has acquired prestige in its field. Most communities have an elite clothing boutique and a prestigious jewelry store where price tags are noticeably above the level set by other stores with seemingly similar products.

Manufacturers for prestige brands of high cost products often employ above-market pricing.

The two major cost-based pricing methods are:

1. *Cost-plus pricing*
2. *Breakeven pricing*

8.5 Pricing Strategies

This section will introduce you the major dynamic pricing strategies

available to management. In turn, we look at *new-product pricing strategies* for products in the introductory stage of the product life cycle*, product mix pricing strategies* for related products in the product mix, and *price-adjustment strategies* that account for customer differences and changing situations.

New Product Pricing Strategies

Pricing strategies usually change as the product passes through its life cycle. The introductory stage is especially challenging. Companies bringing out a new product face the challenge of setting prices for the first time. They can choose between two broad strategies: *market-skimming pricing* and *market- Penetrating Pricing.*

Market-Skimming Pricing

Many companies that invent new products initially set high prices to "skim" revenues layer by layer from the market.

Market skimming makes sense only under certain conditions.

- *First*, the product's quality and image must support its higher price, and enough buyers must want the product at that price.
- *Second*, the costs of producing a smaller volume cannot be so high that they cancel the advantage of charging more.
- *Third*, competitors should not be able to enter the market easily and undercut the high price.

Market-Penetration Pricing

Rather than setting a high initial price to *skim* off small but profitable market segments, some we can use market-penetration pricing. In this strategy we set a low initial price in order to *penetrate* the market quickly and deeply-to attract a large number of buyers quickly and win a large market share. The high sales volume results in falling costs, allowing our organization to cut its price even further.

However, several conditions must be met for this low-price strategy to work.

- *First*, the market must be highly price sensitive so that a low price produces more market growth.
- *Second,* production and distribution costs must fall as sales volume increases.
- *Third*, the low price must help keep out the competition, and the penetration price must maintain its low-price position--otherwise, the price advantage may be only temporary.

Product Mix Pricing Strategies

The strategy for setting a product's price often has to be changed when the product is part of a product mix. In this case, the firm looks for a set of prices that maximizes the profits on the total product mix. Pricing is difficult because the various products have related demand and costs and face different degrees of competition. We now take a closer look at the five-product mix pricing situations namely: *Product line pricing, optional-product pricing, captive-product pricing, by-product pricing, and product*

bundle pricing.

Product Line Pricing

Product line pricing is setting the price steps between various products in a product line based on cost differences between the products, customer evaluations of different features, and competitor's prices. Companies usually develop product lines rather than single products. In product line pricing, management must decide on the price steps to set between the various products in a line.

The price steps should take into account cost differences between the products in the line, customer evaluations of their different features, and competitors' prices. In many industries, sellers use well-established *price points* for the products in their line. Thus, Ambassador clothing stores might carry men's suits at three price levels: 850 birr, 900 birr, and 950 birr. The customer will probably associate low-, average-, and high - quality suits with the three price points. Even if the three prices are raised a little, men normally will buy suits at their own preferred price points. The seller's task is to establish perceived quality differences that support the price differences.

Optional-Product Pricing

Optional- product pricing is the pricing of optional or accessory products along with a main product. Many companies use optional-product pricing- offering to sell optional or accessory products along with their main product. For example, a car buyer may choose to order power windows, cruise control, and a CD changer.

Pricing these options is a sticky problem therefore companies which use this strategy have to decide which items to include in the base price and which to offer as options.

Captive-Product Pricing

Companies that make products that must be used along with a main product are using captive-product pricing. Examples of captive products are razor and blades, camera and film, and computer and software. Producers of the main products (razors, cameras, and computers) often price them low and set high markups on the supplies (blades, film, software).

In the case of services, this strategy is called *two-part pricing.* The price of the service is broken into a *fixed fee* plus a *variable usage rate.* Thus, a telephone company charges a monthly rate the fixed fee-plus charges for calls beyond some minimum number-the variable usage rate.

By-Product Pricing

By-Product pricing is setting a price for by-products in order to make the main product's price more competitive. In producing processed meats, petroleum products, chemicals, and other products, there are often by-products. If the by-products have no value and if getting rid of them is

costly, this will affect the pricing of the main product. Using by-product pricing, the manufacturer will seek a market for these by-products and should accept any price that covers more than the cost of storing and delivering them. This practice allows the seller to reduce the main product's price to make it more competitive. By-products can even turn out to be profitable. For example, many lumber mills have begun to sell bark chips and sawdust profitably as decorative much for home and commercial landscaping.

Product Bundle Pricing

Using product bundle pricing, sellers often combine several of their products and offer the bundle at a reduced price. For example Sheraton and Hilton hotels sell specially priced packages that include room, meals, and entertainment. Price bundling can promote the sales of products consumers might not otherwise buy, but bundling can promote the sales of products consumers might not otherwise buy, but the combined price must be low enough to get them to buy the bundler.

Price Adjustment Strategies

Organizations usually adjust their basic prices to account for various customer differences and changing situations, There are six basic price-adjustment strategies: *discount and allowance pricing, segmented pricing, psychological pricing, promotional pricing, geographical pricing,* and *international pricing.*

Discount and Allowance Pricing

Most companies adjust their basic price to reward customers for certain responses, such as early payment of bills, volume purchases, and off-season buying. These price adjustments-called *discounts* and *allowances-and they can* take many forms as discussed below.

A cash discount is a price reduction to buyers who pay their bills promptly. A typical example is "2/10, net 30," which means that although payment is due adjustments within 30 days, the buyer can deduct 2 percent if the bill is paid within 10 days. The discount must be granted to all buyers meeting these terms. Such discounts are customary in many industries and help to improve the sellers' cash situation and reduce bad debts and credit-collection costs.

A quantity discount is a price reduction to buyers who buy large volumes. A typical example might be "birr10 per unit for less than 100 units, birr9 per unit for 100 or more units." By law, quantity discounts must be offered equally to all customers and must not exceed the seller's cost savings associated with selling large quantities. These savings include lower selling, inventory, and transportation expenses. Discounts provide an incentive to the customer to buy more from one given seller, rather than from many different sources'.

A functional discount (also called a *trade* discount) is offered by the seller to trade channel members who perform certain functions, such as selling,

storing, and record keeping. Manufacturers may offer different functional discounts to different trade channels because of the varying services they perform, but manufacturers must offer the same functional discounts within each trade channel.

A seasonal discount is a price reduction to buyers who buy merchandise or services out of season. For example, hotels set a lesser price on weekdays and a higher price on weekends. Seasonal discounts allow the seller to keep production steady during an entire year.

Allowances are another type of reduction from the list price. For example, *trade-in allowances* are price reductions given for turning in an old item when buying a new one. Trade-in allowances are most common in the automobile industry but are given for other durable goods. *Promotional allowances* are payments or price reductions to reward dealers for participating in advertising and sales support

Segmented Pricing

Segmented pricing: selling a product or service at two or more prices, where the difference in prices is not based on differences on cost. Organizations will often adjust their basic prices to allow for differences in customers, pricing, the company sells a product *or* service at two or more prices, even though the difference in prices is not based *on* differences in costs.

Segmented pricing takes several forms. Under *customer-segment* pricing, different customers pay different prices for the same product or service. Museums, for example, will charge a lower admission for students and senior citizens. Under *product form pricing,* different versions of the product are priced differently but not according to differences in their costs. Using *location pric*ing, a company charges different prices for different locations, even though the cost of offering at each location is the same. For instance, theaters vary their seat prices because of audience preferences for certain locations. Finally, using *time pricing,* a firm varies its price by the season, the month, the day, and even the hour. Public utilities vary their prices to commercial users by time of day and weekend versus weekday. The Ethiopian Telecommunication offers lower charges at weekends, holydays, and night after 8 P.M.

