
UNIT 1: BASIC CONCEPTS OF MARKETING

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1.0 AIMS AND OBJECTIVES

This unit aims at introducing marketing and gives a brief description of market, core concepts of marketing, marketing management and marketing management philosophies.

After reading this unit you will be able to:

- know the meaning of market and marketing
- describe the core concepts of marketing
- know the meaning of marketing management
- identify the importance of market and marketing
- identify the different marketing management philosophies used to date.

1.1 INTRODUCTION

Marketing can be defined in various ways. In order to understand the term marketing we can use the following definitions.

- Marketing is a social and managerial process by which individuals and groups obtain what they want and need through creating, offering and exchanging products of value with others.
- Marketing is the process of development and efficient distribution of goods and services to a target market with the objective of making profit.
 - Development:- refers to the identification of a new product, its design, production, branding and packing.
 - Distribution:- refers to the placement of products at the right quantity, time and to the right place where the target consumer is available.
- Marketing is a process of anticipation, management and satisfaction of demand through exchange.
 - Anticipation of demand refers to the estimation or forecasting how consumers demand for products in the future changes.
 - Management of demand also refers to the stimulation of demand, facilitation of usage and regularity of supply.
 - Satisfaction of demand refers to the ability to meet or exceed the expectation of customers demand by providing after sales service such as packing, transportation, maintenance, availability of spare parts, guarantee etc.
- Marketing consists of individual and organizational activity that facilitate and expedite satisfying exchange relationships in a

dynamic environment through the creation, distribution, promotion and pricing of goods, services and idea.

In order to further understand marketing it is better to know the core concepts of marketing. Which is presented as follows.

1.2 THE CORE CONCEPTS OF MARKETING

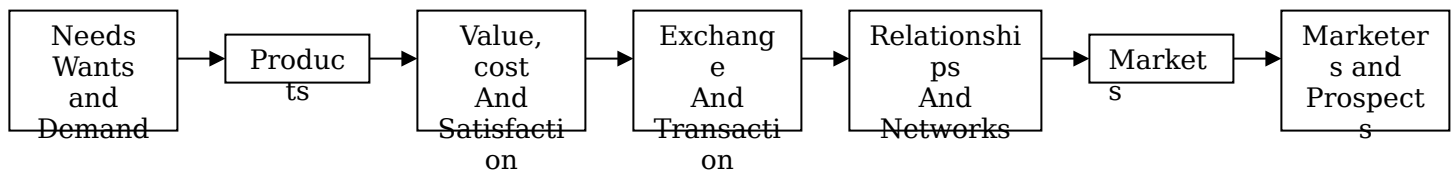


Figure 1.1

The core concept of marketing

a) Needs, Wants and Demands.

The starting Point for the discipline of marketing lies in human needs and wants.

People needs and wants many varieties of things and marketing has to satisfy these needs and wants. Needs and wants of people are unlimited and continuously changes and so the marketer's task is to meet these changing human needs and wants.

Needs:- Need is a state of felt deprivation of some basic satisfaction. It is also defined as a discrepancy between the actual state and desired state of a human being. It is the deficiency of something useful. Needs are not created by society or by marketers. They exist in the very nature of human biology and the human condition.

Wants:- Wants are desires for specific satisfiers of these needs. A want for one person may not be a want for another person. In other words, what is desired by one person may not be desired by another- what is good for one person may be worse for another. For example: When a

person felt hungry, he wants to eat food, but the type of food wanted by different persons may be different.

Although people's needs are few, their wants are many. Human wants are continually shaped and reshaped by social forces and institutions, including churches, schools, families and business corporations.

Demands: Demands are wants for specific products that are backed by an ability and willingness to buy them. Wants become demand when they are backed up by purchasing power. Therefore, marketers should measure the wants of the people that is backed by purchasing power because only demand guarantees sales.

b) Products (Goods, Services and Ideas)

Human needs and wants are satisfied with products offered by the marketer. Product is anything that can be offered to the market for acquisition, use and/or attention. Alternative to product we can use other terms such as offering or solution to define the same thing. Products may have three forms: physical goods (people, place, machinery, food, etc), services (intangible products) and ideas (human conceptions).

For example: a computer manufacturer is supplying all three forms: physical goods (computer, monitor, printer, etc), services (delivery, installation, training, maintenance, repair), ideas (computation power).

The physical object is a means of packaging a service. The marketer's job is to sell the benefits or services built into physical products rather than just describe their physical features. For example, the soap manufacturer is selling the benefits it offers such as cleaning ability, durability and flavor but not the physical item. If the product does not offer the expected benefit, consumers will not buy the product any

more. Therefore, marketers should focus their attention on the benefits the product offers not on the physical features of the product.

c) Value, Cost and Satisfaction.

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 consumer's product choice set. The consumer has to decide on the most satisfying product from among the product choice.

Value is the consumer's estimate of the product's overall capacity to satisfy his or her needs. Consumer, in order to maximize their satisfaction, they have to consider not only the value they can acquire from owning and using a product, but also the cost they incur to acquire the product. The product with the highest value might cost substantially more than the other alternatives. Therefore, consumers will consider the products value and cost before making a choice. A rational consumer will choose the product that produces the most value per Birr.

d) Exchange and Transactions

Exchange is the act of obtaining a desired product from someone by offering something in return. Exchange is one of the four ways in which people can obtain products they want. They are:

1st. Self -production - Eg. Relieving hunger through hunting, fishing, or fruit gathering. Here there is no market and no marketing.

2nd. Coercion - Hungry people can wrest or steal food from others. Here no

benefit is offered to the others except that of not being harmed.

Therefore, there is no market and no marketing.

3rd. Begging – Hungry people can approach others and beg for good. They have

nothing tangible to offer except gratitude. Therefore there is no

market and marketing.

4th. Exchange – Hungry people can offer a resource in return for food, such as

money, a good or a service. Here, there is market and marketing.

Marketing emerges when people decide to satisfy needs and wants through exchange.

For exchange to take place, five conditions must be satisfied:

- i. There are at least two parties (individuals or groups)
- ii. Each party has something that might be of value to other party
- iii. Each party is capable of communication and delivery
- iv. Each party is free to accept or reject the exchange offer
- v. Each party believes it is appropriate or desirable to deal with the other party.

If these conditions exist, there is a potential for exchange. Whether exchange actually takes place depends on whether the two parties can agree on terms of the exchange that will leave them both better off (or at least not worse off) than before the exchange. Exchange is frequently described as a value – creating process because exchange normally leaves both parties better off.

Transaction: Two parties are engaged in exchange if they are negotiating and moving toward an agreement. When an agreement is reached, we say that a transaction takes place. Transactions are the

basic unit of exchange. A transaction consists of a trade of values between two or more parties. Transaction may be either monetary or barter transaction.

Transaction involves several dimensions: at least two things of value, agreed up on conditions, a time of agreement and a place of agreement. Transactions are supported and enforced through certain legal systems.

Transaction differs from transfer. In a transfer nothing is received in return for an offer. Transferor behavior can be understood through the concept of exchange. The transferor expects to receive something in exchange for his or her gift.

Marketers seek to elicit a behavioral response from another party. Hence, marketing consists of the actions undertaken to elicit desired responses from a target audience.

e) Relationships and Networks.

Relationships: - Transactions marketing is part of a larger idea, that of relationship marketing. Relationship marketing is the practice of building long-term satisfying relation with key parties-customer, supplies and distributors - in order to retain their long-term preferences and business. Smart marketers try to build up long-term, trusting, and “win-win” relationships with customers, distributors, dealers and suppliers. This is accomplished by promising and delivering high quality goods services and fair prices to the other party over time. Relationship marketing results in strong economic, technical, and social ties among the parties. It also cuts down transaction costs and time.

The ultimate outcome of relationship marketing is the building of a unique company asset called marketing network. A marketing network consists of the company and all its supporting stakeholders customers, employees, suppliers, distributors, retailers, ad agencies and others

with whom it has built mutually profitable business relationships. The operating principle of relationship marketing is: Build a good network of relationships with key stakeholders, and profits will follow.

f) Markets

The concept of exchange leads to the concept of market. 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. Thus the size of the market depends on the number of persons who exhibit the need or want, have resources that interest others and are willing and able to offer these resources in exchange for what they want.

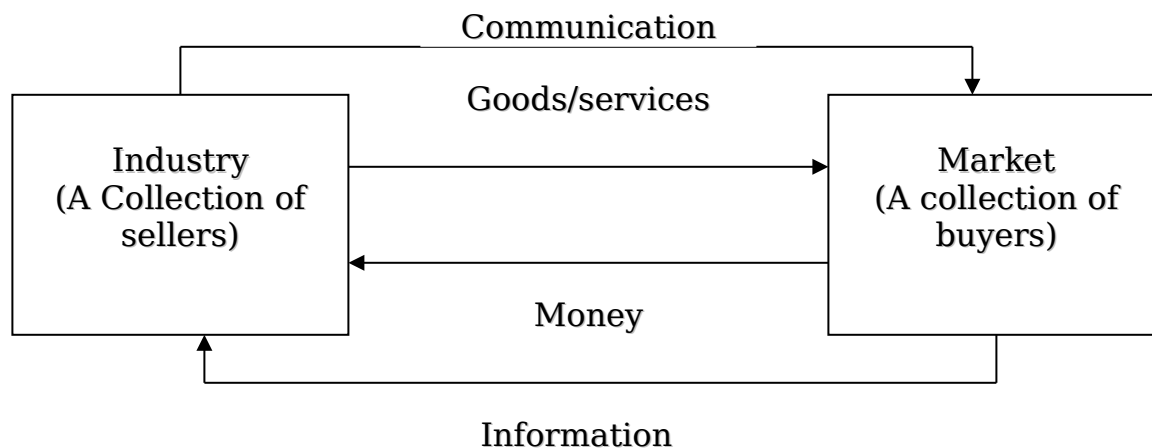


Figure 1-2
A simple marketing system

Markets viewed from three perspectives. The first is a traditional perspective which views market as the place where buyers and sellers gathered to exchange their goods, as a village square. Economists use

the term market to refer to a collection of buyers and sellers who transact over a particular product or product class as a housing market, stock market, financial market, etc. Marketers, however, see the sellers as constituting the industry and the buyers as constituting the market. The relationship between the industry and the market is shown in the above figure 1-2.

As it is depicted in figure 1-2, the seller and the buyers are connected by four flows. The sellers (Industry) send goods and services and communication (through ads, direct mail, etc) to the buyers (the market): in return they receive money and information (altitudes, sales data, etc). The inner lines show an exchange of money, whereas the outer loop shows an exchange of information.

g) Marketers and Prospects

The concept of markets brings us full circle to the concept of marketing. Marketing means working with markets to actualize potential exchanges for the purpose of satisfying human needs and wants. In the concept of marketing we find two parties – the seller and the buyer.

When one party is more actively seeking an exchange than the other party, we call the first party a marketer and the second party a prospect. A marketer is someone seeking one or more prospects who might engage in an exchange of values.

The marketer can be a seller or a buyer. Suppose you want to buy a house that has just become available. You go for it, ask the owner of the house, take the initiative, and develop a desire in yourself for the house. Now you are the marketer, the house owner is a prospect. In reverse, the owner of the house, need to sell his house, - advertise the sell bargaining with many potential buyers including you. Here, the owner of the house is the marketer and you become a prospect.

In the event that both parties actively seeking an exchange, both are marketers and the situation is one of reciprocal marketing. For example, if both the buyer and seller of the house show an interest to buy and sell respectively at al time, they both become marketers.

1.3. IMPORTANCE OF MARKETING

Marketing is an important social activity that offers benefits to all the parties concerned. As such importance of marketing can be summarized as follows.

- a) As a producer and businessman we usually make such marketing related decisions such as finding out who are our customers? What are their need and want and what good and service to offer and at what price.
- b) As a consumer we make such marketing related decision where to shop, which salesperson to contact, what price to pay, what to buy.
- c) As an employee we are concerned with the employment opportunity that can be created by marketing activities.
- d) To the society, marketing contributes to the economic growth of the society through making profit and make people at a better off.
- e) Marketing creates utility such as:

Place utility: -Marketing makes products readily available at a place where customers want them.

Time utility: -Marketing makes products available at the time when they are wanted by customers.

Possession utility: -Marketing makes possession by selling the product to customer.

Form utility: - Form entails the physical or chemical change that takes place

through production which is based on the marketing effort in

identifying what customers need and want.

1.4 MARKETING MANAGEMENT

1.4.1 Meaning of Marketing Management

Marketing management is the process of planning and executing the conception, pricing, promotion and distribution of ideas, goods and services to create exchange that satisfy individual and organizational goals.

Marketing management is a process of analysis, planning, implementing and control of programs designed to create, build and maintain beneficial exchanges with target consumer segments through providing goods and services in the exchange process.

These definitions recognize that marketing management as:

- i. A process involving analysis, planning, implementation & control
- ii. Covering ideas, goods and services
- iii. Resting on the notion of exchange
- iv. Having a goal to produce satisfaction for the parties involved

Marketing management is an activity that can be practiced in any market such as: labor market, raw - materials market, food market, Stock market, etc.

The popular image of the marketing manager is someone whose task is primarily to stimulate demand for the company's products. Marketing management has the task of influencing the level, timing and composition of demand in a way that will help the organization achieve its objectives. Marketing management is essentially demand management i.e. marketing

managers need to identify the different state of demand so that they can design different marketing tasks. The organization presumably forms an idea of a desired level of transactions with a target market. At times the actual demand level may be below, equal to, or above the desired demand level. That is; there may be no demand, weak demand, adequate demand, excessive demand and so on and marketing management has to cope with these different states.

The various states of demand and the corresponding marketing tasks can be discussed as follows.

i. *Negative demand:* - a market will be in a state of negative demand when the majority of the market dislike the product and even pay a price to avoid it.

Example: - people may have a negative demand for vaccination & dental work.

Employers have a negative demand for alcoholic employees.

The marketing task is to analyze why the market dislikes the product and whether a marketing program consisting of product design, lower price and more positive promotion can change the market belief and attitude.

ii. *No Demand:* - This state of demand may occur when target consumers are unaware of or uninterested in the product.

Example: - A college student may be uninterested in foreign language courses

- Farmers may not be interested in a new farming method.

The marketing task is to find ways to connect the benefits of the product with the person's natural needs and interests.

iii. *Latent demand:* - This state of demand may occur when many consumers may share a strong need that cannot be satisfied by any existing product. For example, consumers have a strong demand for

harmless cigarettes, more fuel-efficient cars and cleaner neighborhood, AIDS vaccine, etc.

The marketing task is to measure the size of the potential market and develop effective goods and services that would satisfy the demand.

iv. *Declining demand:* - every organization sooner or later, faces declining demand for one or more of its products. The marketer must analyze the cause of market decline and determine whether demand can be restimulated by finding new target markets, changing the products features or developing more effective communication, The marketing task is to reverse the declining demand through creative remarketing of the product.

v. *Irregular demand:* - many organizations face demand that varies on a seasonal, daily or even hourly basis, causing problems of idle or overworked capacity. For example, much of the vehicles used for public transportation are idle during off-peak hours and insufficient during peak travel hours, and museums and churches are under visited on weekdays. The marketing task, called synchro marketing, is to find ways to alter the same pattern of demand through flexible pricing, promotion and other incentives

vi. *Full Demand:* - Organizations face full demand when they are pleased with their volume of business. The marketing task is to maintain the current level of demand in the face of changing consumer preferences and increasing competition through maintaining or improving its quality and continually measure consumer satisfaction.

vii. *Overfull Demand:* - some organizations face a demand level that is higher than they can or want to handle. The marketing task, called demarketing, requires finding ways to reduce the demand temporarily or permanently through such steps as: raising prices, and reducing

promotion and service. Demarketing aims not to destroy demand but only to reduce its level, temporarily or permanently.

Demarketing may be general or selective demarketing. General demarketing seeks to discourage overall demand and consists of such steps as rising prices and reducing promotion and services.

Selective demarketing consists of trying to reduce the demand coming from those parts of the market that are less profitable or less in need of the product.