For segmented pricing to be an effective strategy, the following conditions must exist.

- The market must be segmentable and the segments must show different degrees *of* demand.
- Members of the segment paying the lower price should not be able to turnaround and resell the product to the segment paying the higher price.
- Competitors should not be able to undersell the firm in the segment being charged the higher price.

- Nor should the costs of segmenting and watching the market exceed the extra revenue obtained from the price difference.
- Of course, the segmented pricing must also be legal. Most importantly, segmented prices should reflect real differences in customers' perceived value. Otherwise, in the long run, the practice will lead to customer resentment and ill will.

Psychological Pricing

Psychological pricing: A pricing approach that considers the psychology of prices and not simply the economics; the price is used to say something about the product

Price says something about the product. For example, many consumers use price to judge quality. A birr 100 bottle of perfume may contain only birr 3 worth of scent, but some people are willing to pay the birr 100 because this price indicates something special.

In using *psychological pricing***,** sellers consider the psychology of prices and not simply the economics. For example, one study of the relationship between price and quality perceptions of cars found that consumers perceive higher-priced cars as having higher quality. By the same token, higher-quality cars are perceived to be even higher priced than they actually are. When consumers can judge the quality of a product by examining it or by calling on past experience with it, they use price less to judge quality. When consumers cannot judge quality because they lack the information or skill, price becomes an important quality signal:

Another aspect of psychological pricing is ***reference*** prices that buyers carry in their minds and refer to when looking at a given product. Noting current prices, remembering past prices, or assessing the buying situation might form the reference price. Sellers can influence or use these consumers' reference prices when setting price. For example, a company could display its product next to more expensive ones in order to imply that it belongs in the same class. Department stores often sell women's clothing in separate departments differentiated by price: Clothing found in the more expensive department is assumed to be of better quality. Companies can also influence consumers' reference prices by stating high manufacturer's suggested prices, by indicating that the product was originally priced much higher, or by pointing to a competitor's higher price.
Even small differences in price can suggest product differences. Consider a stereo priced at birr 300 compared to one priced at birr299.95. The actual price difference is only 5 cents, but the psychological difference can be much greater. For example, some consumers will see the birr 299.95 as a price in the birr 200 ranges rather than the birr 300 ranges. The birr 299.95 will more likely be seen as a bargain price, whereas the birr 300 price suggests more quality. Some psychologists argue that each digit has symbolic and visual qualities that should be considered in pricing.

Promotional Pricing

Promotional Pricing: Temporarily pricing products below the list price, and sometimes even below cost, to increase short run sales. With promotional pricing, companies will temporarily price their products below list price and sometimes even below cost. Promotional pricing takes several forms. Supermarkets and department stores will price a few products as loss leaders to attract customers to the store in the hope that they will buy other items at normal markups. Sellers will also use special-event pricing in certain seasons to draw more customers, for instance during holydays.

Promotional pricing, however, can have adverse effects. Used too frequently and copied by competitors, price promotions can create "deal-prone" customers who wait until brands go on sale before buying them. Or, constantly reduced prices can erode a brand's value in the eyes of customers. Marketers sometimes use price promotions as a quick fix instead of sweating through the difficult process of developing effective longer-term strategies for building their brands. In fact, one observer notes that price promotions can be downright addicting to both the company and the customer: "Price promotions are the brand equivalent of heroin: easy to get into but hard to get out of. Once the brand and its customers are addicted to the short-term high of a price cut it is hard to wean them away to real brand building . . .. But continue and the brand dies by 1,000 cuts."

Geographical Pricing

Companies also must decide how to price its products for customers located in different parts of the country or world. Should the *company* risk losing the business of more distant customers by charging them higher prices to cover the higher shipping costs? Or should the company charge all customers the same prices regardless of location? We will look at five geographical pricing strategies for the following hypothetical situation:

East Africa Bottling (coca-Cola) is located in Addis Ababa and sells its products to customers all over Ethiopia. The cost of freight is high and affects the companies from whom customers buy Coca, Fanta, and Sprite etc. East Africa Bottling Industry wants to establish a geographical pricing policy. It is trying to determine how to price birr 1.50 to three specific customers: Customer A (Tigray), Customer B (Jijiga), Customer C (Gambela).

One option is for the organization to ask each customer to pay the shipping cost from the Addis Ababa factory to the customer's location, All three customers would pay the same factory price of birr 1.50, with Customer A paying, say, birr 1 for shipping: Customer B, birr 0.75; and Customer C, birr 0.75, Called ***FOB-origin pricing,*** this practice means that the goods are p1aced free *on board (*hence, FOB) a carrier. At that point the title and responsibility pass to the customer, who pays the

freight from the factory to the destination. Because each customer picks up its own cost, supporters of FOB pricing feel that this is the fairest way *to* assess freight charges. The disadvantage, however, is that Coca, Fanta; Sprite etc. will be high-cost items to distant customers**.**

Uniform-delivered pricing is the opposite of FOB pricing, here, the company charges the same price plus freight to all customers, regardless of their location. The freight charge is set at the average freight cost. Suppose this is birr 0.83, Uniform-delivered pricing therefore results in a higher charge to the Jijiga and Gambela customers (who pays birr 0.83 freight instead of 0.75) and a lower charge to the Tigray customer (who pays Birr 0.83 instead of birr 1.00).

Zone pricing falls between FOB-origin pricing and uniform-delivered pricing. In this case the company sets up two or more zones. All customers within a given zone pay single total price; the more distant the zone, the higher the price, For example, East Africa Bottling might set up a Northern Zone and charge birr 0.90 freight to all customers in this zone, a Eastern Zone in which it charges Birr 0.70, and a West Zone in which it all charges birr 0.70, In this way, the customers within a given price zone receive no price advantage from the company. For example, customers in Mekele and Dessie pay the same total price to a bottle of Coca, Fanta, and Sprite etc. The complaint, however, is that the Dessie customer is paying part of the Mekele customer's freight cost.

Using ***basing-point pricing,*** the seller selects a given city as a "basing point", and charges all customers the freight cost from that city to the customer location, regardless of the city from which the goods are actually shipped, For example, East Africa Bottling might set Dessie as the basing point and charge all customers birr 1.50 plus the freight from Dessie to their locations; this means that a Mekele customer pays the freight cost from Dessie to Mekele, even though the goods may be shipped from Addis Ababa. If all sellers used the same basing-point city, delivered prices would be the same for all customers and price competition would be eliminated, but this method has become less popular today. Some companies set up multiple basing points to create more flexibility: They quote freight charges from the basing-point city nearest to the customer.

Finally, the seller who is anxious to do business with a certain customer or geographical area might use **freight-absorption pricing.** Using this strategy the seller absorbs all or part of the actual freight charges in order to *get* the desired business. The seller might reason that if it can get more business, its average costs will fall and more than compensate for its extra freight cost. Freight-absorption pricing is used for market penetration and to hold on to increasingly competitive markets.

International Pricing

Organizations that market their products internationally must decide what prices to charge in the different countries in which they operate. In

some cases, a company can set a uniform worldwide price. For example, Boeing sells its jetliners at about the same price everywhere, whether in the United States, Europe, or Ethiopia. However, most companies adjust their prices to reflect local market conditions and cost considerations. The price that a company should charge in a specific country depends on many factors, including economic conditions, competitive situations, laws and regulations, and development of the wholesaling and retailing system. Consumer perceptions and preferences also may vary from country to country, calling for different prices. Or the company may have different marketing objectives in various world markets, which require changes in pricing strategy. For example, Sony might introduce a new product into mature markets in highly developed countries with the goal of quickly gaining mass-market share-this would call for a penetration-pricing strategy. In contrast, it might enter a less developed market by targeting smaller, less price-sensitive segments; in this case, market-skimming pricing makes sense. Costs play an important role in setting international prices.

Strategy	Description
Discount and allowance pricing	Reducing prices to reward customer responses such as paying early or promoting the product
Segmented pricing	Adjusting prices to allow for differences in customers, products, or locations
Psychological pricing	Adjusting prices for psychological effect
Promotional pricing	Temporarily reducing prices to increase short run sales
Geographical pricing	Adjusting prices to account for the geographic location of customers
International pricing	Adjust prices for international market

Table 8.1: Price Adjustment strategies

Unit Seven
Placing Products: Channels of Distribution

9.1 The Meaning of Distribution Channels
9.2 Rationale for Intermediaries
9.3 Designing Distribution Channels
9.4 Major Channels of Distribution
9.5 Factors Affecting Choice of Channels

9.1. The Meaning of Distribution Channel

A distribution channel consists of a set of people and firms involved in the transfer of title to a product as the product moves from producers to ultimate consumers or business users. A channel of distribution always includes both the producer and the final customer for the product in its present form as well as any middlemen such as retailers and wholesalers.

The channel for a product extends only to the last person or organization that buys it without making any significant change in its form. When its form is altered and another product emerges, a new channel is started. When lumber is milled and then made into furniture, two separate channels are involved.

The channel for the lumber might be lumber mill broker furniture manufacturer.
The channel for the finished furniture might be furniture manufacturer retail furniture store consumer.

Besides producer, middlemen, and final customer, other institutions aid the distribution process. Among these intermediaries are banks, insurance companies, storage firms, and transportation companies. However, these intermediaries are not formally included in the distribution channel for they do not take title to the products and are not actively involved in purchase and/ or sales activities.

Ownership of a product has to be transferred somehow from the individual or organization that makes it to the consumer who needs and buys it. Goods also must be physically transported from where they are produced to where they are needed. Services ordinarily cannot be shipped but rather are produced and consumed in the same place.

Distribution's role within a marketing mix is getting the product to its target market. The most important activity in getting a product to market is arranging for its sale (and the transfer of title) from the producer to the final customer. Other common activities (or function) are promoting the product, storing it, and assuming some of the financial risk during the distribution process. A producer can carry out these functions in exchange for an order (and, hopefully, payment) from a customer. Or both the producer and the consumer can share these activities. Typically, however, firms called middlemen perform some of these activities on behalf of the producer or the consumer.

A middleman is a business firm that renders services related directly to the sale and/or purchase of a product as it flows from producer to consumer. A middleman either owns the product at some point or actively aids in the transfer of ownership. Often, but not always, a middleman takes physical possession of the product. Middlemen are commonly classified on the basis of whether or not they take title to the products being distributed. Merchant middlemen actually take title to the products they help to market. The two groups of merchant

middlemen are wholesalers and retailers. Agent middlemen never actually own the products, but they do arrange the transfer of title. Real estate brokers, manufacturer's agents, and travel agents are examples of agent middlemen. With the following paragraphs, we will see the *rationale for intermediaries* and the need for *designing distribution channels*.

9.2. Rationale for Intermediaries

There are two rationales:

- Functions performed by intermediaries
- Utilities created by intermediaries

Function performed by intermediaries

Intermediaries make possible the flow of products from producers to buyers by performing three basic functions. Most prominently, intermediaries perform a transactional function that involves buying, selling and risk taking because they stock merchandise in anticipation of sales. Intermediaries perform a logistic function evident in the gathering, storing, and dispersing of products. Finally, intermediaries perform facilitating functions, which assist producers in making goods and services more attractive to buyers. All three groups of functions must be performed in a marketing channel even though each channel member may not participate in all three.

Utilities created by Intermediaries

Consumers also benefit from intermediaries. Having the goods and services you want, when you want them, where you want them, and in the form you want them is the ideal result of marketing channels. In more specific terms, marketing channels help to create the four utilities: time, place, form, and possession.

9. 3. Designing Distribution Channels

Similar firms often have dissimilar channels of distribution. An organization wants a distribution channel that not only meets customers' needs but also provides an edge on competition. Some firms gain a differential advantage with their channel

To design channels that satisfy customers and outdo competition, an organized approach is required. For well-designed distribution channel a sequence of four decisions are required:

Specifying the role of distribution

A channel strategy should be designed within the context of the entire marketing mix. First, the firm's marketing objectives are reviewed. Next the roles assigned to product, price, and promotion are specified. A company must decide whether distribution will be used defensively or offensively. Under a defensive approach, a firm will strive for distribution that is as good as, but not necessarily better than, other firm's distribution. With an offensive strategy, a firm uses distribution to gain an advantage over its competitors.

Selecting the type of channel

Once distribution's role in the overall marketing program has been agreed on, the most suitable type of channel for the company's product must be determined. At this point in the sequence, a firm needs to decide whether middlemen will be used in its channel and, if so, which types of middlemen.

Determining intensity of distribution

The next decision relates to the intensity of distribution, or the number of middlemen used at the wholesale and retail levels in a particular territory. The target market's buying behavior and the product's nature has a direct bearing on this decision.

Choosing specific channel members

When selecting specific firms to be part of a channel, a producer should assess factors related to the market, the product, its own company, and middlemen. Two additional factors are whether the middleman sells to the market that the manufacturer wants to reach and whether the middleman's product mixes, pricing structure, promotion, and customer service are all compatible with the manufacturer's need.

9.4. Major Channels of Distribution

Most distribution channels include middlemen, but some do not. A channel consisting only of producer and final customer, with no middlemen providing assistance is called direct distribution. In contrast, a channel of producer, final customer, and at least one level of middlemen represent an indirect distribution. The most common *channels for consumer goods*, *business (industrial) goods* and *services* are described as follows. We will also discuss *multiple distribution channels*.

Channels for Consumer Goods

Four channels are widely used in marketing tangible products to ultimate consumers.

1) Producer → Consumer. The shortest, simplest distribution channel for consumer goods involves no middlemen. The producer may sell from door to door or by mail.
2) Producer → Retailer → Consumer. Many large retailers buy directly from manufacturers and agricultural producers.
3) Producer → Wholesaler → Retailer → Consumer. If there is a traditional channel for consumer goods, this is it. Small retailers and manufacturers often find this channel as the only economically feasible choice.
4) Producer → → Agent → Wholesaler → Retailer → Consumer. To reach small retailers, producers often use agent middlemen, who in turn call on wholesalers that sell to large retail chains and/or small retail stores.

Channels for Business (industrial) Goods

A variety of channels are available to reach organizations that incorporate the products into their manufacturing process or use them in their operations. The four common channels for business goods are:

1) Producer → User. This direct channel accounts for a greater volume of business products than any other distribution structure. Manufactures of large installation, such as airplanes, generators, and heating plants, usually sell directly to users.
2) Producer → Industrial distributor → User. Producers of operating supplies and small accessory equipment frequently use industrial distributors to reach their markets. Manufacturers of building materials and air conditioning equipment are two examples of firms that make heavy use of industrial distributors.
3) Producer → Agent → User. Firms without their own sales departments find this a desirable channel. Also, a company that wants to introduce a new product or enter a new market may prefer to use agents rather than its own sales force.
4) Producer → Agent → Industrial distributor → User. This channel is similar to the preceding one. It is used when, for some reason, it is not feasible to sell through agents directly to the business user.