1.4.2 Marketing Management Philosophies/Concepts

Marketing management is defined as a conscious effort to achieve desired exchange outcomes with target markets. But what philosophy should guide marketing efforts? What relative weights should be given to the interests of the organization, the customers and society? Very often these interest conflict.

There are five competing concepts under which organizations can choose to conduct their marketing activities: the production concept, the product concept, the selling concept, the marketing concept and the societal marketing concept. Let us look at each of these concepts in detail.

1.4.2.1. a) The Production Concept/Philosophy

The philosophy is probably the oldest concept in guiding marketing (in the early 1905). The concept holds that consumers will favor those products that are widely available and low in cost. The management's focus, therefore, should be in increasing production efficiency and wide distribution. This philosophy is a useful concept in the situations when

- i. The demand for the product exceeds its supply. Here consumers are more interested in obtaining the product than in its fine points.
- ii. The products cost is high and has to be decreased to expand the market.

Some service organizations also operate on the production concept while this management orientation can handle many cases per hour, it is open to charges of impersonality and poor service quality.

1.4.2.2 *b) The Product Concept*

The product concept holds that consumers will favor those products that offer the most quality, performance or innovative features. The management's focus, therefore, should be on marketing goods products and on constant improvement of the product.

Under this concept, managers assume that buyers admire well-made products and can appraise product quality and performance. However, these managers are sometimes caught up in a love affair with their products and do not realize that the market may be less "turned on".

Product oriented companies often design their products with little or no customer input. They trust that their engineers will know how to design or improve the product.

1.4.2.3 *The Selling Concept*

The selling concept holds that consumers, if left alone, will ordinarily not buy enough of the organization's products. The organization must, therefore, undertake an aggressive selling and promotional effort. Marketers believed that the most important marketing activities in the selling concept are personal selling and advertising.

This concept assumes that consumers typically show buying resistance and must be persuaded in to buying. It also assumes that the company has available effective selling and promotional tools to stimulate more buying. It assumes that customers who are persuaded into buying the product will like it, and if they do not, that they will not bad-mouth it (talk negatively) and they will possibly forget their disappointments and buy it

again. These are indefensible assumptions to make about buyers. Normally dissatisfied customers bad-mouth (talk negatively) the product to many people. Hence, marketing based on hard selling carries high risk. This concept is practiced most aggressively when the company has an overcapacity – to fill his capacity and the products are unsought (those goods that buyers normally do not think of buying).

This concept has an inside-out perspective. It starts from the company and produce what the company can. Then, through personal selling and advertising, the company try to maximize its profits through increased sales volume.

1.4.2.4. The Marketing Concept

This concept holds that the key to achieve organizational goals consists of being more effective than competitors in integrating marketing activities towards determining and satisfying the needs and wants of target market.

This concept starts from the target customer's needs and wants. It is customer oriented. The company achieves its profit through creating and maintaining customer satisfaction. The key to achieve organizational goals is generating customer satisfaction. Its main principle is to love customers.

The marketing concept rests on four pillars; Target market, consumer need, integrated marketing and profitability.

These are discussed as follows.

- i. Target market.

No company can operate in every market and satisfy every need. It is possible for companies to do best for their customer when they define their target market carefully and prepare a tailor market program.

- ii. Customer Needs.

Once the firm has defined its target market it has to identify the need of the customer – which is the difficult task to the marketer. Some customers have needs of which they are not fully conscious or they cannot articulate these needs or they use words that require some interpretation. Customer oriented thinking requires the company to define customer needs from the customer's point of view. Every buying decision involves trade-offs, and management cannot know what these are without researching customers. The key to professional marketing is to understand their customer's real needs and meet them better than any competitor can. Customer's needs may be classified as: stated needs, real need, unstated needs, delight needs, and secret needs.

Responding to the stated needs of the customer may not be sufficient. Therefore, marketers should be not only responsive but also creative,. As a responsive marketer finds a stated need and fills it, he is a reactive marketer and a creative marketer discovers and produces a solution that consumer's did not ask for but to which they are looking for.

Company's sales each period comes from two groups new customers and repeat customers. However, it is more costly to attract new customers than to retain current customers. Therefore, customer retention is more critical than customer attraction. The key to customer retention is customer satisfaction. Why is it important to satisfy a customer? It is because a highly satisfied customer;

- a) Stays loyal for a long period of time
- b) Buys more as the company introduces new products
- c) Talks favorably about the company and its products
- d) Pays less attention to competing brands

- e) Offers product/service idea to the company
- f) Costs less to serve than new customers

Thus a company would be wise to check on customer satisfaction. But it cannot just rely on customers voluntarily complaining when they are satisfied. Most of unhappy customers never tell the company. Therefore, companies must set up suggestion and other systems to maximize the customer's opportunity to complain. This is the only way a company can know how well it is doing. It is also a major way in which the company can learn how to do better.

iii. Integrated Marketing.

This is the result of co-operation among and between various departments of the company. When all the company's departments work together to serve the customer's interests, the result is integrated marketing. Integrated marketing takes place on two levels.

First, the various marketing functions-sales force, advertising, product management, marketing research, and so on must work together. Too often the sales force is mad at the product managers for setting "too high a price" or "too high a volume target" or the advertising director and a brand manager cannot agree on an advertising campaign. All these functions must be coordinated.

Second, marketing must be well coordinated with other departments in the company. Marketing does not work when it is merely a department it works only when all employees appreciate their impact on customer satisfaction. To promote teamwork among all departments, the company carries out internal marketing as well as external marketing. Internal marketing is the task of successfully hiring, training and motivating able employees we want to serve the consumers well. External marketing is marketing directed at people

outside the company. In fact, internal marketing must precede external marketing. It makes no sense to promise excellent service before the companies staff is ready to provide excellent service.

iv. Profitability.

The ultimate purpose of the marketing concept is to help organizations achieve their goals. In the case of for profit firms, the major goal is profit, in the case of non-profit and public organizations, it is surviving and attracting enough funds to perform their work.

In for-profit organizations, the key is not to aim for profit as such but to achieve them as a by-product of doing the job well. A company targets to maximize profit and profitability is possible through satisfying customers needs better than its competitors.

In general, there are certain obstacles to operationalize the marketing concept in organization. Among these obstacles the following two are the major ones.

- a) It is difficult to exactly guess customer's needs and wants
- b) Customers may want good and service, which are socially unacceptable or harmful to their own well-being.

Besides, most companies do not want to embrace the marketing concept as organizational philosophy until driven to it by circumstances such as; sales decline, sales growth changing, buying patterns, Increasing competition and increasing marketing expenditure.

In the course of converting to a marketing-oriented company, a company faces three hurdles.

- 1) Organized resistance

Some company departments do not like to see marketing built up because they believe that a stronger marketing function threatens their power in the organization. However, marketer's argue for embracing the marketing concepts as follows.

- i. The company's assets have little value without the existence of customers.
- ii. The key company task is therefore to attract and retain customers.
- iii. Customers are attracted through competitively superior offers and retained through satisfaction.
- iv. Marketing's task is to develop a superior offer and deliver customer satisfaction.
- v. Customer satisfaction is affected by the performance of the other departments.
- vi. Marketing needs to influence these other departments to cooperate in delivering customer satisfaction.

2) Slow learning

In spite of resistance, many companies manage to introduce some marketing in their organization through different actions. However, the learning of marketing comes slowly.

3) Fast forgetting

Even after marketing has been installed, management must fight a strong tendency to forget basic marketing principles, especially in the wake of marketing success.

1.4.2.5 *The Societal - Marketing Concept*

The question whether the marketing concept is an appropriate philosophy in an age of environmental deterioration, resource shortages, explosive population growth, world hunger and poverty, and neglected social services is raised in the recent years. It is questioned whether satisfying

consumers wants is necessarily acting in the best long-run interests of consumers and society.

These and other questions lead to a new concept that enlarger the marketing concept i.e. The societal marketing concept. The societal marketing concept holds that the organizations task is to determine the needs, wants and interests of target markets and to deliver the desired satisfactions more effectively and efficiently than competitors in a way that preserves or enhances the consumer's and the society's well-being. The societal marketing concept calls upon marketers to build social and ethical considerations and to create balances between customer satisfaction, companies objectives, and societies interest into their marketing practices. It believes that what is good for the customer may not be good for the society.

1.5 SUMMARY

Marketing is the performance of business that directs goods and services to the external environment. In other words marketing is the link between the firm's internal environment and its external customers. The starting point of any marketing activity should be discovering the needs and wants of cutomers in the market and then to develop product according to the needs of the customers and finally delivering the desired satisfaction for customers better than competitors.

Marketing management is the management of demand. The task of the marketing is to identify customers' needs and wants, producing the needed products and offering them to the market.

Marketing management gets its importance as the role of customers to organizational sellers increases. Hence marketing management philosophers passes through certain levels of development as: production

concept, product concept, selling concept, marketing concept and societal-marketing concept.

Check Your Progress Exercise

1. Why marketing is an important activity for any kind of business understanding?

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2. Needs are universal but wants are not. Explain your answer.

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3. List the similarities and differences of the selling and marketing concepts/philosophies.

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4. What are the problems of the marketing concept (philosophy)?

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5. Identify the different states of demand together their marketing tasks.

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6. Why the societal marketing concept is so important for modern businesses?

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7. Identify the basic requirements for the existence of an exchange activity?

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8. What are the four pillars of the marketing concept? Explain each of them in detail.

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1.6 ANSWER KEY TO CHECK YOUR PROGRESS EXERCISE

1. Refer to 1.3
2. Refer to 1.2
3. Refer to 1.4.2.3 & 1.4.2.4
4. Refer to 1.4.2.5
5. Refer to 1.4.1
6. Refer to 1.4.2.5
7. Refer to 1.2
8. Refer to 1.4.2.4

UNIT 2: THE MARKET ENVIRONMENT CONTENTS

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- 2.4 Summary
- 2.5 Answer Key Check Your Progress Exercise

2.0 AIMS AND OBJECTIVES

This unit is designed to introduce students about the marketing environment, factors in the marketing environment and how these factors affect the effectiveness of marketers.

After reading this unit: you will be able to :

- understand marketing environment
- explain factors of the marketing environment
- understand how the marketing environment affects managers effectiveness

2.1 INTRODUCTION

The company's marketing environment consists of the actors and forces external to the marketing function of the firm that impinge on the marketing management ability to develop and maintain successful transactions with its target customers. Every company's primary goal is to serve and satisfy set of needs/wants of a chosen target market at a profit. To carry out these tasks, the company links itself with a set of outside factors to reach its customers. The marketing environment may be classified as external and internal environment. The external

environment cannot be controlled by the individual company, whereas, internal environment can be controlled and influenced by the respective company.

Internal environment includes all forces available within the company such as policies, procedures, strategies, mission, people, relationships, between people, etc. In designing marketing plans, marketing management takes other company groups into account – groups such as top management, finance, research and development, purchasing, manufacturing and accounting.

For example:

To management: - Sets the company's mission, objectives, broad strategic and policies.

Marketing manager: - Make decisions within the plans made by top management and market plans must be approved by top management before they can be implemented.

Finance: - is concerned with finding and using funds to carry out the marketing plan.

Research & Development: - Focuses on designing safe and attractive products that help the marketing manager to achieve its objective.

Manufacturing: - is responsible for producing the desired quantity and quality of products at the right time.

Accounting: - has to measure revenues and costs to help marketing know how well it is achieving its objectives.

The external marketing environment consists of factors and actors that exist outside the company and affect the marketing managements ability to achieve its objectives. This can be classified into two as macro environment and microenvironment.

2.2 EXTERNAL MACRO ENVIRONMENT

This is the set of actors and forces that affect the marketer's activity indirectly by affecting the general marketing environment or microenvironment. These forces represent non-controllable forces, which the company must monitor and respond to. It includes demographic, economic, natural, technological, political, social-cultural forces and competitors.

2.2.1 Demographic Environment

The first macro environment force that is of interest for marketers is population. This is because people constitute a market. Marketers are keenly interested in the size and growth of population, age distribution, ethnic mix, educational levels, household patterns, mobility trend, birth rate, marriage and death rate, religious structure and regional characteristics.

For example

- Population growth - determines the quantity of products demanded.
- Age mix - signals the kinds of products and services that will be in high demand at each age group.
- Ethnic mix - Each population group has certain specific wants and buying habits

- Educational group – Illiterate, high school dropouts, high school graduates, college degrees, professional degrees. Their educational group influences the type and quantity of goods and services they demand
- Household patterns – The traditional house hold consists of a husband, wife and children (sometimes grand parents). The type and quantity of goods and services is influenced by their household patterns.
- Single, separated, widowed, divorced (SSWD) need smaller apartments, in expensive and smaller appliances, furniture and furnishings and food packed in smaller sizes.

2.2.2 Economic Environment

People alone do not make a market. Marketers require purchasing power as well as people. The available purchasing power in an economy depends on current income, prices, savings, debt and credit availability. Marketers must pay close attention to major trends in income and consumer spending patterns, willingness to spend.

Purchasing power comes from size and availability of resources. The individual get the ability to purchase income is the amount of money received through wage, rent, investment, pension, credit or wealth. Normally, these money is used for three purposes: paying tax, spending and saving. A society can be grouped in to five groups based on the income distribution. 1. Very low income, 2. Mostly low income, 3. Very low very high incomes, 4. Low, medium, high incomes, 5. Mostly medium incomes.

2.2.3. Competitors Environment

Competitors and those firms that market products similar to or substitute for its production in the same geographic area. An organization rarely stands alone in its effort to serve a given consumer/customer market.

The marketing concept states that to be successful, a company must provide greater customer value and satisfaction than its competitors. Thus marketers must do more than simply adapt to the needs of target consumers. They also must gain strategic advantage by positioning their offerings strongly against competitor's offerings in the minds of consumers. A company competitor may be classified as:

- i. Intertype competitors: - are companies, which produce same or similar products. They compete on the market and may be on the resources.
- ii. Interatype competitors: - are companies, which produces different products from the same resource. They compete on the resource market.

Or they can also be classified as:

- i. Desire competitors: - They compete to satisfy desires of customers. Consumers may have different desires at a time and competitors compete to win the purchasing power of the consumer.
- ii. Generic competitors: - compete in the way they satisfy consumers specific need. ex. Transportation need can be satisfied by different meanses/types of transportation.
- iii. Form competitors: - companies compete in the form of a product i.e. design, feature and shape of the product.
- iv. Brand competitors: - companies compete on the brand. Example Pepsi and coca, Sony and JVC etc. products are similar.

2.2.4. Natural Environment

Marketers should be aware of the threats and opportunities associated with four trends in the natural environment: the shortage of raw materials, the increased cost of energy, the increased levels of pollution

and the changing role of government in the natural resource management.

Marketers should pay attention to the physical environment in terms of obtaining resources and also of avoiding damage. Raw materials may be infinite (such: air & water), the infinite renewable (such as forests and food items) and the finite non renewable (such as oil, coal, platinum, zinc, silver).

2.2.5 Technological Environment

Every new technology is a force for creative distraction. It includes forces that create new technologies, creating new products and marketing opportunities. Technology has released wonders such as antibiotics, organ transplants, notebook computers, the Internet, penicillin, open-heart surgery, birth control pill. It also create horrors hydrogen bomb, nerve gas, submachine gun, anthrax. Technology has a tremendous impact on our lives-our Life-style, our consumption patterns and our economic well-being. Major technological break through carry a three-fold market impact. They can:

- i. Start entirely new industries, as computers, robots, and lasers have done.
- ii. Radically alter or virtually destroy, existing industries. Television crippled the radio and movie industry; hand-held calculators did in the slide-rule industry; computers did in the typewriter industry.
- iii. Stimulate other markets and industries not related to the new technology. New home appliances and frozen food gave homemakers additional free time to engage in other activities. In the western world internet has stimulated the courier and postal businesses.

2.2.6 Socio Cultural Environment

The society in which people grow up shapes their beliefs, values and norms. People absorb, almost unconsciously, a worldview that defines their relationship to themselves, to others and to the universe.