Distribution Channels for Services

The intangible nature of services creates a special distribution requirement. There are only two common channels for services.

1) Producer → Consumer. Because a service is intangible, the production process and/ or sales activity often requires personal contact between the producers and the consumers. Thus a direct channel is used. Direct distribution is typical for many professional services, such as health care and legal advice, and personal services, such as haircutting and weight –loss counseling. However, other services, including travel, insurance, and entertainment, may also rely on direct distribution.

2) Producer → Agent → Consumer. While direct distribution often is necessary for a service to be performed, producer-consumer contact may not be required for distribution activities. Agents frequently assist a service producer with transfer of ownership (the sales task) or related tasks. Many services notably travel, lodging; advertising media, entertainment, and insurance are sold through agents.

This activity is designed to help you identify the channel levels involved in consumer goods.

Suppose a distribution channel for a certain product that involves the following elements:

- Retailer
- Producer
- Consumer

- Wholesaler

1. Construct a distribution channel containing one channel level (i.e. the retailer)
2. Construct a distribution channel containing two channel levels.

Comment: the channel levels involved in consumer goods;

1. Producer → Retailer → Consumer

2. Producer → Wholesaler → Retailer → Consumer

Multiple Distribution Channels

Many, perhaps most, producers are not content with only a single distribution channel. Instead, for reasons such as achieving broad market coverage or avoiding total dependence on a single arrangement, they employ multiple distribution channels. (Similarly, many companies establish multiple supply channels to ensure that they have products when needed).

Use of multiple channels, sometimes called dual distribution, occurs in several distinct situations. A manufacturer is likely to use multiple channels to reach different types of markets when selling:

- The same products (for example sporting goods or computer printers) to both consumer and business markets.
- Unrelated products

Multiple channels are also used to reach different segments within a single market when:

- Size of the buyers varies greatly. Airlines may sell directly to travel departments in large corporations but use travel agents to reach small businesses and ultimate consumers.
- Geographic concentration differs across parts of the market. A manufacturer of industrial machinery may use its own sales force to sell directly to consumers that are located close together, but may employ agents in sparsely populated markets.

This activity is designed to help you identify the channel levels involved in consumer goods.
Suppose a distribution channel for a certain product involves the following:

- Manufacturer
- Agent
- Industrial distributor
- User

1. Construct a distribution channel that does not contain an agent-middleman
2. Construct a distribution channel that contains all channel members

Comment: All channel levels involved in consumer goods

1. Manufacturer → Industrial distributor → User

2. Manufacturer → Agent → Industrial distributor → User

4.5. Factors Affecting Choice of Channels

If a firm is customer-oriented (and it better be, if it hopes to prosper), its channels are determined by consumer buying patterns. The nature of the *market* should be the key factor in management's choice of channels. Other considerations are *the product, the middlemen, and the company itself*.

Market Considerations

A logical starting point is to consider the target market – its needs, structure, and buying behavior:

- *Type of market:* Because ultimate consumers behave differently than business users, they are reached through different distribution channels. Retailers, by definition, serve ultimate consumers, so they are not in channels for business goods.
- *Number of potential customers:* A manufacturer with few potential customers (firms or industries) may use its own sales force to sell directly to ultimate consumers or business users. A firm using middlemen does not need as large a sales force as a company selling directly to final consumers.
- *Geographic concentration of the market:* When most of a firm's prospective customers are concentrated in a few geographic areas, direct sale is practical. This is the situation in the textile and garment manufacturing industries. When customers are geographically dispersed, direct sale is likely to be impractical due to high travel costs. Sellers may establish sales branches in densely populated markets and use middlemen in less concentrated markets.
- *Order Size:* When either order size or total volume of business is large, direct distribution is economical. Thus a food products manufacturer would sell directly to large grocery chains. Thus the same manufacturer, however, would use wholesalers to reach small grocery stores, whose orders are usually too small to justify direct sale.

Product Considerations

While there are numerous product-related factors to consider, we will highlight three of them, i.e. *unit value, perishability, and technical nature of a product.*

- *Unit value:* The price attached to each unit of a product affects the amount of funds available for distribution. Consequently, products with low unit values usually are distributed through indirect channels (that is, through one or more levels of middlemen). There are exceptions, however. For instance, if order size is large because the customer buys many products at the same time from the company, then a direct channel may be economically feasible.

- *Perishability:* Some goods, including many agricultural products, physically deteriorate fairly quickly. Other goods, such as clothing, perish in a fashion sense. Services are perishable due to their intangible nature. Perishable products require direct or very short channels.
- *Technical nature of a product:* A business product that is highly technical is often distributed directly to business users. The producer's sales force must provide considerable pre sale and post sale service; wholesalers normally cannot do this. Consumer products of a technical nature provide a real distribution challenge to manufacturers. Ordinarily, manufacturers cannot sell the goods directly to the consumer. As much as possible, producers try to sell directly to retailers, but even then, product servicing often poses problems.

Middlemen Considerations

Here we begin to see that a company may not be able to arrange exactly the channels it desires. The company's choices may be constrained by the middlemen. Three elements are discussed: *services provided by the middlemen, availability of middlemen,* and *attitudes of middlemen towards producer's policies.*

- *Services provided by middlemen*: Each producer should select middlemen offering those marketing services that the producer either is unable to provide or cannot economically perform.
- *Availability of desired middlemen:* The middlemen preferred by a producer may not be available. They may carry competing products and, as a result, not want to add another line. Hence, a producer must be able to boost sales by relying on alternative middlemen.
- *Attitudes of middlemen toward producer's policies*: When middlemen are unwilling to join a channel because they consider a manufacturer's policies to be unacceptable, the manufacturer has fewer channel options. Some retailers or wholesalers, for example, will carry a producer's line only if they receive assurance that no competing middlemen will carry the line in the same territory.

Company Considerations

Before choosing a distribution channel for a product, a company should consider its own situation. The companies own situation in this regard may revolve around four points: *desire for channel control, services provided by seller, ability of management,* and *financial resources.*

- *Desire for channel control*: Some producers establish direct channels because they want to control their product's distribution, even though a direct channel may be more costly than an indirect channel. By controlling the channel, producers can achieve more aggressive promotion and can better control both the freshness of merchandise stocks and their product's retail prices.

- *Services provided by seller:* Some producers make decisions about their channels based on the distribution functions desired (and

occasionally demanded) by middlemen. For instance, numerous retail chains will not stock a product unless it is pre sold through heavy advertising by the producer.

- *Ability of management*: The marketing experience and managerial capabilities of a producer influence decision about which channel to use. Many companies lacking marketing know-how turn the distribution job over to the middlemen.
- *Financial resources:* A business with adequate finances can establish its own sales force, grant credit to its customers, and/or warehouse its own products. A financially weak firm uses middlemen to provide these services.

Unit Eight
Promotion

10.1 The Meaning of Promotion
10.2 The Purpose of Promotion
10.3 The communication Process and Promotion
10.4 The Promotion Mix

10.1. The Meaning of Promotion

The marketing-mix activities of product planning, pricing, and distribution are performed mainly within a business or between a business and the members of its distribution channels. However, through its promotional activities, a firm communicates directly with potential customers. Basically, promotion is an attempt to influence. More specifically, promotion is the element in an organization's marketing mix that serves to inform, persuade, and remind the market of a product and/or the organization selling it, in hopes of influencing the recipient's feelings, beliefs, or behavior.