The people living in a particular society hold many core beliefs and values that tend to persist like believe: in work, in getting married, giving to the poor, being honest, etc. core beliefs and values are passed on from parents to children and are reinforced by major social institutions such as schools, churches, business and government.

Secondary beliefs and values are more open to change. Believing in the institution of marriage is a core belief; believing that people ought to get married early is a secondary belief. Marketers have some chance of changing secondary values but little chance of changing core values. Each society contains subcultures, various groups with shared values emerging from their special life experiences or circumstances. Sub cultural groups exhibit different wants and consumption behavior, marketers can choose sub cultures as their target markets.

Although core values are fairly persistent, cultural swings do take place. Marketers have a keen interest in spotting cultural shifts that might be a sign of new marketing opportunities or threats.

2.2.6. Political/Legal Environment

Marketing decisions are strongly affected by developments in the political and legal environment. This environment is composed of laws, government agencies and pressure groups that influence and limit various organizations and individuals in a given society. Sometimes these laws also create new opportunities for business.

The legal/political forces have an indirect but strong influence on the organization. They affect business organizations in the areas of wages

and taxes any organization pays, the rights of employees and the organization's liabilities for harm done to customers by its products.

Government plays at least four roles as it interacts with business: as

- i. A regulatory – As a regulatory government acts as a supportive and restrictive by enacting legislation to regulate. The purpose of legislations is to protect.
 - a. Firms from unfair competition
 - b. Consumers from unfair business practices
 - c. The interests of society from uncontrolled business behavior
- ii. A supplier – government runs and supplies land and natural resources needed by business.
- iii. A competitor – government may produce goods and services and supply to the market.
- iv. A customer – government buys goods and services of the private business.

It is the marketer's responsibility to have a good working knowledge of the major laws protecting competitors, consumers and society. Companies generally establish legal review procedures and promulgate ethical standards to guide their marketing managers.

2.3 EXTERNAL MICRO MARKETING ENVIRONMENT

It consists of the forces close to the marketing activity that affects its ability to serve its customers. This includes: the firm's market, suppliers, marketing channel firms and publics.

2.3.1 The Market/Customers

As both an external force and a key part of every marketing system, the market is really what marketing is all about how to reach the market and serve it profitably and in a socially responsible manner. The market is the

focal point of all marketing decisions in an organization. The company links itself to suppliers and middlemen in order to efficiently supply products and services to its target market. There are six types of customer markets.

- i. Consumer markets: - Consists of individual and households that buy goods and services for personal consumption.
- ii. Business markets: - Buy goods and services for further processing or for use in their production process.
- iii. Reseller markets: - Buy goods and services to resell at a profit.
- iv. Government markets: - are made up of government agencies that buy goods and services to produce public services or transfer goods and services to others who need them.
- v. Institutional markets: - consists of those buyers for the purpose of donation and charity.
- vi. International markets: - consists of these buyers in other countries, including consumer, consumer, producers resellers, governments and institutions.

2.3.2 Suppliers

They are individuals and business firms who provides the resources needed by the company to produce the particular products because a company can't sell a product if it can't first make it or buy it. Producer-suppliers of goods and services are critical to the success of any marketing organization.

Marketing managers must watch supply availability supply shortages or delays, labor strikes, other events that can cost sales in the short run and damage customer satisfaction in the long run, the price trends of their key inputs (rising supply costs may force price, to increase that can harm the company's sales volume).

2.3.3 Marketing Intermediaries

Marketing intermediaries are individuals and independent business organizations that directly aid the company in the flow of goods and services between the company and its customers. They help the company in promoting, selling and distributing its goods to the final buyers. These intermediating include.

- i. Re-sellers - are distribution channel firms that help the company to find customers or make sales to the company. It consists of middlepersons such as agents, whole sellers and retailers.
- ii. Physical distribution firms:- They help the company to stock and move goods from their point of origin to their destinations. It consists of warehousing firms and transportation firms.
- iii. Marketing services agencies:- They are marketing research firms, advertising agencies, media firms and marketing consulting firms that help the company target and promote its products to the right markets. They have to be chosen carefully because they vary in creativity, quality, service and price.
- iv. Financial Intermediaries:- They are banks, credit companies, insurance companies and other business that help finance transactions or insure against the risk associated with the buying and selling of goods.

These intermediaries operate between a company and its markets and between a company and its suppliers.

In some situations it may be more efficient for a company to operate on a "do it yourself" basis without using marketing intermediaries. But marketing intermediaries gave certain benefits to the organization such as: expertise distribution, lower cost of distribution, minimizes the financial burden of the marketing firm, etc.

2.3.4 Publics

Are any group that has an actual or potential interest in or impact on an organization's ability to achieve its objectives. This includes:

- Financial public:- affect/influence the company's ability to obtain funds: banks, stock broker, Insurance.
- Media public:- carry news, features and editorial opinion. This includes advertising agencies, media firms, printing firms.
- Government publics:- It includes government offices, authorities and agencies.
- Citizen - action public: It includes consumer organizations, environmental groups, minority groups and others.
- Local public:- Neighborhood residents and community organizations.
- General public: Includes the general attitude of the society towards the business.
- Internal public:- Includes workers, managers, volunteers and the board of directors

2.4 SUMMARY

Marketing environment is the set of actors and factors external to the marketing function of the firm that influences the sources of the marketing manager.

Marketing environment can be classified into two broad categories as Macro and Micro Marketing Environment.

Macro Marketing Environment consists of factors that influence the marketer's efficiency only indirectly through direct or micro forces. It includes such forces as Demographic, Economic, Competitors, Natural and Physical, Technological, Socio cultural and Legal Political.

Whereas, Micro Marketing Environment consists of factors that influences the markets efficiency directly. It includes such factors as: Customers, Suppliers, Marketing Intermediaries and Publics.

Check Your Progress Exercise

1. Define marketing environment.

.....

.....

.....

2. Discuss the different of the marketing environment and their respective factors.

.....

.....

.....

3. Discuss how these factors affect the performance of the marketer.

.....

.....

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2.5 ANSWER KEY TO CHECK YOUR PROGRESS EXERCISE

1. Refer to 2.1
2. Refer to 2.2
3. Refer to 2.3

UNIT 3: ANALYZING CONSUMER MARKETS AND BUYING BEHAVIOR

Contents

- 3.0 Aims and Objectives
 - 3.1 Introduction
 - 3.2 Consumer Buying Behavior
 - 3.3 Model of Consumer Behavior
 - 3.4 Factors Affecting Consumer Behavior
 - 3.4.1 Cultural Factors
 - 3.4.2 Social Factors
 - 3.4.3 Personal Factors
 - 3.4.4 Personality and Self-Concept
 - 3.4.5 Psychological Factors
 - 3.5 Types of Buying Decision Behavior
 - 3.6 The Buyer Decision Process
 - 3.7 Summary
 - 3.8 Answer for Check Your Progress Questions

3.0 AIMS AND OBJECTIVES

Under this chapter we will draw attention to learn about consumer markets and the buying behavior of consumers.

- Who are consumers?
- What is a consumer market?
- How could we explain the buying behaviors?
- What factors do affect consumers' buying behaviors?

3.1 INTRODUCTION

In the previous units chapter we have tried to learn about the basic concepts of marketing, marketing management, and the marketing environment. In this particular unit we will focus on one of the instrumental marketing management issues of consumer markets and buying behavior. Through out this unit time and effort will be devoted to discuss concepts, models, and characteristics which are believed to be with paramount importance among consume markets, consumers, and consumer behavior.

3.2 CONSUMER BUYING BEHAVIOR

Philip Kotler: consumer-buying behavior refers to the buying behavior of final consumers. It describes the buying behavior of individuals and households who buy goods and services for personal consumption.

Consumers – individuals buying goods for personal consumption

Consumer market – a group of final consumers who buy products for final consumption.

3.3 MODEL OF CONSUMER BEHAVIOR

Understanding consumer behavior implies understanding consumers buying decisions to answer basic marketing questions like

- What consumers buy?
- Where they buy products?

- How they buy products with plan or with out plan, for example?
- When they buy products?
- Why they buy products? (But learning the whys of consumer buying behavior is not so easy, - the answers are often locked deep within the consumer's head)

It is through marketing research that one can learn the buying behavior of consumers. Moreover, understanding how consumers respond to your marketing efforts (including products, price, advertising etc.) as part of their buying behavior is believed to be important to marketers. The commonly used model to understand the buying behavior of consumers is the stimulus - response model.

Stimuli - there are quite a lot of factors, which stimulate customers to think of buying

products and to make ultimate decision of buying. Among others, some include

- Product
- Price
- Place
- Promotion and others like Political factors

Economical factors

Socio-cultural factors.

Technological factors

These all may strike a question in a consumer mind (black-box)

Model of buying behavior

(Buyer's

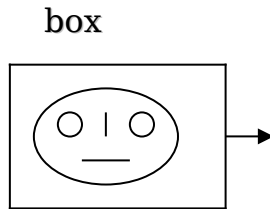
decisions)

Marketing stimuli	Other stimuli
Product	Political
Price	Economic
Place	Socio-cultural
Promotion	Technology

Buyer's responses

Buyer's black

- Product choice
- Brand choice
- Purchase timing
- Purchase



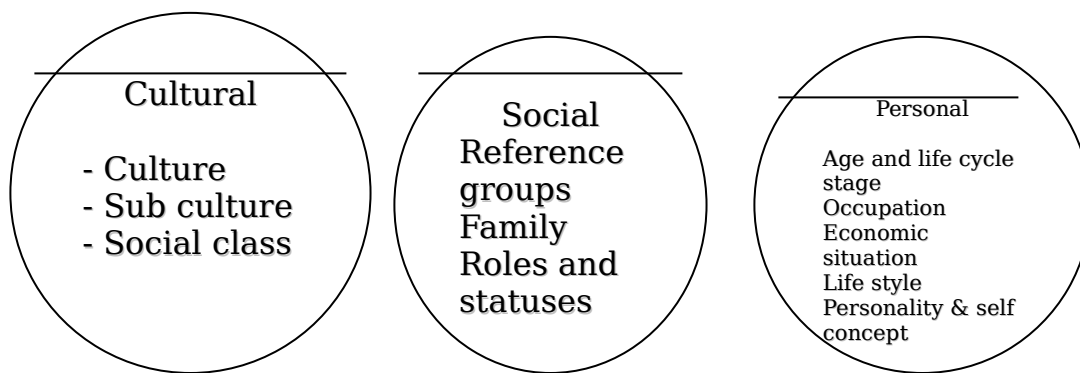
Characteristics process

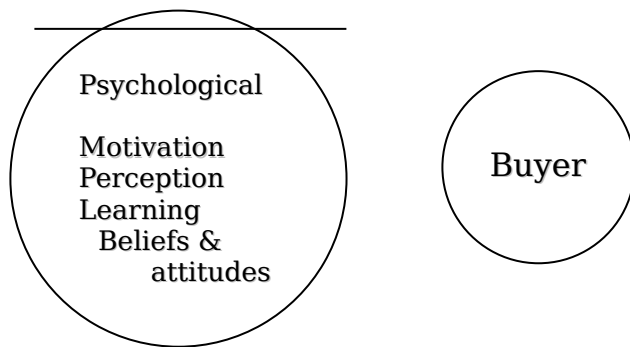
The starting point to understand consumer behavior is the stimulus-response model. As the model clearly shows both marketing stimuli and other environmental stimuli may enter the buyer's consciousness. Then, the combination of the buyer's characteristics and decisions. Process may lead to certain purchase decisions.

Buyer's decision process
- Problem recognition
- Information search
- Evaluation
- Decision
- Post purchase behavior

3.4 FACTORS AFFECTING CONSUMER BEHAVIOR

The following picture shows factors that affect or influence the buying behavior of consumers.





3.4.1 Cultural Factors

Cultural factors exert the broadest and deepest influence on consumer behavior. They include culture, sub-culture & social class.

Culture

- It is most fundamental factor, which determines a person's wants and behavior.
- It is a learned behavior
- It refers to a learned behavior including values, perceptions, preferences and /or wants learned from the family and other important institutions.

A child growing up in the united states is exposed to the following values: achievement and success, activity & involvement, efficiency and practicality, progress, material comfort, individualism, freedom, humanitarianism, youthfulness, and fitness & health.

A child growing up in Ethiopian is exposed to the following values: spiritual devotion, social life, modesty, patriotism, humanitarianism, -----

Values are the building blocks of culture. Even through it varies from country to country, every group or society has a culture. For example, the

culture of Ethiopians is not totally similar to the culture of Indians or Americans. Therefore, marketers should understand cultural difference among people. International marketers must understand the culture in each international market and adapt their marketing strategies accordingly.

Generally, culture is defined as the set of the basic values, perceptions, wants, and behaviors learned by a member of society from family and other important institutions.

Subculture

Each culture consists of smaller subcultures that provide more specific identification and socialization for its members.

A subculture is a group of people with shared value systems based on common life experiences and situations. Sub cultures include:

- nationalities - racial groups and
- religions - geographic regions

Many subcultures make up important market segments.

Social Class

A social class is relatively permanent and ordered divisions in a society whose members share similar values, interests, and behaviors.

Social class is not determined by a single factor, such as income, but is a measured as a combination of occupation, income, education, wealth, and other factors. However, the lines between social classes are not fixed and rigid; people can move to a higher social class or drop into a lower one. Marketers are interested in social class because people within a given social class tend to exhibit similar buying behavior.

3.4.2 Social Factors

Besides cultural factors, social factors including reference groups, family, and roles and status, affect the buying behavior of consumers.

Reference Groups

A person's reference groups consist of the groups that have a direct (face-to-face) or indirect influence on the person's attitudes or behavior.

- Groups having a direct influence on a person are called

Membership Groups

Membership Groups could take two basic forms:

- a) Primary groups
- b) Secondary groups

Primary Groups involve family, friends, neighbors and co-workers, with whom the person interacts **fairly continuously & informally**.

Secondary Groups include religious, professional, and trade union groups, which tend to be more formal and requires less continuous interaction.

People are significantly influenced by their reference groups in at least three ways.

1st Reference groups expose an individual to new behavior & life styles

2nd Reference groups influence the person's attitudes & self-concept

3rd Reference groups create pressures for conformity that may affect the person's actual

product and brand choices.

- People are also influenced by groups in which they are not members. Groups to which a person would like to belong are called inspirational groups. (That you want to belong in the future)
- A group whose values or behavior an individual rejects is known as dissociative group.

Manufacturers of products and brands where group's influence is strong should determine how to reach and influence the opinion leaders in reference groups. Opinion leaders are people within a reference group who, because of special skills, knowledge, personality or other

characteristics, exert influence on others. Opinion leaders are found at all levels of society, and one person may be an opinion leader in certain product areas and an opinion follower in others.

Family

Family members can strongly influence buyer behavior. Family members are the most influential primary reference group.

Family consists of:

- a) Family of Orientation, and
 - b) Family of Procreation
-
- a) Family of orientation consists of one's parents & siblings. From parents a person acquires an orientation toward religion, politics, economics, sense of personal ambition, self-worth, & love.
 - b) Family of procreation involves one's spouse & children.

Roles and Status

A person belongs to many groups like family, clubs, organizations etc. the person's position in each group can be defined in terms of both role and status.

A role consists of the activities that a person is expected to perform. For example, in your own family you may play the role of daughter, son, in your parents you may play the role of wife/husband, in your company you may play the role of manager/accountant/ marketer----- each of your role may influence some of your buying behavior.

Each role carries a status reflecting the general esteem given to it by society. People often choose products that show their status in society.

3.4.3 Personal Factors

Personal factors, which affect the buying behavior of a person, include age and life cycle stage, occupation, economic situation, life-style, and personality & self concept.

Age and Life Cycle Stage

- People change the products they buy over their life times.

Tastes in food, clothing, furniture, and recreation are often age related.

- Buying is also shaped by the stage of the family life cycle.

Family life cycle is the stage through which families might pass as they mature overtime.