Promotion is the element in an organization's marketing mix that serves to inform, persuade, and remind the market of a product and /or the organization selling it, in hopes of influencing the recipient's feeling, beliefs, or behaviors.

10.2. Purposes of promotion

The three basic purposes of promotion are:

- To inform your customer what type of service you have intended to give, how you have planned to deliver it, etc.
- To persuade the customer or the intermediaries to make use of (buy) your services. Here the service provider should give sufficient information to the customers on why they would buy and use that particular service.
- To remind the existing customers not to forget to make use of the service supplied by the firm. This is necessary especially when the service is offered at the specific intervals.

10.3 The Communication Process and Promotion

Communication is the verbal or non-verbal transmission of information between someone wanting to express an idea and someone else expected or expecting to get that idea. Because promotion is a form of communication, much can be learned about structuring effective promotion by examining the communication process. Fundamentally, communication requires only four elements: a message, a source of the message, a communication channel, and a receiver. In practice, however, important additional components come into play:

- The information that the sending source wants to share must first be encoded into a transmittable form. In marketing this means changing an idea into words, pictures, or some other form.
- Once the message has been transmitted through some communication channel, the symbols must be decoded, or given meaning, by the receiver. The received message may be what the sender intended or something else, depending on the recipient's knowledge and experience.
- If the message has been transmitted successfully, there is some change in the receiver's knowledge, beliefs, or feelings. As a result of this change the receiver formulates a response. The response could be non-verbal, verbal or behavioral.

- The response serves as feedback, telling the sender whether the message was received and how the recipient perceived it. Through feedback the sender can learn why the communication failed and how to improve future communications.
- All stages of the process can be affected by noise, that is, any external factor that interferes with successful communication.

What does the communication process tell about promotion?

First, the act of encoding reminds us that messages can take many forms. Message can be physical (a sample) or symbolic (verbal, visual), and there are a myriad of options within each of these categories.

Second the number of channels or methods of transmitting a message are limited only by the imagination and creativity of the sender. Most promotional messages are transmitted by familiar channels such as the voice of a sales person, the airwaves of radio, the mail, the side of a bus, or the lead-in to a feature in a movie theater. Each channel has its own characteristics in terms of audience reach, flexibility, permanence, credibility, and cost.

Third, how the message is decoded or interpreted depends on its form (encoding and transmission) and the capability and interest of the recipient. In designing and sending messages, marketers must be sensitive to the audience. What is their vocabulary and level of verbal sophistication? What other messages have they received? What experiences have they had? What will get and hold their attention?

Finally, every promotion should have a measurable objective that can be determined from the response and feedback provided by the recipients. Feedback may be collected in many forms-changes in sales, recall of advertising messages, more favorable attitudes, increased awareness of a product or an organization depending on the objective of the promotion.

10.4. The Promotion Mix

The promotion mix consists of *advertising, sales promotion, publicity, and personal selling.* A firm's promotional mix is the combination of one or more of the promotional elements it chooses to use. Three of these elements – advertising, sales promotion, and publicity – are often said to use mass selling, because they are used with groups of prospective buyers. In contrast, personal selling uses interpersonal selling because the seller usually talks person-to-person with the individual who is a prospective buyer.

Advertising

1. Meaning of Advertising

Advertising is any paid form of non-personal presentation and promotion of ideas, goods, or services by an identified sponsor. Advertising budgets go into many media such as magazines and newspapers, radio and

television, outdoor, direct mail, and others. And advertising has many uses to build an organization's image, build a brand, announce a sale, or support an idea or cause.

2. Benefits/functions of Advertising

- Advertising adds value to products by providing information consumers.
- Advertising is a marketing tool that facilitates communication among marketing participants.
- Advertising creates product differentiation for a product as much as by physical changes in the factory.
- Advertising is a tool for opening two-way communications for sellers and buyers, so that the needs of both are clearly presented and satisfied in the most efficient and effective way possible.
- Advertising enables both print and broadcast media to maintain independence from government, political parties, and other special interest groups.
- Advertising is an efficient source of information for both consumers and industrial purchasers about quality, new merchandise, new technology and prices.
- The great contribution, which Advertising makes to, the economy is that it furnishes an important means of expanding the economy by creating demands for products and therefore providing employment.
- Advertising serves the manufacturers by informing consumers of a product or service that is available.
- It raises the standard of living of the general public by impelling it to use the modern products, which add to his/ her material well-being. Modern Advertising has made the luxuries of yesterday the necessities of today.
- It established the goodwill of the concern for the best articles produced by it and in course of time they sell like hot cakes.

3. Major Advertising Decisions

Marketing management must make five important decisions in developing an advertising program. These decisions include *setting objectives, budget decisions, message decisions, media decisions*, and *measuring the communication effect.*

Setting objectives

The first step in developing an advertising program is to set the advertising objectives. These objectives are based on past decisions about the target market, positioning and mix. The marketing positioning and mix strategy defines the job that advertising must do in the total marketing program. An advertising goal is a specific communication task

to be accomplished with a specific target audience in a specific period of time. Advertising objectives can be classified as to whether their aim is to inform, persuade, or remind.

- Informative advertising is used heavily when introducing a new product category, where the objective is to build primary demand
- Persuasive advertising becomes more important as competition increases, and where a company's objective is to build selective demand. Some persuasive advertising becomes comparison advertising, which compares one brand directly or indirectly to one or more other brands.
- Reminder advertising is important for mature products, to keep the consumer thinking about the product. Expensive Coca-Cola advertisings on television are designed to remind people about Coca-Cola, not to inform or persuade them.

Budget Decisions

After determining advertising objectives, the company can next set its advertising budget for each product. The role of advertising is to affect demand for a product. The company wants to spend the amount needed to achieve the sales goal. Some specific factors that should be considered when setting the advertising budget are:

- *Stage in the product life cycle*. New products typically need large advertising budgets to build awareness and to gain consumer trial. Mature brands usually require lower budgets as a ratio to sales.
- *Market Share*. High market share brands usually need more advertising spending as a percent of sales than low-share brands. To build the market or to take share from competitors requires large advertising spending than simply maintaining current share.
- *Competition and clutter*. In a market with many competitors and high advertising spending a brand must advertise more heavily to be heard above the noise in the market.
- *Advertising frequency*. When many repetitions are needed to put across the brand's message to consumers, the advertising budget must be larger.
- *Product differentiation*. A brand that closely resembles other brands in its product class (cigarettes, beer, soft drinks) requires heavy advertising to differentiate it. When the product differs substantially from competitors, advertising can be used to point out the differences to consumers.

Message Decisions

A large advertising budget does not guarantee a successful advertising campaign. Two advertisers can spend the same amount on advertising yet have very different results. Studies have shown that creative advertising messages can be more important to advertising success than the amount of money spent. No matter how big the budget, advertising can succeed only if commercial activities gain adequate attention of potential customers. The budget must be invested in effective advertising messages. Thus, just to gain and hold attention, today's advertising

messages must be better planned, more imaginative, more entertaining, and more rewarding to consumers.

Advertisers go through three steps to develop a creative strategy: *message generation, message evaluation, selection, and message execution.*

- *Message generation:* Creative people have different ways to find advertising message ideas. Many creative people start by talking to consumers, dealers, experts, and competitors. Others try to imagine consumers using the product and figure out the benefits consumers seek when buying and using it
- *Message evaluation and selection:* The advertiser must evaluate the possible messages. The appeals used in messages should have three characteristics. First, they should be *meaningful*, pointing out benefits that will make the product more desirable or interesting to consumers. Second, the appeals should be *distinctive*. They should tell how the product is better than competing brands. Finally the appeals must be *believable*. Many consumers doubt the truth of advertising in general.
- *Message execution*. The message's impact depends not only on what is said but also on how it is said. The advertiser has to put the message across in a way that wins the target market's attention and interest. Creative people must find a style, tone, words, and format for executing the message.

Media Decision

The advertiser next chooses advertising media to carry the advertising message. The steps are:

- Deciding on reach, frequency, and impact
- Selecting the media; and
- Deciding on media timing

Deciding on Reach, Frequency, and Impact:

- To select media, the advertiser must decide what reach; frequency and impact are needed to achieve the advertising objectives.
- Reach is a measure of the percentage of people in the target market who are exposed to the advertisement campaign during the given period of time.
- Frequency is a measure of how many times the average person in the target market is exposed to the message.
- Impact measures the degree to which potential buyers are influenced by the messages delivered through selected media.

Selecting the media

The major media types are newspaper, television, direct mail, radio, magazines, and outdoors.

Medium	***Advantages***	***Limitations***
Newspapers	Flexibility; timeliness; good local market coverage; broad	Short life; poor reproduction quality; small "pass along"

Televisio n	acceptance; high believability Combines sight, sound, and motion; appealing to the senses; high attention; high reach	audience High absolute cost; high clutter; fleeting exposure; less audience selectivity.
Direct mail	Audience selectivity; flexibility; no advertising competition within the same medium, Personalization.	Relatively high cost; "Junk mail" image
Radio	Mass use; high geographic and demographic selectivity; low cost	Audio presentation only lowers attention than television; non-standardized rate structures; fleeting exposure.
Magazin es	High geographic and demographic selectivity; credibility and prestige; high quality reproduction; long life; good pass-along readership	Long advertise purchase lead-time; some waste circulation; no guarantee of position.
Outdoors	Flexibility, high repeat exposure; low cost; low competition	No audience selectivity; creative limitations.

Figure 6: Alternative advertising media
Source: McCarthy and Perreault, (1992)

In addition to the advantages and disadvantages stated in the above table, media planners consider many factors when making their media choices. The media habits of target consumers will affect media choice – for example radio and television are the best media for reaching teenagers. So will the nature of the product.

Different types of messages may require different media. A message announcing a major sale tomorrow will require radio or newspapers; a message with a lot of technical data might require magazines or mailings. Cost is also a major factor in media choice. Television is very expensive, whereas newspaper advertising costs much less. What count is the cost per thousand exposures rather than the total cost.

Deciding on Media Timing

The advertiser has to decide how to schedule the advertising over the course of the year. Suppose sales of a product reach a peak in December and drops off in March. The firm can vary its advertising to follow the seasonal pattern, to oppose the seasonal pattern, or to be the same all year. Most firms do seasonal advertising. Even here, the firm has to decide whether its advertising should come before or during seasonal sales.

The advertiser also has to choose the pattern of the advertisements. Continuity means scheduling advertisements evenly within a given period. Pulsing can be described as scheduling advertisements unevenly over the time period. Thus fifty-two advertisements could be scheduled at one per week during the year, or pulsed in several bursts. Those who favor pulsing feel that the audience will learn those messages more completely with pulsing and that money can be saved.
The advertising program should regularly evaluate the *communication and sales effects* of advertising.

Measuring the Communication Effect
Measuring the communication effect tells whether an advertisement is communicating well. Copy testing can be done before or after an advertisement is printed or broadcast. There are three major methods of advertising pre-testing.

- Direct rating, where the advertiser exposes a consumer panel to alternative advertisements and asks them to rate the advertisements. These direct ratings indicate how well the advertisements get attention and how they affect consumers. Although an imperfect measure of an advertisement's actual impact, a high rating indicates a potentially more effective advertisement.
- Portfolio tests, consumers view or listen to a portfolio of advertisements, taking as much time as they need. They then are asked to tell the ability of an advertisement to stand out and its message to be understood and remembered.
- Laboratory tests use equipment to measure consumers' physiological reactions to an advertisement – heartbeat, blood pressure, etc. These tests measure an advertisement's attention-getting power but reveal little about its impact on beliefs, attitudes, or intentions.

There are two popular methods of post testing advertisements.

- Recall tests, the advertiser asks people who have been exposed to magazines or television programs to recall everything they can about the advertisers and products they saw. Recall scores indicate the advertisements to be noticed and retained.
- Recognition tests, the researcher asks readers of a given issue of, say, a magazine to point out what they recognize as having seen before. Recognition scores can be used to assess the advertisement's impact in different market segments and to compare the company's advertisements with competitors' advertisements.

Measuring the Sales Effects
What sales are caused by an advertisement that increases brand awareness by 20 percent and brand preference by 10 percent? The sales effect of advertising is often harder to measure than the communication effect. Sales are affected by many factors besides advertising, such as product features, price, and availability.

One way to measure the sales effect of advertising is to compare past sales with past advertising expenditures.
In summary, to spend a large advertising budget wisely, advertisers must define their advertising objectives; make careful budget, message, and media decisions; and evaluate advertising's attention, because of its power to affect life styles and opinions.

Sales Promotion
Sales promotion is one of the most loosely used terms in the marketing vocabulary. Sales promotion as demand-stimulating devices designed to supplement advertising and facilitate personal selling. Examples of sales promotion devices are coupons, premiums, in-store displays, trade shows, samples, in-store demonstrations, and contests.

Producers and middlemen conduct sales promotions. The target for producer's sales promotion may be a middleman, end users – households or business users – or the producer's own sales force. Middlemen direct sales promotion at their sales people or prospects further down the channel of distribution.

1. Definition of Sales Promotion

Different scholars have defined sales promotion in different ways as follows

- Comprising range of actual marketing techniques designed with a strategic framework to add value to a product or service in order to achieve specific sales or marketing objectives (Up's Institute of sales promotion).
- Are those activities other than personal selling, advertising, and publicity that stimulate consumer purchasing and dealer effectiveness such as display, shows and exhibitions, demonstrations and various non- recurrent selling efforts not in the ordinary routine (American Marketing Association).
- Aimed at reaching the consumer at home or in his business establishment are generally in the form samples, demonstration, and coupons.

4. Sales Promotion Tools

Some of the sales promotions are presented as follows:

For Consumers:

1. **Coupons:** This is an effective and widely used promotional tool. Coupons are kept either inside the package or distribute separately for increasing sale of an existing product or introducing a new product. Despite all plus points, this would increase cost. Price off promotion available in the form of reduction of price or more than

one item is packed and made available at reduced price. This devise is generally practical during festival.

2. **Trading stamps:** This is a retailer sponsored sales promotion device where buyers are given ticket whiles purchasing goods. These tickets are produced and a particular item is given.
3. **Demonstration:** This can be with samples or pure demonstration. Here the buyers can witness merits using process, nature and quality of goods.

For Middlemen:

There are a number of dealers' aids for sales promotion and some of the devices are given below.