Family Life Cycle Stages

Young	Middle aged	Older
Single	Single	Older married
Married without children	Married without children Married with children	Older unmarried
Married with children	Married without dependent children	
Divorced with children	Divorced without children Divorced with children Divorced without dependent children	

Economic Situation

Economic situations consist of a person's spendable income (its level, stability, and time pattern); savings and asset (including the percentage that is liquid), debts, borrowing power, and attitude toward spending versus saving.

Occupation

A person's occupation also influences his or her consumption pattern. A blue-collar worker will buy work clothes, work shoes, and lunch boxes. White-collar workers buy more suits and ties

Lifestyle

People coming from the same subculture, social class, and occupation may have quite different lifestyles. **Lifestyle** is a person's pattern of living (mode of living) as expressed in his/her psychographics. Psychographics involves measuring consumers' major AIO dimensions – activities, interests and opinions.

Activities – work, hobbies, shopping, sports, social events

Interests – food, fashion, family, recreation

Opinions – about themselves, social issues, business, products

A lifestyle profiles a person's whole pattern of acting & interacting in the world.

3.4.4 Personality and Self-Concept

- Personality is a person's distinguishing psychological characteristics that lead to relatively consistent & lasting responses to his or her own environment.
- Personality is usually described in terms of traits such as self-confidence, dominance, sociability, autonomy, defensiveness, adaptability, and aggressiveness.
- Personality can be useful to analyze consumer behavior for certain product or brand choice. For example, coffee makers have discovered that heavy coffee drinkers tend to be high on sociability.

Self-Concept

- It is a concept related to personality and is also known as self-image.
- The basic idea of self-concept is that a person's possessions contribute to and reflect his/her identity' that is, "we are what we have"

3.4.5 Psychological Factors

A person's buying behavior (choices) are further influenced by four major psychological factors:

- Motivation
- Perception
- Learning, and
- Beliefs and attitudes

Motivation

People may have many needs at any given time. Some are biological (biogenetic needs). Arising from states of tension such as hunger, thirst, or discomfort. Others are psychological (psychogenetic needs) arising from the need for recognition, esteem or belongingness. 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 (drive) is a need that is sufficiently pressing to direct the person to seek satisfaction.

Theories of motivation: Sigmund Freud's & Abraham Maslow pp 154

Perception

A motivated person is ready to act. How the person acts is influenced by his/her 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 attention
- Selective distortion
- Selective retention

Selective attention - the tendency for people to screen out most of the information to which they are exposed.

Selective distortion - describes the tendency of people to interpret information in a way that will support what they already believe.

Selective retention - people may tend to retain information that supports their attitudes and beliefs.

Learning

Learning is a change in an individual behavior arising from experience. Most human behavior is learned.

Beliefs and Attitudes

Through doing and learning, people acquire belief & attitudes, which can influence their buying behavior.

A belief is a descriptive thought that a person has about something.

An **attitude** describes a person's relatively consistent favorable or unfavorable evaluations, feelings, and tendencies toward an object or idea.

Consumer Buying Roles

People may play any of several roles in a buying decisions:

Initiator: the person who first suggests or thinks of the idea of buying a particular product or service.

Influencer: a person whose views or advice influences the 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 a product or service

3.5 TYPES OF BUYING DECISION BEHAVIOR

Based on the degree of buyer involvement and the degree of differences among brands there are four types of buying decision behavior.

			High involvement	Low involvement	
	Significant Difference brands	Complex buying Behavior	Variety seeking, buying behavior	between	
differences	Few	Dissonance reducing buying behavior	Habitual buying behavior	Between	
nbrands					

A) Complex Buying Behavior

- In complex buying behavior consumers are highly involved in a purchase
- Consumers may also perceive significant differences among brands (products)
- 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.

Example: personal computer

B) Dissonance-Reducing Buying Behavior

- Dissonance-reducing buying behavior occurs when consumers are highly involved with and expensive, infrequent, or risky purchase but see little difference among brands.

Example: carpeting

(After the purchase, consumer might experience post purchase dissonance (after sale discomfort) when they notice-certain disadvantages of the purchased product or hear favorable things about brands not purchased.

C) Habitual Buying Behavior

Habitual buying behavior occurs under conditions of low consumer involvement and little significant brand difference. Example, salt. Consumers have little involvement in this product category - they simply go to the store & reach for a brand. If they keep reaching of the same brand, it is out of habit rather than strong brand loyalty.

- Consumer appears to have low involvement with most low-cost, frequently purchased products

D) Variety-seeking Buying Behavior

- It occurs in situations characterized by low consumer involvement, but significant perceived brand differences
- In such cases, consumers often do a lot of brand switching
- Brand switching occurs for the sake of variety rather than because of dissatisfaction.

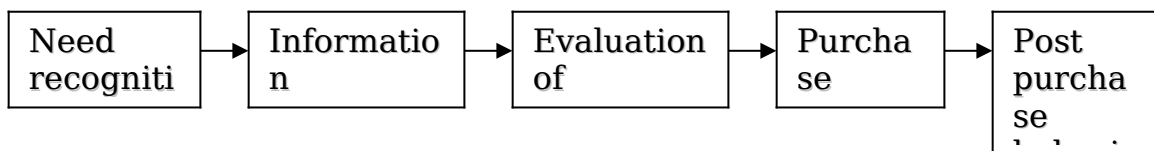
The market leader will try to encourage habitual buying behavior by dominating shelf space, keeping shelves fully stocked, and running frequent reminder advertising. Challenger firms will encourage variety seeking by offering lower prices, special deals, coupons, free samples, and advertising that presents reasons for trying something new.

3.6 THE BUYER DECISION PROCESS

To reach a buying decision buyers pass through certain stages; and it is called the buyer decision process

In the buyer decision process there are five basic stages:

1. Need recognition
2. Information search
3. Evaluating of alternatives
4. Purchase decision, and
5. Post purchase behavior



1. Need recognition

- The buying process starts with need recognition
- It requires the buyer to recognize a problem or need
- Buyer senses a difference between his actual state and some desired state
- The need can be triggered (caused) by internal stimuli when one of the person's normal needs- hunger, thirst, sex-rises to a level high enough to become a drive
- A need can also be triggered by external stimuli for example when you see freshly baked bread it may stimulate your hunger.

2. Information search

- In this state the consumer is motivated to search for more information
- The consumer may get information from sources like
 - Personal sources - family, friends, neighbors, acquaintances
 - Commercial sources - advertising, sales people, deals, packaging, displays
 - Public sources - mass media, consumer-rating organization

- Experiential sources – handling, examining, using the product
- Consumers receive the most information about products from commercial source, which are controlled by the marketer.
- The most effective sources – personal sources

Commercial sources normally inform the buyer, but personal sources legitimate or evaluate products for the buyer.

When more information is obtained, the consumer's awareness and knowledge of the available products increase.

3. Evaluation of Alternatives

- It means choosing among the alternative brands (products)
- It is processing information to arrive at brand /product choices
- While evaluating a brand (a product) the consumer sees different attributes of a product like the quality of the product, its price, ease of use, and other attributes. Like brand image – the set of beliefs consumers hold about a particular product /brand
- It is measuring the benefits and costs of each brand
- It involves ranking products and forming purchase intentions

4. Purchase Decision

- In this stage the consumers actually buys the product
- The consumer will buy the most preferred brand
- But two factors can come between the purchase intention and the purchase decision.

The first factor is the attitudes of others – for example if your friend / husband/mother/child feels strongly that you should buy the lowest – priced product, then the chances of you to buy a more expensive product will be reduced.

The second factor is unexpected situational factors. Most often purchase intentions are made based on factors like expected income, expected

price and expected product benefit. However, unexpected factors too may affect your purchase intention like losing your job, a close competitor may drop its price etc.

5. Post purchase Behavior

The marketer's job does not end when the product is purchased. Post purchase behavior is the stage of the buyer decision process in which consumers take further action after purchase based on their satisfaction or dissatisfaction. To determine whether customers are satisfied or dissatisfied we have to compare consumer's expectation and the products' perceived performance. If the product falls short of expectation, the consumer is disappointed, if it meets expectations, the consumer is satisfied, if it exceeds expectation, the consumer is delighted.

Consumers base their expectations on information they receive from sellers, friends, and other sources

Most of the time after major purchases there will be a ***cognitive dissonance***, or discomfort caused by post purchase conflict. The cause of such a discomfort could be losing the benefits of the products not purchased and acquiring the drawbacks of the chosen (purchased) product.

Why is it Important to Satisfy Customers?

It is important to satisfy customers because the company's sales come from these customers (new customers and retained customers). It usually costs more to attract new customers than to retain current ones, and the best way to retain current customers is to keep them satisfied.

Satisfied customers:

- Buy a product again
- Talk favorably to others about the product
- Pay less attention to competing brands & advertising, and

- Buy other products from the same company

The Buyer Decision Process for New Products

Before discussing the stages of new products purchase, we have to define what a new product is.

A new product is a good, service, or idea that is perceived by some potential customers as new. After hearing (learning) about an innovation (for example, manufacturing of a new product), customers may likely try to adopt the product, or they will undergo through the adoption process. The adoption process involves: - hearing about a new product, and

- Reaching to a final adoption.

- Adoption means a final decision by an individual to become a regular user of the product.

Stages in the Adoption Process

In the process of adopting a new product, consumers go through five stages:

1 - Awareness

4 - Trial

2 - Interest

5 - Adoption

3 - Evaluation

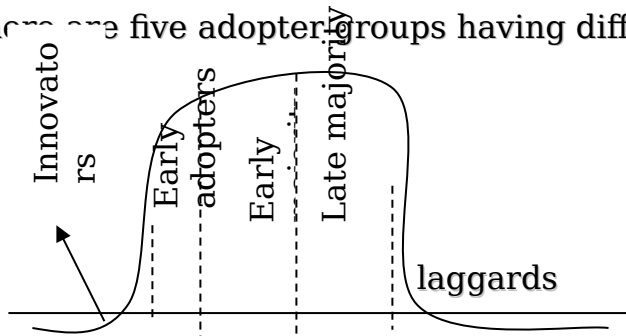
1. Awareness: the consumer becomes aware to the product but lacks information about it.
2. Interest: the consumer seeks information about the new product.
3. Evaluation: the consumer consider whether trying the new product makes sense
4. Trial: the consumer tries the new product on a small scale to improve his/her estimate of its value

5. Adoption: the consumer decides to make full & regular use of the new product.

- Individual Differences in Innovativeness

People differ greatly in their readiness to try new products. In each product area, there are “consumption pioneers” and early adopters. Other individuals adopt new products much later.

There are five adopter groups having different values.



- 1) Innovators: are venturesome – they try new ideas at some risk.
- 2) Early adopters: are guided by respect – they are opinion leaders in their communities
& adopt new ideas early but carefully.
- 3) Early majority: are deliberate – although they rarely are leaders, they adopt new ideas
before the average person.
- 4) Late majority: are skeptical – they adopt an innovation only after a majority of people
have tried it.
- 5) Laggards: are traditions – bound – they are suspicious of changes and adopt the
innovation only when it has become something of a tradition itself.

In general, innovators tend to be relatively younger, better educated, and higher in income than later adopters and non-adopters. Moreover, they are receptive to unfamiliar things, rely more on their own values and judgment, and are more willing to take risks. They are less brand loyal and more likely to take advantage of special promotions such as discounts, coupons, and samples.

- Influence of Product Characteristics on Rate of Adoption

The characteristics of the new product affect its rate of adoption. Some products gain acceptance within short time, where as others take a long time to gain acceptance.

The following five characteristics of a new product influence the rate of adoption:

- | | |
|-----------------------|--------------------|
| 1. Relative advantage | 4. Divisibility |
| 2. Compatibility | 5. Communicability |
| 3. Complexity | |

1. **Relative advantage:** the degree to which the innovation appears superior to existing products, the strength of the new product over existing products.
2. **Compatibility:** the degree to which the innovation fits the values and experiences of potential consumers.
3. **Complexity:** the degree to which the innovation is difficult to understand or use.
4. **Divisibility:** the degree to which the innovation may be tried on a limited bases. (Possibility of testing the product before actual purchase; sample)
5. **Communicability:** the degree to which the results of using the innovation can be observed or described to others; (demonstration and description).

Other characteristics like initial and on going costs, risk and uncertainty, and social approval may also affect the rate of adoption.

3.7 SUMMARY

This unit proposes a basic model of consumer behavior. In this model, marketing and other stimuli affect a consumer who has certain personal characteristics and a particular buying decision process.

Marketers must understand how consumer buyer behavior is affected by a buyer's particular characteristics and personal decision process. Buyer characteristics include four major components: cultural, social, personal, and psychological factors.

Some buying decisions involve only one decision maker, but in other decisions several consumers may participate by playing different buying roles. These possible roles include initiator, influencer, decider, buyer and user.

In some cases each of these roles is played by a different person, but in other decisions the same person may take on several distinct roles.

There are four different types of buying decision behavior. The type of decision behavior employed is affected by the complexity of the buying situation, the number of participants, and the amount of buying effort required, the level of buyer involvement , and the degree of difference among brands. Consumers may engage in complex, dissonance-reducing, habitual, or variety seeking buying behavior. Marketers can be more effective when they understand the type of buying behavior their consumers are most likely to employ.

Before making a purchase, consumers go through a decision process consisting of need recognition, information search, evaluating of alternatives, the purchase decision, and post purchase behavior. The marketer's job is to understand the buyer's behavior at each stage and the influences that are operating.

Check Your Progress Exercise

1. Define: -

a) Customers

.....
.....

b) Consumers

.....
.....

c) Consumer markets

.....
.....

2. List the factors that affect consumer's buying behavior.

.....
.....
.....

3. List the buying decision process.

.....
.....

3.8 ANSWERS TO YOUR CHECK YOUR PROGRESS EXERCISES

1. a. Customers are those individuals or businesses that buy products from
producers.

b. Consumers are individual households buying goods and services for personal consumption.

c. Consumer market is a group of final consumers who buy products for final consumption. It is a market for consumers or individual buyers.

2. List the factors that affect consumer's buying behavior there are for major categories of factors that affect the buying behavior of consumers. Each are again with their own respective variables.

a. Cultural factors. These are include:

- Culture
- Sub culture and
- Social class

b. Social factors. These include:

- Reference groups
- Family
- Roles and status

c. Personal factors. These include:

- Age and life cycle stage
- Occupation
- Economic situation
- Life style
- Personality

d. Psychological factors. These include:

- Motivation
- Perception
- Learning
- Beliefs and attitudes

3. The buying decision process:

- 1st Need recognition
- 2nd information search
- 3rd evaluation of alternatives
- 4th purchase decision
- 5th post purchase behavior

UNIT 4: MARKET SEGMENTATION, TARGETING AND POSITIONING

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1.0 AIMS AND OBJECTIVES

This unit aims at introducing concepts of market segmentation, market targeting and market positioning.

After reading this unit, you should be able to:

- know the meaning of market segmentation, targeting and positioning;
- describe the levels of segmentation, characteristics of effective segmentation, bases for segmenting different markets;
- describe the process of market targeting, evaluating market segments selecting the market segments and choosing a market – coverage strategy;
- describe the meaning and strategies of market positioning.