1. **Buying allowance:** It is short-term device to induce middlemen to promote sales. Here the middlemen get the allowance after purchase more than the fixed point.
2. **Count and recount:** In this system counting is made at the buying and end of selling activities and allowance is at the time of recount.
3. **Mechanizing allowance:** It is a short-term contract or agreement where advertising allowance and display allowance is paid as compensation.
4. **Free goods:** In which a few goods are given free after reaching a target.
5. **Sales force:** Incentives in the form of commission or bonus are given to sales force.

Publicity and Public Relation

1. Publicity

Publicity is any communication about an organization and its products, including publicities through the media that is not paid for by the organization. Publicity usually takes the form of a news story appearing in a mass medium or an endorsement provided by an individual, either informally or in a speech or interview. This is good publicity. There is also, of course, bad publicity- a negative story about a firm or its product appearing in the media. In a society that is increasingly sensitive about the environment and in which news media are quick to report mistakes, organizations tend to focus on this negative dimension of publicity.

Publicity can help to accomplish any communication objective. It can be used to announce new products, publicize new policies, recognize employees, describe research breakthroughs, or report financial performance.

The credibility of publicity typically is much higher than advertising. If we tell you our product is great, you may well be skeptical. But if an independent, objective third party says in the evening news that our product is great, you are more likely to believe it.

Other benefits of publicity over advertising are:

- Lower cost than advertising or personal selling
- More information. More information and persuasive content can be included in the message.
- Timeliness. A Company can put out a news release very quickly when some unexpected event occurs.

2. Public Relations

Public relations refer to the communication activities designed to create and maintain a favorable image of an organization. It is a planned effort by an organization to influence the attitudes and opinions of a specific group. It is the deliberate, planned and sustained effort to establish and maintain understanding between an organization and its public.

Tools Available for public relation includes: News such as the field of business particularly films, literature well written, interesting and entertaining news release sent to appropriate presses, Events such as Press conference, annual general body meeting, seminars, exhibitions etc. and Public Service Activities like building bus stops, donating garbage disposal containers, maintaining public parks, zoo and so on, Setting up charity hospitals and Providing drinking water facilities.

The main Public Relation Objectives are:

1. To build awareness, launching of anew product, Extension of product range or informing about major modifications repositioning and Change in the management, appointments, transfers.
2. To build credibility, Winning of national or international award for some achievement for the company or its executive, contribution to some social cause, developing a corporate image, Defend products (events) that have encountered public protests.
3. To boost the moral of sales force dealers.
4. To improve marketing effectiveness at reduced promotion costs.

The Major PR Activities are *Press relation* with the aim of placing news worthy information in to the news media to attract attention to a person, product or service; Product *Publicity*; Corporate communication that covers internal and external communication and promotes understanding of the organization and *Lobbing* which involves advising management about public issues, company positioning and image.

Personal Selling

1. Meaning of personal selling

Personal selling can be defined as:

- The personal communication of information to persuade somebody to buy something, or
- Oral presentation in a conversation with one or more prospective purchasers for the purpose of making sales.

The goal of all marketing efforts is to increase profitable sales by offering want – satisfaction to consumers over the long run. Personal selling is by far the major promotional method used to reach this goal.

The four factors that influence an organization's promotional mix are the market, the product, the product's life cycle stage, and the money available for promotion. Referring to those four factors, personal selling is likely to carry the bulk of the promotional load when:

- The market is concentrated either geographically, or in few industries, or in a few large customers.
- The product has a high unit value, is quite technical in nature, or requires a demonstration.
- The product must be fitted to an individual customer's need, as in the case of securities or insurance.
- The product is in the introductory stage of its life cycle.
- The organization does not have enough money for an adequate advertising campaign.

Personal selling is the individual, personal communication of information, in contrast to the mass, impersonal communication of advertising, sales promotion, and other promotional tools. This means that personal selling is more flexible than these other tools. Sales people can tailor their presentations to fit the needs and behavior of individual customers. Sales people can see their customer's reaction to a particular sales approach and make adjustments on the spot.

Also, personal selling usually can be focused or pinpointed on prospective customers. Thus minimizing wasted effort. In contrast, much of the cost of advertising is spent on sending messages to people who in no way are real prospects.

Another advantage of personal selling is that its goal is to actually make a sale. Other forms of promotion are designed to move a prospect closer to a sale. Advertising can attract attention, provide information, and arouse desire, but seldom does it stimulate buying action or complete the transfer of title from seller to buyer.

A major limitation of personal selling is its high cost. Even though personal selling can minimize wasted effort, the cost of developing and operating a sales force is high. Another disadvantage is that a company often is unable to attract the quality of people needed to do the job. At the retail level, many firms have abandoned their sales forces and shifted to self-service selling for this very reason.

There are two kinds of personal selling:

- Where the customers come to the sales people. Sometimes called across-the-counter selling, it primarily involves retail-store selling.
- Where the sales people go to the customers. In this group is what we call outside sales forces – that is, sales representatives engaged in field selling. These people sell in person at a customer's place of business or home. Outside sales forces usually represent producers or wholesaling middlemen, selling to business users and not to household customers.

Today some companies have a sales force that goes to the customers, but not in person. Instead, these representatives are "going to the customer" by means of telephone, computer, facsimile (fax) machine, and Internet search. In effect some outside selling is becoming electronic, and the term telemarketing describes such communications systems. Many firms have used telephone selling for decades, and some sales representatives regularly contact customers by mail or phone. What is different about telemarketing is the new telecommunications equipment used in "going to the customers."

The features that differentiate sales jobs from other jobs are:

- The sales force is largely responsible for implementing a firm's marketing strategies. Moreover, it is the sales representatives who generate the revenues that are managed by the financial people and used by the production people.
- Sales people represent their company to customers and to society in general. Many sales jobs require the representative to socialize with customers who frequently are upper-level people in their companies. Opinions of the firm and its products are formed on the basis of impressions made by sales people in their work and outside activities. The public ordinarily does not judge a company by its factory or office workers.
- Sales representatives operate with little or no direct supervision. For success in selling, a sales representative must work hard physically and mentally, be creative and persistent, and show considerable initiative. This all required a high degree of motivation.
- Sales jobs frequently involve considerable traveling and time away from home. Many companies have reduced sales travel time by redesigning sales territories, routing sales trips better, and relying more on telemarketing. Nevertheless, being in the field, sales people must deal with an endless stream of customers who may seem determined not to buy their products. These stresses coupled with long hours and traveling, require a mental toughness and physical stamina rarely demanded in other jobs. Personal selling is hard work!

Personal Selling Process

The personal selling process is a logical sequence of four steps that a sales person takes in dealing with prospective buyers. This process leads, hopefully, to some desired customer action and ends with a follow-up to ensure customer satisfaction.

The personal selling process is generally divided into four steps:

1. Prospecting
2. Pre approach
3. Presentation
4. Post sale service

1. Prospecting

The first step in the personal selling process is called prospecting. It consists of first identifying potential customers and then qualifying them, that is, determining whether they have the necessary purchasing power, authority, and willingness to buy.

- *Identifying prospective customers:* A representative may start the identification process by drawing up a profile of the ideal prospect. Records of past and current customers can help determine characteristics of an ideal prospect. From this profile a seller can start a list of potential customers.