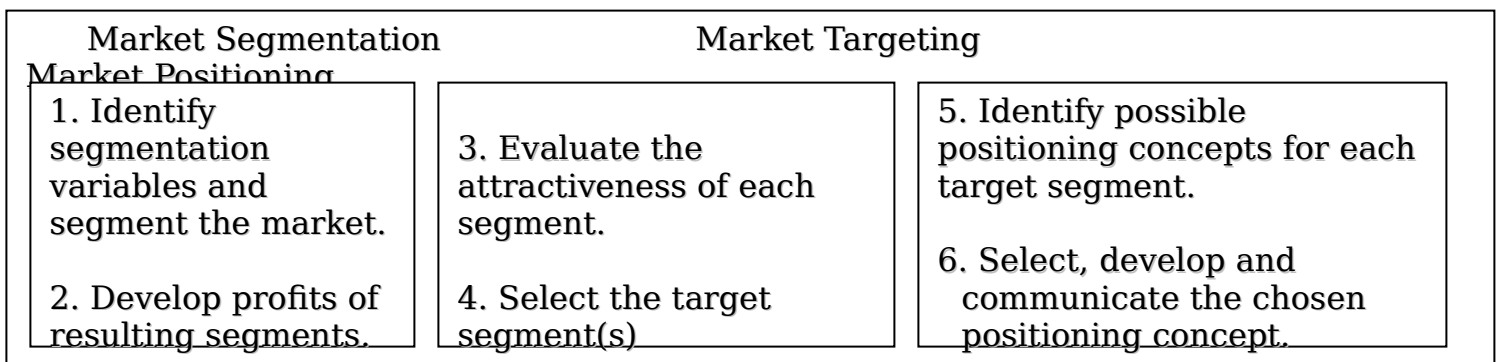
1.1 INTRODUCTION

A company that decides to operate in a broad market recognizes that it normally cannot serve all customers in that market. The customers are

too numerous and diverse in their buying requirements. Instead of competing everywhere, the company needs to identify the market segments that it can serve most effectively.

To choose its markets and serve them well, many companies are embracing target market. In target marketing, sellers distinguish major market segments, target one or more of those segments, and develop products and marketing programs tailored to each segment. Instead of scattering their marketing effort they can focus on the buyers whom they have the greatest chance of satisfying. Therefore, in order to achieve their objective marketers are required to take three major steps (see figure 6-1)

- a) Market segmentation:- Dividing a market in to distinct groups of buyers with different needs, characteristics or behavior who might require separate products or marketing mixes.
- b) Market targeting:- is the process of evaluating each market segment's attractiveness and selecting one or more segments to enter.
- c) Market positioning:- is formulating competitive positioning for a product and a detailed marketing mix.



Steps in market segmentation, Targeting and positioning

1.2.1 Meaning of Market Segmentation

1.2.2 Levels of Market Segmentation

The diagram illustrates the progression of market segmentation. It consists of four boxes arranged horizontally, connected by double-headed arrows. The boxes are labeled: 'Mass Marketin', 'Segment Marketin', 'Niche Marketin', and 'Micro Marketin'. Below each box is a small 'g' symbol. The text 'No segmentation' is positioned below the first box, and 'complete' is positioned below the last box. The word 'segmentation' is written at the bottom left of the diagram.

Steps in the market segmentation

In mass marketing the seller engages in the mass production, mass distribution and mass promotion of one product for all buyers. The traditional argument for mass marketing is that it creates the largest potential market, which leads to the lowest costs, which in turn can translate in to either lower prices or higher margins. However, many factors now make mass marketing more difficult.

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It recognizes that buyers differ in their needs, perceptions buying behaviors, purchasing power, geographical location, buying habits and attitudes. Therefore, the company tries to isolate broad segments that make up a market and adapts its offers to more closely match the needs of one or more segments.

Segmentation is a midpoint between mass marketing and individual marketing. The consumers belonging to a segment are assumed to be quite similar in their wants and needs. Yet they are not identical.

Segmentation marketing offers several benefits over mass marketing such as:

- i. The company can market more efficiently, target its products or services, channels and communication programs to ward only consumers that it can serve best.
- ii. The company can also market more effectively by fine tuning its products, prices and programs to the needs of carefully defined segments.
- iii. The company may face fewer competitors if fewer competitors are focusing on this market segment.

iii. Niche Marketing

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.

While segments are fairly large and thus normally attract several competitors, niches are fairly small and normally attract only one or a few competitors. Niches typically attract smaller companies.

An attractive niche is characterized as follows.

- a) Customers have a distinct and complete set of needs.
- b) The “nicher” has the required skills to serve the niche in a superior fashion.

- c) The nicher gain certain economics through specialization.
- d) The niche is not likely to attract other competitors.
- e) The nicher can depend on it self.
- f) The niche has sufficient size, profit, and growth potential

iv. Micro Marketing

It is the practice of tailoring products and marketing programs to suit the tastes of specific individuals and locations. Micro marketing includes local marketing and individual marketing.

Local marketing:- It involves tailoring brands and promotions to the needs and wants of local customer groups: cities, neighborhoods and even specific stores. Local marketing derives certain drawbacks such as: increasing manufacturing and marketing costs, reduces economics of scale, creates logistical problems and diluted the overall image of brands. However, the advantages of local marketing overweigh the drawbacks as it is supported by new developed technologies.

Individual marketing:- also known as markets-of-one marketing, customized marketing and one-to-one marketing. It involves tailoring products and marketing programs to the needs and preferences of individual customers. New technologies permits companies to consider a return to customized marketing or what is called mass customization. Mass customization is the ability to prepare on a mass basis individually designed products and communications to meet each customer's requirements.

1.2.3. Requirements for Effective Segmentation

To be useful market segments must be:

- i. Measurable:- The size, purchasing power and profits of the segment can be measured.
- ii. Accessible:- The market segment can be effectively reached and served.

- iii. Substantial:- The market segments are large or profitable enough to serve.
- iv. Differentiable:- The segments are conceptually distinguishable and respond differently to different marketing mix elements and programs.
- v. Actionable:- effective programs can be designed for attracting and serving the segments.

1.2.4 Bases For-segmenting Consumer Markets

There is no single way to segment a market. A marketer has to try different segmentation variables, alone and in combination, to find the best way to view the market structure. Major variables used in segmenting consumer markets are: geographic, demographic, psychographics and behavioral.

i. Geographic Segmentation

Geographic segmentation calls for dividing the market into different geographical units such as nations, states, regions, counties, cities or neighborhoods. The company can decide to operate in one or a few geographical areas or operate in all but pay attention to geographical variations in wants and preferences.

Geographic segmentation helps companies to pay attention to geographical differences in needs and wants and to localize the company's products, advertising, promotion and sales efforts to fit the needs of individuals in the region.

ii. Demographic Segmentation

In demographic segmentation, the market is divided into groups based on demographic variables such as age, sex, family size, family life cycle, income, occupation, education, religion race and nationality. These variables are the most popular bases for segmenting customer groups,

largely because customers needs, wants and usage rates often vary closely with demographic variables and demographic variables are easier to measure than most other types of variables. Even when the target market is described in non-demographic terms (say, personality type) the link back to demographic characteristics is needed in order to know the size of the target market and the media that should be used to reach it efficiently.

a). Age and life cycle segmentation: Age segmentation is dividing customers based on age groups like under 10, 10-20, 21-30, 30-50, and above 50 years old.

Life cycle segmentation is dividing customers, based on the life stages customers are in like single, married, married with children, divorced, separated, etc

b). Gender segmentation:- is dividing the market into different groups based on sex like male, female or customers with both sexes

c). Income segmentation:- is dividing customers based on their income levels like, lower income, middle income and upper income.

d). Generation segmentation is dividing customers based on age group. The idea is that each generation is profoundly influenced by the milieu in which it grows up – the music, movies, politics and events of the time.

iii. Psychographics Segmentation

In psychographics segmentation, buyers are divided into different groups on the basis of lifestyle, social class and personality characteristics. People within the same demographic group can exhibit very different psychographics profiles.

a). Social class segmentation:- is dividing the market based on the social class they exhibit. Seven social classes can be identified like: upper

upper, upper, upper middles (lower uppers), middle, working class, upper lowers, lower lowers.

b). Lifestyle segmentation involves dividing the market into group's based on lifestyles they exhibit, based on three major dimensions: activities (work, hobbies, shopping, sports, and social events), Interests (food, fashion, family, recreation), opinions (about themselves, social issues, business, products). Life style captures something more than the person's social class or personality. It profiles a person's whole pattern of acting and interacting in the world like actualizes, achievers, strivers and strugglers.

People's product interests are influenced by their lifestyles. In fact, the goods they consume express their lifestyle.

c). Personality and self concept segmentation, personality is a person's distinguishing psychological characteristics that lead to relatively consistent and lasting responses to his or her own environment. It can be described in terms of traits such as: self-confidence, dominance, sociability, autonomy, defensiveness, and adaptability and aggressiveness.

Marketers have used personality variables to segment markets. They endow their products with brand personalities that correspond to consumer personalities. In the late fifties fords and Chevrolets were promoted as having different personalities. Ford buyers were identified as independent, impulsive, masculine, alert to change, and self confident, while Chevrolet owners were conservative, thrifty; prestige - conscious, less masculine and seeking to avoid extremes.

iv. Behavioral Segmentation

In behavioral segmentation, buyers are divided into groups on the basis of their knowledge, attitude, use or response to a product. Many marketers believe that behavioral variables: occasions, benefits, user

status, usage rate, loyalty status, buyer readiness stage, and attitude are the best starting point for constructing market segments.

Occasion segmentation

Buyers can be divided into groups according to occasions when buyers get the idea to buy, actually make their purchase, or use the purchased item. Occasions may include: vacations, marriage, separation, divorce, acquisition of a home, injury or illness, change in employment or career, retirement, death of a family member. Occasions may also be special occasions or regular occasions.

a). Benefit segmentation

This is dividing the market into groups according to the different benefits that consumers seek from the product. It requires finding 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. For example, while traveling with an airplane, the traveler either of the three major benefits; comfort, safety and economy or buy any of the three class tickets; first class, business class and economic class.

b). User status

Markets can be segmented into groups of nonusers, exusers, potential users, first-time users and regular users of a product. For example, the blood banks must not rely only on regular donors to supply blood. They must recruit new first-time donors and contact ex-donors and each will require a different marketing strategy. The company's position in the market will also influence its focus. Market share leaders will focus on attracting potential users, while smaller firms will often focus on attracting current users away from the market leader.

c). Usage Rate

Markets can be segmented into light, medium and heavy users, Heavy users are often a small percentage of the market but account for a high percentage of total consumption. Marketers usually prefer to attract one heavy user to their product or service rather than several light users.

d). Loyalty status

A market can be segmented by consumer-loyalty patterns. Consumers can be loyal to brands, stores (sellers). Companies (producers). Buyers can be divided in to groups according to their degree of loyalty status.

- Hard-core loyals:- consumers who buy one brand all the time. It indicates the strength of the company's products.
- Split loyals:- Consumers who are loyal to two or more brands. This helps the company to identify which brands are most competitive with its own.
- Shifting loyals:- Consumers who shift from one brand to another. Here, the company can learn about its marketing weaknesses and attempt to correct them. The marketer can attract switchers by running frequent sales.
- Switchers:- Consumers who show no loyalty to any brand. They either want something different each time they buy or they buy whatever is on sale.

Note:- What appear to be brand loyal purchase patterns may reflect habit, indifference, a low price, a high switching cost, or the non-availability of other brands. Thus a company must carefully interpret what is behind the observed purchase patterns. It must determine whether users are loyal, switcher or emergent, and it must craft its marketing campaigns accordingly.

e). Buyer readiness stage:- A market consists of people in different stages of readiness to buy a product. Some are unaware of the product, some

are aware, some are informed, some are interested, some desire the product and some intend to buy.

Unaware – aware – informed – interested – desire –intend to buy

f). Attitude: - Five attitude groups can be found in a market: enthusiastic, positive, indifferent, negative, and hostile.

Marketers rarely limit their segmentation analysis to only one or a few variables. Rather, they are increasingly using multiple segmentation bases in an effort to identify smaller, better-defined target groups.

1.2.5. Bases for Segmenting Business Markets

Business markets can be segmented with many of the same variables employed in consumer market segmentation such as geography, benefits sought, and usage rate. Yet business marketers can also use several other variables such as demographic, operating variables, purchasing approaches, situational factors and personal characteristics. The demographic variables are the most important, followed by the operating variables, purchasing approaches, situational factors and finally personal characteristics.

i. Demographic: it includes

- Industry:- the type of industry which buy the company's product or which industries should we serve?
- Company size:- the size of the company that buys the company's product or what size companies should we serve?
- Location:- geographical location to focus on or which geographical areas should we serve?

ii. Operating variables: it includes

- Technology:- the type of technology customers use and for use required.
- User/nonuser status:- should we serve heavy users, medium users, light users, or non users?

- Customer capabilities:- should we serve customers needing many or few services?

iii. Purchasing Approaches

- Purchasing function organization:- should we serve companies with highly centralized or decentralized purchasing organizations?
- Power structure:- should we serve companies that are engineering dominated, financially dominated, marketing dominated, etc companies or customers.
- Nature of existing relationships:- should we serve companies with which we have strong relation ships or simply go after the most desirable companies.
- General purchase policies:- should we serve companies that prefer leasing? Service contracts? Systems purchases? Sealed bidding?
- Purchasing criteria:- should we serve companies that are seeking quality? Service? Price?

iv. Situational factors:- it includes factors such as:

- Urgency:- should we serve companies that need quick and sudden delivery or service?
- Specific application: should we focus on certain applications of our product rather than all applications?
- Size of order:- should we focus on large or small order?

v. Personal characteristics:- it includes factors such as:

- Buyer-seller similarity:- should we serve companies whose people and values are similar to ours?
- Attitudes toward risk:- should we serve risk-taking or risk avoiding customers?
- Loyalty:- should we serve companies that show high loyalty to their suppliers?

Sometimes business markets are segments based on their stage in the purchase decision process as follows.

- i. First-time prospects:- customers who have not yet purchased. They want to buy from a sales person or vendor who understands their business, who explains things well and whom they can trust.
- ii. Novices:- customers who have already purchased the product. They want easy-to-read manuals, hot lines, a high level of training, and knowledgeable sales reps.
- iii. Sophisticates:- customers who want speed in maintenance and repair, product customization and high technical support.

A study identified that there are four business segments based on their attitude to price and service. They are:

- i. Programmed buyers: buyers who view the product as not very important to their operation. They buy it as a routine purchase item, usually paying full price and receiving below average service. Clearly this is a highly profitable segment for the vendor.
- ii. Relationship buyers:- Buyers who regard the product as moderately important and are knowledgeable about competitive offerings. They get a small discount and a modest amount of service and prefer the vendor as long as the price is no far out of line. They are the second most profitable group.
- iii. Transaction buyers:- buyers who see the product as very important to their operations. They are price - and service - sensitive. They receive about a 10% discount and above competitive offerings and are ready to switch at the slightest dissatisfaction. The company needs these buyers for volume purposes, but they are not very profitable.

1.2.6. Bases for Segmenting International Markets

Companies can segment international markets using one or a combination of several variables such as:

1. Geographic location: - This is grouping countries by regions or location. It assumes that nations close to one another will have many common traits and behaviors with certain exceptions.
2. Economic Factors: - This is dividing the international market based on economic factors such as population income level or by their overall level of economic development.
3. Political and legal factors: - This is dividing the international market based on type and stability of government, receptivity to foreign firms, monetary regulations and the amount of bureaucracy.
4. Cultural Factors:- These are bases of international market segmentation based on factors such as common languages, religions, values and attitudes, customs and behavioral patterns.

1.3. MARKET TARGETING

1.3.1. Meaning of Market Targeting

Once the firm has identified its market-segment opportunities, it has to evaluate the various segments and decide how many and which to target. We will now examine the process of evaluating and selecting marketing segments.

1.3.2. Process of Market Targeting

The process of market targeting involves the following steps.

1.3.2.1 Evaluating the market segments

In evaluating different market segments, a firm must look at three factors: the size and growth of the segment, the structural attractiveness of the segment, and company's objectives and resources.

- i. *Segment size and growth*:- the right size and growth is a relative matter. The largest, fastest growing segments are not always the most attractive ones for every company. The firm must ask whether

a potential segment has the characteristics that make it generally attractive, such as size, growth, profitability, scale economics, low risk and so on. In addition to these we should add other considerations. For example, how easy will it be to persuade the members of the segment to shift their purchases? (The company should avoid targeting loyals of other brands or deal - prove shoppers; rather, it should go after dissatisfied shoppers and those who have not become firmly brand loyal). How much is their business worth? (The company should target consumers who will spend a lot on the category, stay loyal, and influence others.)

- ii. *Segment structural attractiveness:-* structural attractiveness of a segment may be affected by the existence of many strong and aggressive competitors, the existence of many actual or potential substitutes products, the relative power of buyers and the powerful suppliers who limit cost and quality of ordered goods and services.
- iii. *Company objectives and resources:-* The firm must consider whether investing in the segment makes sense given the firm's objectives and resources. Some big, growing and structurally attractive segments could be dismissed because they do not mesh with the company's long run objectives even if the segment fits the company's objectives, the company must consider whether it possesses the skills and resources it needs to succeed in that segment. The segment should be dismissed if the company lacks one or more necessary competences and is in no position to acquire them. But even if the company possesses the required competences, it needs to develop some superior advantages. Companies should only-enter segments in which they can develop competitive advantages - offer superior value to customers.

13.2.2 Selecting the Market Segments

After evaluating different segments, the company must now decide which and how many segments to serve. This is the problem of target market selection. In other words, the company must decide which segments to target. The company can consider the five patterns of target market selection. They are presented as follows:

i. Single - Segment Concentration/Concentrated Marketing

This is a market coverage strategy in which a firm goes after a large share of one or a few sub markets. 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 provides an excellent way for small new businesses to get a foot-hold against larger, more resourceful competitors.

Concentrated marketing helps companies to achieve a strong market positions in the segments or niches it serves because of its greater knowledge of the segment's needs and the special reputation it acquires. Many operating economies are enjoyed by the company because of specialization in production, distribution and promotion. However, concentrated marketing involves higher - than - the normal risks. As a particular market segment can turn sour or larger competitors may decide to enter the same segment. For these reasons, money companies prefer to operate in more than one segment.

ii. Selective Specialization

Here the firm selects a number of segments, each objectively attractive and appropriate, given the firm's objectives and resources. There may be little or no synergy among the segments, but each segment promises to be a money maker. This multi-segment coverage strategy has the advantage of diversifying the firm's risk. Even if one segment becomes unattractive, the firm can continue to earn money in other segments.

iii. Product Specialization

Here the firm concentrates on making a certain product that it sells to several segments. The firm builds a strong reputation in the specific product area. An example, would be a microscope manufacturer that sells microscopes to university laboratories, government laboratories and commercial laboratories. The firm makes different microscopes for these different customer groups, but does not manufacture other instruments that laboratories might use. The downside risk is that the product may be supplanted by an entirely new technology.

iv. Market Specialization

Here the firm concentrates on serving many needs of a particular customer group. An example would be a firm that sells an assortment of products for university laboratories, including microscopes, oscilloscopes, Bunsen burners, and chemical flasks. The firm gains a strong reputation for specializing in serving this customer group and becomes a channel for all new products that the customer group could feasibly use. The down - side risk is that the customer group may have its budgets cut.

v. Full Market Coverage

Here the firm attempts to serve all customer groups with all the products that they might need. Only large firms can under take a full market coverage strategy. Large firms can cover a whole market in two broad ways: through undifferentiated marketing or differentiated marketing.

- a. Undifferentiated marketing: - In undifferentiated marketing the firm ignores market segment differences and goes after the whole market with one market offer. It focuses on buyer's needs rather than differences among buyers. It designs a product and a marketing program that will appeal to the broadest number of buyers. It relies on mass distribution and mass advertising. It aims to endow the product with a superior image in people's minds. Undifferentiated marketing is often seen as "the marketing

counterpart to standardization and mass production in manufacturing.” Undifferentiated marketing provides cost economics as such the narrow product line keeps down production, inventory and transportation costs, mass advertising program keeps down advertising costs, and research and development costs will be lower presumably, the company can turn its lower costs into lower prices to win the price - sensitive segment of the market. However, most modern marketers have strong doubts about this strategy. Because no single marketing effort may not satisfy all consumers and competition will be high in the largest segments but ignores smaller ones.

b. Differentiated Marketing.

In differentiated marketing, the firm operates in several market segments and designs different programs for each segment. Differentiated marketing typically creates more total sales than undifferentiated marketing. However, it also increases the costs of doing business. The following costs are likely to be higher.

- Product modification costs: Modifying a product to meet different market - segment requirements usually involves some R&D, engineering, and /or special tooling costs.
- Manufacturing costs:- It is usually more expensive to produce 10 units of 10 different products than 100 units of one product. The longer the production setup time and smaller the sales volume of each product, the more expensive the product became. However, if each model is sold in sufficiently large volume, the higher costs of setup time may be quite small per unit.
- Administrative costs:- the company has to develop separate marketing plans for each market segment. This requires extra

marketing research, forecasting, sales analysis, promotion, planning and channel management.

- **Inventory costs:-** It is more costly to manage inventories containing many produces than inventories containing few products.
- **Promotion costs:-** the company has to reach different market segments with different promotion programs. The result is increased promotion – planning costs and media costs.

Since differentiated marketing leads to both higher sales and higher costs, nothing general can be said regarding this strategy's profitability market. If this happens, they may want to turn to counter segmentation to broadened its target market for its baby shampoo to include adults. And Smith Kline Beecham launched its aquafresh toothpaste to attract three benefit segments simultaneously: those seeking fresh breath, whiter teeth, and cavity protection.

1.3.2.3 Choosing a Market - Coverage Strategy

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 degree of product variability:-* If the company produces similar/uniform products, undifferentiated marketing is appropriate, whereas, as the company produces different products, differentiated or concentration marketing is appropriate.
- The products life-cycle stage:-* The market coverage strategy for a product varies at the different stages of a product life cycle. In the introduction and growth stage, undifferentiated or concentrated marketing makes the most sense. Whereas, at maturity and decline stage, differentiated marketing begins to make more sense.

- iv. *Market variability:-* if most buyers have the same tastes, buy the same amounts, and react the same way to marketing efforts, undifferentiated marketing is appropriate.
- v. *Competitor's marketing strategies:-* company's should see competitors market coverage strategy and develop a counteractive market coverage strategy. For example, when competitors use segmentation, the company uses differentiation marketing and when competitors use undifferentiated marketing, the company uses differentiated or concentrated marketing.

In addition to the above factors marketers must take the following additional considerations in evaluating and selecting segments.

- vi. *Ethical choice of market targets:-* Market targeting sometimes generates controversy. The public is concerned when marketers take unfair advantage of vulnerable groups (such as a children) or disadvantaged groups (such as poor people) or promote potentially harmful products.
- vii. *Segment Interrelationships and super segments:-* Marketers should take into consideration interrelationships between segments on the cost, performance and technology being used. A super segment is a set of segments sharing some exploitable similarity. Therefore, it is better than isolated segments.
- viii. *Segment - by - segment invasion plans:-* Even if the firm plans to target a super segment, it is wise to enter one segment at a time and conceal its grand plan. The competitors must not know to what segment(s) the firm will move next.
- ix. *Inter segment co-operation:-* segment managers should not be so segment focused as to resist co-operation with other company personnel to improve overall company performance.

1.4. SEGMENT POSITIONING

1.4.1 Meaning of Segment Positioning

After a target market has been selected a company will naturally find others competing in that segment. The next task is to develop a marketing plan that will enable your product to compete effectively against them. It is unlikely that success will be achieved with a marketing program that is virtually identical to competitors for that already have attained a place in the minds of individuals in the target market and have developed brand loyalty. Since people have a variety of needs and tastes, market acceptance is more easily achieved by positioning.

Positioning is the act of designing the company's offering and image so that they occupy a meaningful and distinct competitive position in the target customer's mind.

For example, one auto company might choose to differentiate its cars on durability, while its competitors may choose to emphasize fuel economy, comfort or smoothness of ride. The end result of positioning is the successful creation of a market - focused value proposition, a simple clear statement of why the target market should buy the product.

1.4.2. Positioning Strategies

Marketers can follow several positioning strategies. They can position their products on specific product attributes such as low price, performance, benefits, usage occasions, against a competitor and combination of many attribute.

Each firm must differentiated its offer by building a unique bundle of competitive advantages that appeals to a substantial group within the segment. The positioning task consists of three steps.

1. Identifying a set of possible competitive advantages on which to build a position.
2. Selecting the right competitive advantages

3. Effectively communicating and delivering the chosen position to the market.

1.4.2.1 Identifying Possible Competitive Advantages

Competitive advantage is an advantage over competitors gained by offering consumers greater value, either through lower prices or by providing more benefits that justify higher prices.

Consumers typically choose products and services that give them the greatest value. Thus the key to winning and keeping customers is to understand their needs and buying processes rather than competitors do and to deliver more value.

Positioning begins with actually differentiating the company's marketing offer so that it will give consumers more value than competitors' offers do. A company or market offer can be differentiated along the lines of product, services, people or image. Differentiation is the act of designing a set of meaning-full differences to distinguish the company's offering from competitors' offerings. Areas of differentiation could be:

- i. **Product Differentiation:-** Differentiation of physical products takes place along a continuum. At one extreme we find products that allow little variation such as chicken, steel, aspirin. At the other extreme are products that can be highly differentiated, such as automobiles, commercial machinery and furniture. Differentiation variables of a product are: features, performance, conformance, durability, reliability, repairability, style and design.
- ii. **Service Differentiation:** - company's can differentiate their services from competitors services based on such variables of service as: Ordering ease, delivery, installation, customer training, customer consulting, maintenance and repair and other miscellaneous services.

- iii. **People 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 (possess the required skill and knowledge), courtesy (friendly, respectful and considerate), credibility (trustworthy), reliability (perform the service consistently and accurately), responsiveness (respond quickly to customers' requests and problems), communication (make an effort to understand the customer and communicate clearly).
- iv. **Image Differentiation:-** A company or brand image should convey the product's distinctive benefits and positioning. Image is the way the public perceives the company or its products. An effective image does three things for a product.
 - 1. It conveys a singular message that establishes the products character and value proposition.
 - 2. It conveys this message in a distinctive way so that it is not confused with similar message from competitors.
 - 3. It delivers emotional power so that it stirs the hearts as well as the minds of buyers.

Image can be implanted in the public's mind through: symbols (a strong image consists of one or more symbols that trigger company or brand recognition), written and audiovisual media. The chosen symbol must be worked into advertisement that convey the company or brand personality, atmosphere (The physical space in which the organization produces or delivers its products and services), events (a company can build an identity through the type of events it sponsors).

- v. **Channel Differentiation:-** Companies can achieve differentiation through the way they shape their distribution channels, particularly those channels' coverage, expertise and performance.

1.4.2.2. *Selecting the Right Competitive Advantages (Developing a Positioning Strategy):-*

A company must carefully select the ways in which it will distinguish itself from competitors. A difference is worth establishing to the extent that it satisfies the following criteria:

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

not all brand differences are meaningful or worth while. Not every difference makes a good differentiator. Each difference has the potential to create company costs as well as customer benefits. Therefore, the company must carefully select the ways in which it will distinguish itself from competitors.

1.4.2.3 *Effectively Communicating and Delivering the Chosen Position to the Market: -*

Marketers must decide what to communicate and how to deliver their positioning to the target market.

Many marketers advocate promoting only one benefit to the target market. Reeves, said that a company develop a unique selling proposition for each brand and stick to it. Each brand should pick an attribute and tout itself as "number one" on that attributes. The most commonly

promoted number – one positioning are: “Best quality”, “Best service”, “Lowest price”, “Best value” and “Most advanced technology”. If a company hammers away at one of these positioning and convincingly delivers on it, it will probably be best known and recalled for this strength.

Other marketers think that companies should position themselves on more than one differentiating factor. (Not every one agrees that single – benefit positioning is always best).

Double – benefit positioning may be necessary if two or more firms are claiming to be best on the same attribute. The intention is to find a special niche within the target segment. There are even cases of successful triple – benefit positioning: aqua-fresh (auticauity protection, better breath, and whiter teeth). Clearly many people want all the three benefits, and the challenge is to convince them that the brand delivers all three. The company’s solution was to create a toothpaste that squeezed out of the tube in three colors, thus visually confirming the three benefits. In doing this, the company “counter segmented”; that is, it attracted three segments instead of one.

However, as companies increase the number of claims for their brands, they risk disbelief and a loss of clear positioning. In general, a company must avoid your major positioning errors.

1. Under positioning:- failing to ever really position the company at all. Some companies discover that buyers have only a vague idea of the company or that they do not really known anything special about it.
2. Over potioning:- buyers may have too narrow an image of a brand.

3. Confused positioning:- buyers might have a confused image of the brand resetting from the company's making too many claims or changing the brand's positioning too frequently.
4. Doubtful positioning:- buyers may find it hard to believe the brand claims in view of the product's features, price or manufacturer.

The advantage of solving the positioning problem is that it enables the marketer to solve the marketing mix problem. The marketing mix-product, price, place, and promotion-is essentially the working out of the tactical details of the positioning strategy. Thus a firm that sizes upon the "high quality" position knows that it must produce high - quality products, charge a high price, distribute through high class dealers, and advertise in high - quality magazines. This is the primary way to project a consistent and believable high-quality image. Once the company has developed a clear positioning strategy, it must communicate that positioning effectively.

1.5 SUMMARY

An organization that produces certain products to be offered to maximize customer's satisfaction need to know his customer. Producing and offering products in the general market without identifying customers will be a difficult task as not all the market (customers) have similar needs and wants. Therefore, in order to satisfy customers needs and wants and maximize Company profits, the firm should divide the total market into different groups based on certain defined factors. This process is known as market segmentation. Basis of segmentation may be geographical, demographical, psycho graphical and behavioral. After markets are divided into groups, their respective feasibility should be evaluated. The process of evaluating the size and attractiveness of market

segments in order to choose one or the other to enter is known as market targeting. That particular chosen segment is known as *market target*.

Here after the marketer should design a strategy that meets the expectation of the target market and develop a competitive advantage over the competitors in the market. Therefore, market positioning is the act of designing the company's offering and image so that they occupy a meaningful and distinct competitive position in the target customer's mind.

Check Your Progress Exercise

1. Define market segmentation, market positioning and market targeting.

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.....

2. Discuss the levels of market segmentation.

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3. Discuss the requirements for effective segmentation.

.....
.....

4. Discuss the different basis of segmenting

- Consumer market
- Business market
- International market

.....
.....

5. Discuss the process of market targeting.

.....
.....

6. Discuss the market positioning strategies

.....
.....

1.6 ANSWER KEY TO CHECK YOUR PROGRESS EXERCISE

1. 6.2.1, 6.3.1, 6.4.1
2. 6.2.2
3. 6.2.3
4. 6.2.3-6
5. 6.3.2
6. 6.4.2

UNIT 5: PRODUCT STRATEGY

Contents

- 5.0 Aims and Objectives
- 5.1 Introduction
- 5.2 What is a Product?
- 5.3 Product Classification
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 - 5.3.2 Industrial Goods Classification
- 5.4 Production Mix and Product Line
- 5.5 New Product Development
 - 5.5.1 New Product Development Process
 - 5.5.2 Why New Product Fail?
- 5.6 Product Life cycle
- 5.7 Individual Product Decisions
 - 5.7.1 Brand Decisions
 - 5.7.2 Packaging Decisions
 - 5.7.3 Labeling Decision
- 5.8 Key to Check Your Progress

5.0 AIMS AND OBJECTIVES

The aim of this unit is to give a brief account on the first element of marketing mix-product. The unit begins with a deceptively simple question, what is a product? After answering this question, we look at

ways to classify product in consumer and business market. Next we see that each product requires several decisions that go beyond basic product design. This decision involves branding, packaging and Labeling. Finally we move from product line & mix decision to product lifecycle.

By the time you finish this unit you should be able to:

- define product;
- examine the various types of consumer and industrial products ;
- discuss product mix and product line decision;
- study the different types and stage of the product lifecycle;
- define brand, package and Labels of a product;
- identify the peculiar features of services.

5.1 INTRODUCTION

Product strategy is a critical element of marketing and business strategy, since it is through the sale of products and services that companies survive and grow. It also involves a systematic decision-making pertaining to all aspects of the development and management of a firm's product.

5.2 WHAT IS A PRODUCT?

A product is anything that can be offered to a market for attention, acquisition, use or consumption and that might satisfy a want or a need. Products that are marketed include physical goods, services, persons, organizations and ideas.