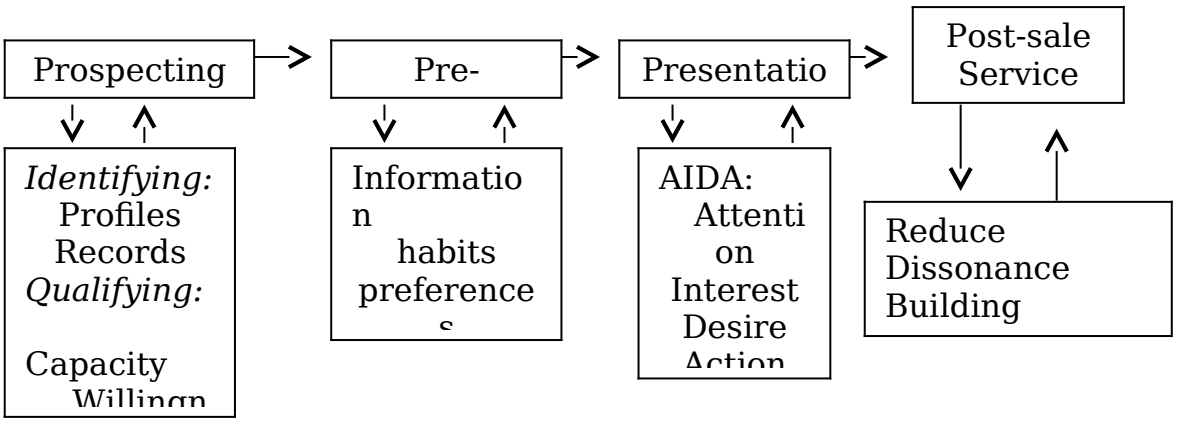


Figure 7: The personal selling process
Source: Stanton, 1994

- *Qualifying the prospects:* After identifying prospective customers, a seller should qualify them- that is, determine whether they have the necessary willingness, purchasing power, and authority to buy. To determine the willingness to buy, a seller can seek information about a prospect's relationship with its present supplier.

2. Pre approach to Individual Prospects

Before calling on prospects, sales people should learn all they can about the persons or companies to whom they hope to sell. This pre-approach in selling might include finding out what products the prospects are now using and their reaction to these products. In business-to-business selling, a sales person or selling team should find out how buying decisions are made in the customer's organizations. A sales representative can target the right people if he or she knows who is the information gatekeeper, who influences and/or makes the buying decision, and who actually makes the purchase. Sales people also should try to find out the personal habits and preferences of a prospect. Sales people should try to get all the information they can, so that they will be able to tailor their presentation to individual buyers.

3. Presenting the Sales Message

With the appropriate pre approach information, a sales person can design a sales presentation that will attract the prospect's attention. The sales person will try to hold the prospect's interest while building a desire for the product, and when the time is right, attempt to stimulate action by

closing the sale. This approach, called AIDA (an acronym formed by the first letters of *Attention, Interest, Desire,* and *Action*), is used by many organizations.

Attract attention
The first task in a sales presentation is to attract the prospect's attention and to generate curiosity. In cases where the prospect is aware of a need and is seeking a solution, simply stating the seller's company and product will be enough. However more creativity often is required.

Hold Interest and Stimulate Desire
After attracting the prospect's attention, the sales representative can hold it and stimulate a desire for the product with a sales talk. There is no common pattern here. Usually, however, a product demonstration is invaluable. Whatever pattern is followed in the talk, the sales person must always show how the product will benefit the prospect.

Some companies train their sales people to use a canned sales talk – a memorized sales presentation designed to cover all points set by management. All representatives give the same presentation, verbatim or with minor changes. Companies engaging in telephone selling or door-to-door selling use canned sales talks. Although many people feel that this is a poor practice, canned talks have time and again proved to be effective. Nevertheless, they are used less and less today, because companies believe that flexible presentations can be more personal and tailored for individual customers' needs.

Meet Objections and Close the Sale
After explaining the product and its benefits, a sales person should try to close the sale – that is, obtain the customer's agreement to buy. (This is the final A in AIDA – achieving the desired action.)

As part of the presentation, the sales person may periodically venture a trial close to test the prospect's willingness to buy. By posing some "either – or" questions, a sales person can bring the presentation to a head. For example, "would you prefer the gray or the green model?" or "Do you plan to charge this or pay cash?"

The trial close is important because it gives the sales person an indication of how near the prospect is to a decision. Sometimes sales are lost simply because the representative fails to ask for the order.

The trial close also tends to bring out the buyer's objections. A sales person should encourage buyers to state their objection. Then the sales person has an opportunity to meet the objections and to bring out additional product benefits or reemphasize previously stated points. The thoughts objections to answer are those that are unspoken. A sales person must uncover the real objections before being able to close a sale.

4. Post sale Service

An effective selling job does not end when the order is written up. The final stage of a selling process is a series of post sale activities that can build customers good will and lay the groundwork for future business. An alert sales person will follow up sales to ensure that no problems occur in delivery, financing, installation, employee training and other areas that are important to customer satisfaction.

These activities reduce the customer's post purchase anxiety (cognitive dissonance) – the anxiety that usually occurs after a person makes a buying decision. In this final stage of the selling process, a sales person can minimize the customer's dissonance by:

- Summarizing the product's benefits after the purchase,
- Repeating why the product is better than alternatives not chosen, and
- Emphasizing how satisfied the customer will be with the product.

Evaluating a Salesperson's Performance

Managing a sales force includes evaluating the performance of sales people. Sales executives must know what the sales force is doing in order to reward them or to make constructive proposals for improvement. By establishing performance standards and studying sales people's activities, management can develop new training programs for upgrading the sales force's efforts. And, of course, performance evaluation should be the basis for compensation decisions and other rewards. Performance evaluation can also help sales people identity opportunities for improving their efforts. Employees with poor sales records know they are doing something wrong. However, they may not know what the problem is if they lack objective standards by which to measure their performance.

Both *quantitative* and *qualitative* factors should be used as bases for performance evaluation. Quantitative bases generally have the advantage of being specific and objective. Qualitative factors, although often reflecting broader dimensions of behavior, are limited by the subjective judgment of the evaluators. For either type of appraisal, however management faces the difficult task of setting standards against which a representative's performance can be measured.

Quantitative Bases

Sales performance should be evaluated in terms of inputs (efforts) and outputs (results). Together, inputs such as number of sales calls per day or customer service activity, and outputs, such as sales volume or gross margin, provide a measure of selling effectiveness.

Some quantitative output measures useful as evaluation criteria are:

- Sales volume by product, customer group, and territory.
- Gross margin by product line, customer group, and territory.
- Closing rate-number of orders divided by number of calls.
- Accounts-percent of existing accounts sold and number of new accounts opened.

Useful quantitative input measures include:

- Call rate-number of calls per day or week.

- Direct selling expenses-total dollars or as a percent of sales.

Qualitative Factors

Performance evaluation would be much easier if it could be based only on quantitative criteria. It would minimize the subjectivity and personal bias of the evaluators. However, many qualitative factors must be considered because they influence as sales person's performance. Some of these factors are:

- Knowledge of products, company policies, and competitors.
- Time management and preparation for sales calls.
- Customer relations.
- Personality and attitude-cooperation, creativity, resourcefulness.

A successful evaluation program will appraise a sales person's performance on as many different bases as possible.

Qualities of a Good Salesman

1. Physical Qualities: health, posture, voice and appearance are very important. A salesman having a deficiency of any of these qualities cannot handle his customer properly.
2. Mental Qualities: Is alertness, imagination, resourcefulness, observation, self-confidence, initiative, memory and cheerfulness. These qualities must be developed to improve the personality of a salesman.
3. Social Qualities: ability and eagerness to meet people, effective speech, courtesy, tact, cooperation, good manners, patience and tolerance.
4. Character Qualities: Honesty; Courage; Sincerity; Loyalty; Determination; and industriousness