A tennis racquet, advice from attorney, Sony Video CD player and tax preparation services are all products.

Five levels of a Product.

In planning its market offering, the marketer needs to think through five levels of the product. Here, each level adds customer value, and the five constitute a customer value hierarchy. (Figure 8.1)

The most fundamental level is the **core product**, which focuses on what the product is to mean for the customer not for the producer. The core product consists of the problem solving benefit that consumers seek when they buy a product or service. Since every product is the package of a want satisfying service, the marketer's job is to uncover the needs hiding under every product & to sell benefit not features.

Example -When a carpenter buys a drill, he buys a hole.
-A hotel guest is buying "rest and sleep"

Basic Product: At the second level the product planner has to turn the core product into a basic (tangible) product. Computers, political candidates, Lipstick are all tangible products. A basic product may have as many as five characteristics; a quality level, feature, styling, a brand name & packaging.

Expected Product: At the third level, the marketer prepares an expected product, a set of attributes and conditions that buyers normally expect & agree when they purchase a product.

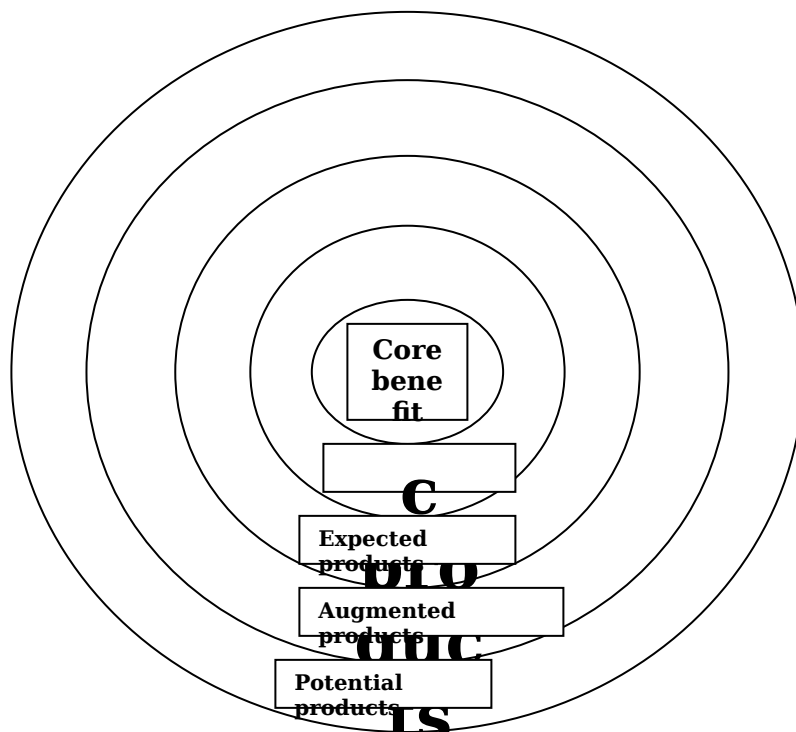
Example -Hotel guests expect a clean bed, working lamps and silence.

Augmented Product: At the fourth level the marketer may offer additional services and benefits that meet customers' desires beyond their expectation. A hotel can augment its product by including a TV set, fresh flowers & fine dining room service. Product augmentation leads the marketer to look at the buyer's total system of consumption; the way a purchase of a product performs the total task of whatever is that he/she is trying to accomplish when using the product. In this way, the marketer

well recognize many opportunities for augmenting its offer in a competitively effective way.

The new competition is not between what companies produce in their factories, but between what they add to their factory output in the form of packaging, after sale service, delivery arrangement, warranty, warehousing and other things that people value. However, something should be noted about product -augmentation strategy. First, each augmentation costs the company money. The marketer has to ask whether customers will pay enough to cover the extra cost. Second, augmented benefits soon become expected benefits. Thus a hotel guest today expects a TV - set and other facilities in their room. This means that competitors will have to search for still features and benefits to add to their offer.

Potential Product: At the fifth level stands the potential method, which encompasses all the augmentation and transformations that the product might ultimately 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 the most successful companies add benefit to their offering that not only satisfy customer but also delight them.



Basic Products

Figure 8.1 five levels of a product

5.3 PRODUCT CLASSIFICATIONS

Marketers have traditionally classified products on the basis of varying product characteristics: durability, tangibility and use (consumer or industrial). Each product type has its own marketing-mix strategy.

A. Durability and Tangibility

Products can be classified in to three groups according to their durability and tangibility.

- i. Durable good - these are tangible goods that can be used for an extended period of time or survive many uses. Durable products normally require more personal selling or service, command a higher margin and require more sellers guarantees. Example - refrigerator, machine tool, clothing.
- ii. Non-durable goods - These are tangible goods that are quickly consumed or worn out. Example - beer, soap & salt. Since these goods are consumed quickly & purchased frequently the appropriate strategy is to make them available in every locations, charge only a small markup (margin) and advertise heavily to induce trial.
- iii. Services - services are intangible, inseparable, variable and perishable. As a result, they normally require more quality control,

supplier credibility and adaptability. Examples include haircut and repairs.

The four major characteristics of service that affect the design of there marketing program are:

a) Intangible -

Services are intangible. Unlike physical products they cannot be seen, tasted, felt, heard or smelled before they are bought. A patenting in psychiatrist's office cannot know the exact outcome.

b) Inseparability -

Services are typically produced and consumed simultaneously. This is not true for physical goods, which are manufactured, put in to inventory, distribute through multiple sellers, and consumed still later. If a person renders service, then the provider is part of the service. Since the client is also present as the service is produced, provider - client interaction is a special feature of services marketing.

c) Variability

Because they depend on who provides them and when and where they are provided, services are highly variable. For example some doctors have and excellent bedside manner and are very good with children; other are more gruffer and have us patient with children. Service buyers are aware of this high variability and frequently talk to others before selecting a service provider.

d) Perish ability

Service cannot be stored. Some doctors change patients for missed appointments because the service value existed only at that point. The perish ability of services is not a problem when demand is steady because it is easy to staff the service in advance.

B. Consumer Behavior

Products can be classified in to consumer good and industrial good according to their behavior.

5.3.1. Consumer good Classification

Consumer buy a rest array of goods. These goods can be classified in to four on the basis of consumer shopping habits. These are

a) Convenience goods - These are goods that the consumer usually purchases with a minimum of effort, where the buyer has knowledge of the product characteristics prior to shopping. Convenience goods are generally low in price & frequently purchased by the customers. The customer does not want additional information because the item has been bought before and will accept a substitute.

- Staples - are goods that consumers purchase on a regular basis. For example, one buyer might routinely purchase bread, soap, etc---.
- Impulse goods - are goods purchased without any planning or search effort. These goods are usually displayed widely. Examples are chewing gum & magazines.
- Emergency goods - are goods purchased when a need is urgent. Umbrella during a rain storm, boots & shovels during the first winter storm.

b) Shopping goods - They are also known as comparison product. In the process of selection and purchase the customer characteristically compares the product of one business with its competitors on such basis as quality. Style, price and suitability. Shopping goods are purchased less frequently than convince goods. Examples include furniture, clothing and major appliances.

c) Specialty goods - These are particular good or brands in which customers are loyal. Consumers know the attribute of the product prior to their purchase decision. They are prepared to make effort, pay a high price and do not accept a substitute.

A Mercedes, for example, is a specially good because interested buyers will travel for to buy one.

d) Unsought goods - are goods that the consumer does not know about or known about but does not normally think of buying. A new products such as a smoke detector is unsought good until the consumer is made aware of them through promotion. The classic example of known but unsought good are life insurance and encyclopedias.

5.3.2. Industrial Goods Classifications

Industrial goods can be classified in terms of how they enter the production process & their relative costliness. We can distinguish three groups of industrial good. These are

1. Materials and parts - are goods that enter the manufacture's product completely. They fall in to two classes; row materials & manufactured materials and parts.

Row materials are further fall in to two major classes; farm product (wheat, cotton, frits) and natural products fish, lumber, crude oil). Each is marketed some whet differently. Raw materials are basic materials that actually become part of the physical product. They are processed when the industrial consumer buys them.

Manufactured materials & parts are divided it to two: Component materials and component parts.

Component materials are usually fabricated further, for example yarn is woven in to cloth while component parts enter the finish product completely without further change in form as tires are put on automobiles. Most manufactured materials and parts are sold directly to industrial users with orders often placed a year or more in advance.

2. **Capital items** – They are long lasting items that do not go completely in to the production of the product but they facilitate developing and/or managing the finished product. They include installations and equipments.

3. **Supplies and Business service** – are short lasting goods and services that facilitate developing and/or managing the finished product. This also do not go in to the production of materials.

5.4. PRODUCT MIX AND PRODUCT LINE

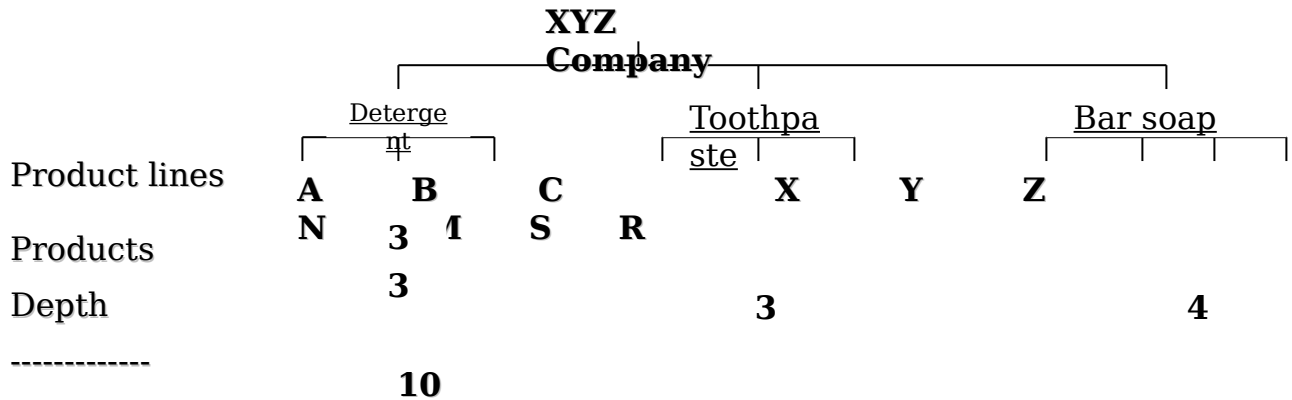
Product mix also called product assortment is a set of all products & items that a particular seller offers for sale. For example Midroc – Construction, hotel service, & poultry farming....

The company's product mix has a certain width, length, depth and consistency.

- Width of product mix - refers to the number of product line the company offers.
- Depth of product mix – refers to the variety of products under each product line.
- Length of a product mix – refers to the total number of items in the product mix i.e. the summation of all product depth.

- Consistency of the product mix – which refers to the interrelatedness of the product lines that the company is offering.

Example:



These four dimension of the product mix provide the handles for defining the company's product strategy. The company can expand its business in four ways. The company can add new product lines, widening its product mix. The company can lengthen each product & deepen its mix. Finally the company can pursue more product lines consistency or less, depending up on whether it wants to acquire a strong reputation in a single field or participate in several fields.

Product Line – A product mix consists of various product lines. A product line is a group of products that are closely related because they perform similar function, are sold to the same customer group, are marketed through the same channel of distribution or fall within a given price ranges.

An integral component of product line planning revolves around the question of how many product variant should be included in the line. Manufacturing costs are usually minimized through large volume production runs, and distribution costs tend to be lower if only one product is sold, stocked and service. At a given level of sales, profit will

usually be highest if these sales have been achieved with a single product. However, many variants are offered by many firms.

There are three reasons why organizations offer varying products within a given product line. First, potential customers rarely agree on a single set of specifications regarding their ideal product differing greatly in the importance and value they place on specific attributes. Second, customers prefer variety. For example, a person may like the Ethiopian cultural food but does not want to only eat 'Doro wot'. Third, the dynamics of competition lead to multi-product lines. As competitors seek to increase market share, they find it advantageous to introduce new products that sub-segment an existing market segment by offering more precisely tailored products to the specific needs of a portion of that segment.

Before reaching the decision on product line addition, organizations need to evaluate whether total profit will decrease and/or the quality/value associated with current products will suffer.

5.5. NEW PRODUCT DEVELOPMENT

As you know, a product is an entity with an accompanying set of image and service features that seek to satisfy consumer needs. A new product involves an innovation or the modification of an existing product that the consumer perceives as substantive. For a new product to succeed, it must have desirable attributes, be unique, and be able to have its features communicated to consumers.

New products may be developed by the company itself or purchased from another firm. In the latter case, the company may buy the firm outright, purchase the product, or enter into a licensing agreement.

There are various reasons for developing new products. This is because there are consistent threats from competitors, innovative development,

saturated market for existing product and changes in customer taste and need call for new product development.

5.5.1. New Product Development Process

There are stages that we follow in new product development. These include

1. Idea generations -

This is the continuous & systematic search for new product opportunities. It involves delineating the sources of new ideas and methods for generating them.

Some of the major sources of new product are:

- Customer need – product idea can originate from customer need & wants through research.
- Employees of the organizations are important sources of new ideas.
- Competitors products and services are also sources for idea generation by analyzing the strength and weakness and studying the liking and disliking of customers associated with competitors product.
- Sales representative and intermediaries – since they are closer to customers they can provide new idea for the organization.
- Other sources – This include inventors, investors, Universities (Colleges), consultants and advertising agencies.

2. Idea screening

After the firm has identified a set of potential product idea, it must screen them. In idea screening poor, unsuitable or unattractive ideas are weeded out from further considerations. Moreover screening requests for developing a checklist for requirements that the idea must fulfill and product ideas that do not fulfill the criteria will be rejected.

3. Concept testing

A firm needs to acquire consumer feed back about its product idea so the screened ideas must be tested with appropriate group of target consumers. For this consumers are asked about the product idea and express their own opinion an enthusiasm about the product.

This stage involves asking potential consumers to react to the picture, written statement, or oral description of the product, thus enabling the firm to determine initial attitude of consumer prior to expensive and time consuming prototype development.

4. Business analysis

The stage requires the study of the attractiveness of the business such as the extent of demand for the product; sales, cost and profit estimates.

5. Product development

This stage converts a product idea in to a physical form and identifies a basic marketing strategy. The goal of product development is to find the prototype that the consumer sees embodying the key attributes desired in the product concept. The prototype can be supplied to consumers so that they can test and give reactions.

6. Market testing

This involves placing a fully developed new product for sale in one or few selected area and observing its performance. It helps to learn about consumer real behavior and competitors action and responses.

Based on the result of market testing the firm can decide whether to go ahead with its plan (production) in large sale, modify the product, modify the marketing plan or drop the product.

7. Commercialization

After testing is completed, the firm will be ready to introduce the product to its full target market this stage requires considerable expenditure and commitment on promotion and distribution.

5.5.2 Why New Products Fail?

Despite improved marketing technology, the failure rate of new products remain as high as it was before 20 or 30 yrs. Product failure is defined in two ways; absolute and relative failure.

Absolute product failure occurs when a company is unable to recover its production and marketing costs.

Relative product failure occurs when a company is able to make a profit on an item but the product does not attain profit objectives and/or adversely affects the firms image.

Essentially new products fall for several reasons. The main reason is when the product is not based on customer need & wants. Other common reasons for failure are;

- Inadequate product superiority and uniqueness.
- Failure to conduct proper marketing research .
- Failure of realistic forecast regarding the acceptable level of a product.
- Lack of allocation of adequate resource.
- Poor timing i.e. when the product enters the market early or late.

5.6. PRODUCT LIFE CYCLE

Product like any living things undergo life cycle. The concept of product life cycle PLC suggests that any product or service move through identifiable stages including introduction, growth, maturity and decline.

The discussion on product life cycle portray the sales history of a typical product as following an s-shaped curve.



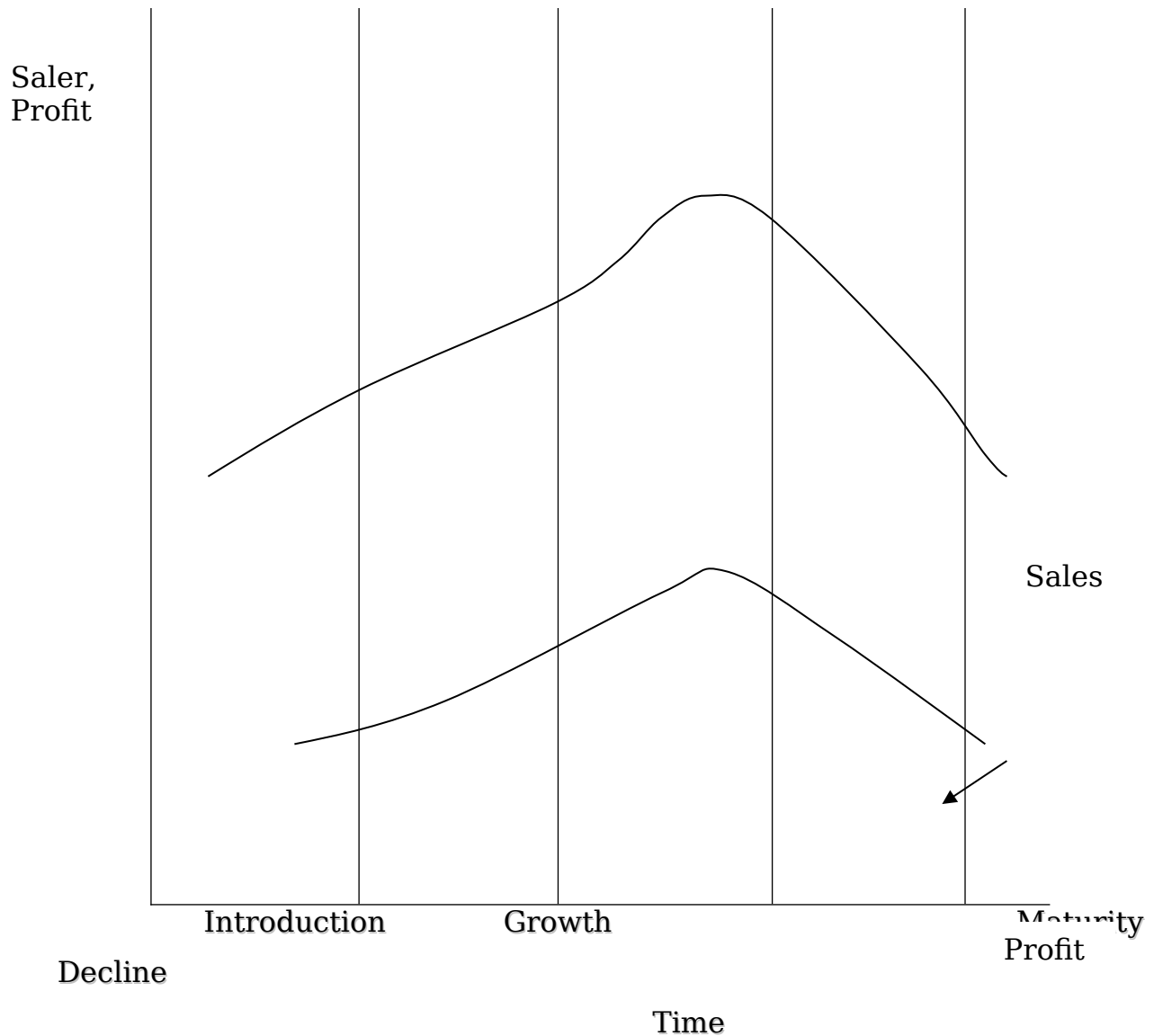


Fig.- 8.2. Product life cycle

The product life cycle concept can be applied to what are known as styles, fashions and fads. Their special life cycles are shown in the diagram below. fig8.3

* **A style** is a basic and distinctive mode of expression appearing in a field of human endeavor. Once a style is invented, it may last for generations, coming in & out of vogue. It has a cycle showing several periods of renewed interest.

* **A fashion** is a currently accepted or popular style in a given field.

* **Fads** are fashions-that come quickly to the public eye, are adopted with great zeal, peak early & declines very fast.

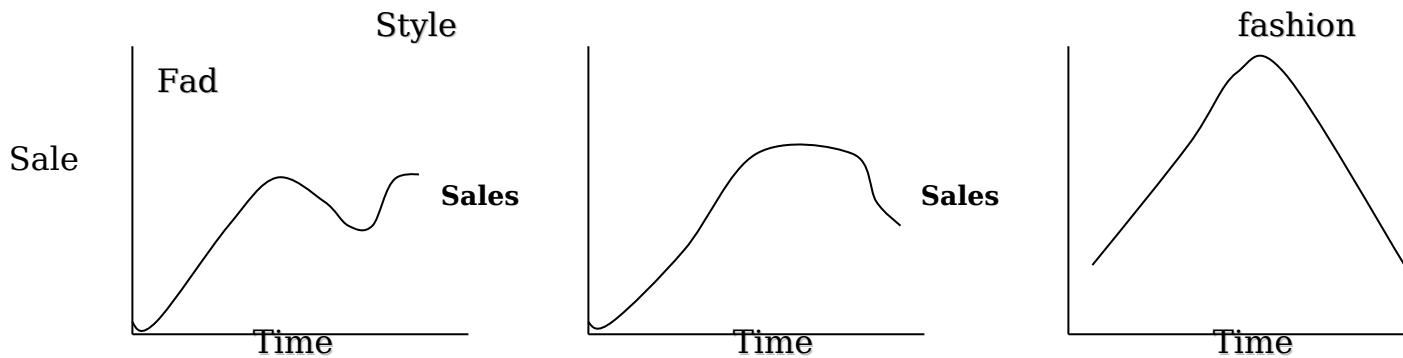


Figure 8.3 Product life cycle for style, fashion & fad.

We now look at the characteristics & strategies for each of the stages of the product life cycle.

1. Introduction

The introduction stage starts when the new product is first distributed and made available for purchase. It takes time to fill the dealers pipelines and roll out the product in several markets; so sales growth is apt to be slow. In this stage profits are negative or low because of the low sales volume and heavy distribution and promotion expenses. Promotional expenses are at their highest ratio to sales because of need for a high level of promotional effort to 1) inform the potential consumers of the new & unknown product. 2) Induce trial of the new product and 3) secure distribution in retail outlet. In the introduction stage the customers are the innovators and those who are willing to take risks, and like to take the status of being first.

By considering only price and promotion management can pursue one of the following four strategies.

A. A rapid skimming strategy

This strategy involves launching the new product at a high price and a high promotional level. The firm charges high price in order to recover as much gross profit per unit as possible. It spends much on promotion to convince the market of the products merit even at the high price level.

B. A slow skimming strategy

This involves launching the new product at a high price and low promotion. The low promotion keeps marketing expense down.

C. A rapid penetration strategy

This involves launching the new product at low price and spending heavily on promotion. This strategy promises to bring about the fastest market penetration and the largest market share.

D. A slow penetration strategy

This involves launching a 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 cost down in order to realize more profit.

2. Growth stage

The growth stage is marked by a rapid climb in sales. When early adopters like the product, the middle majority consumer starts following their lead. New competitors enter in to the market attracted by the opportunities for large-scale production & profit.

Price remains where it is or rise slightly as demand is increasing quite rapidly. Profit also increase during this stage as promotion costs are spread over large volume of units.

Some of the strategies used by a firm so as to keep market growth are:

- The firm improves product quality and adds new product features.
- It enters new market segment

- It enters new distribution channels.
- It shifts its promotion from building awareness to persuading customers.
- It can also lower its price at the right time to attract the next layer of price sensitive buyers.

3. Maturity stage

At some point the products rate of sales growth will slow down and the producer will enter a stage of relative maturity. This normally lasts longer than the previous stages, and it poses formidable challenges to marketers.

The maturity stage can be divided into three phases. In the first phase, growth maturity the sales growth rate starts to decline. There are no new distribution channels to fill, although some laggard buyers (last people to purchase a product) still enter the market. In the second phase, stable maturity, sales volume become level because of market saturation. In the third phase, declining maturity, the absolute level of sales now starts to decline, and customers start moving towards other products and substitutes.

Some companies give up on matured products, feeling there is little they can do. However, marketer can apply any one (combination) of the following strategies in the stage of maturity

* The company can expand the number of brand users in three ways.

1. Convert the non users into users of the product
 2. The Company can enter a new market segment
 3. The Company can work to attract the customers of its competitor.
- Volume can also be increased by getting current brand users to increase their annual usage of the brand.

- Managers also try to turn sales around by modifying the products characteristics in a way that will attract new users.
- The product managers may also try to stimulate sales through modifying one or more marketing mix elements.

4. Decline stage

The product sales declines as substitutes enter the market or customers become dissatisfied or shift to other products. As sales and profit decline, some firms withdraw from the market. Those remaining may reduce the number of product offerings. They may drop smaller market segments and weaker trade channels. They may also cut promotion budget and reduce their price further. Unfortunately, most companies have not developed well - thought out policy for handling their aging products.

Unless strong reasons for retention exists, carrying a weak product is very costly to the firm. The cost is not just amount of uncovered overhead and profit. The weak product may consume a disproportionate amount of management's time; it often requires frequent price adjustment; it requires both advertising and sales force attention that might be better diverted to making the healthy products more profitable.

In this stage there are five strategies open to the firm.

- Increasing the firm's investment so as to dominate or strengthen its competitive position.
- Maintaining the firm's investment level until the uncertainties about the industry are resolved.
- Decreasing the firm's investment level selectively, by sloughing off the unpromising customer groups while simultaneously strengthening the firm's investments posture within the uncreative niches of enduring customer demand.

- Harvesting (or milking) the firm's investment to recover cash quickly, regardless of the resulting investment posture.
- Diverting the business quickly by disposing of its asset as advantageously as possible.

The appropriate decline strategy is a function of the industry's relative attractiveness and the company's competitive strength in a given industry. For instance, a company that finds itself in an unattractive industry and yet has competitive strength should consider shirking selectively.

5.7. INDIVIDUAL PRODUCT DECISIONS

In developing a marketing strategy for individual product, the seller has to confront the branding, packaging and labeling decisions.

5.7.1. Brand Decisions

Perhaps the most distinctive skill of professional marketers is their ability to create, maintain, protect and enhance brand. Marketers say that "branding is the art and cornerstone of marketing."

The American marketing association defines a brand as follows:

A **Brand** is a name, design or symbol (or combination of these) that uniquely identifies the product and service of one seller or a group of sellers and to differentiate them from those of competitors.

There are three types of brand designations

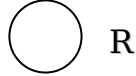
1. A brand name - is a word, letter (a group of words or letters) that can be voiced. Eg. Mercedes
2. Brand Mark - is a symbol, design or distinctive coloring or lettering that can be seen but not voiced. Eg. For Mercedes



3. Trade mark – is a brand name or brand mark or combination thereof that is given 

legal protection. When it used a registered trade mark is followed by R

Eg. Coca – cola



In essence a brand identifies the seller or maker. It can be a name, trademark, logo or other symbols. Under trademark law, the seller is granted exclusive right to the use of the brand in perpetuity. Thus brand differs from other assets such as patent and copyrights, which have expiration dates.

Why Branding?

Branding is essentially seller's promise to consistently deliver a specific set of features, benefit and services to the buyers. Some of the additional reasons for branding are;

- To facilitate product identification – customer can order a product by name instead of description.
- To assure customers that a product/service has a certain level of quality and it is possible for them to get comparable quality products by reordering the same brand.
- The firm responsible for the product will be known.
- Price comparisons are reduced, as customers perceive brand distinctiveness.
- It increases product prestige as the social visibility becomes meaningful.

Many companies make use of branding strategies in carrying out market and product development strategies. The *line extension* approach uses a brand name to facilitate entry into a new market. An alternative to line extension is *brand extension* a current brand name is used to enter a

completely different product class. The third form of banding is franchise extension/family branding where by a company attaches the corporate name to a product either to enter a new market segment or a different product class.

Brand Equity

It is the level of measurement of brand loyalty by customers. It can also be viewed as a set of assets (or liabilities) linked to the brand that adds (or subtract) value. The value of these asset depends on the consequence or result of the market place's relationship with a brand.

Brand equity is determined by the consumer and is the culmination of the consumer's assessment of the product, the companies that manufactures and market the product and all other variables that impact on the product between manufacturing & consumer consumption.

To sum up, a brand requires careful brand management so that its equity does not depreciate. This demands maintaining or improving brand awareness, brand perceived quality and functionality. These indeed requires continuous R&D, well developed advertisement and excellent trade and consumer service.

5.7.2. Packaging Decisions

All physical products going to the market have to packaged. Many marketers have called packaging a fifth P, along with price, product, place & promotion. However, most marketers treat packaging as an element of product strategy.

Packaging is the process of designing and producing the container or wrapper for a product. The container or wrapper is called the package. The package might include up to three levels of material. Thus a perfume is in a bottle (primary package), that is in carton box (secondary package)

that is in a corrugated box (shipping package) containing dozens of perfume.

In modern business a well developed package can create convenience value for the consumer and promotional value for the producer. Some of the factors which contributed for the growing use of packaging as a marketing tool are;

a) Self - service - many products will be sold on a self service basis in supermarkets. Here the package performs many of the sales task.

b) Consumer affluence - consumers are willing to pay a little more for the convenience, appearance and prestige of better package.

c) To increase company's brand image - A well-designed package has the power to contribute to recognition of the company's brand.

Developing effective packaging may cost lots of money and take from a few months to a year. The importance of packaging cannot be over emphasized considering the function it performs in attracting customers. Companies should also give attention to the growing environmental problems of packaging.

5.7.3 Labeling Decision

Labeling is a subset of packaging. A label is a tag attached to the product or an elaborately designed graphic that is part of the package. Even if the seller prefers a simple label, the law may require additional information.

Labels perform several functions; first, it identifies the product or brand. The label might also grade the product. The label might describe the product; who made it, where it was made, when it was made, what it contains & how it is to be used. Finally, the label might promote the product through its attractive graphics.

5.8 SUMMARY

Product planning is a systematic decision making pertaining to all aspects of the development and management of the firms products. It allows the firm to pinpoint opportunities, develop marketing program, developing new products and delate undesirable products. Here a product should be defined based on its level.

Consumer products are goods and services for the final consumer. They can be classified as convience, shopping, specialty and unsought goods. These are products that are differentiated on the basis of consumer awareness of alternatives and their chrematistics prior to shopping trip. Where as industrial products are goods/services used in the production of other good & services, in the operation of the business or for resale.

In developing a new product the Company can apply an innovation or modification to existing products that the consumer pervious as substantiate. Companies objective for introducing new products relates to sales, profit, less dependence on one product/product line, use of an established company's distribution system and/or image.

The product life cycle is a concept that seeks to describe the product's sales, profit, customer competitor and marketing emphasis from its inception until its removal from the market and this life cycle goes through four stages: introduction, growth, maturity and decline.

Check Your Progress Exercise

- 1) For each of the following products, describe the core, basic, expected, augmented and potential product.
 - a) Automobile
 - b) Ball point pen

2) How can one product be a convince, shopping and specialty good?
What does this mean to the marketer?

.....
.....

3) Give your own example for each of the following product life cycles;
a) Fad b) fashion c) styles

4) Comment on the following statement; we never worry about relative
product failure because we make a profit on them, we only worry
about absolute product failures

.....
.....

5) What are the components of product development?

.....
.....

6) What factors cause new product failures? Can they be overcome?
How?

.....
.....

7) Is the maturity stage a good or a bad position for a product to
occupy? Explain?

.....
.....

8) Differentiate among brand name, brand mark and trademark.

.....
.....

9) Explain the function of packaging and identify its components?

.....
.....

- 10) “Even though a manufacturer wants a brand to be popular, it must not be used to describe an entire product category.” Explain?

.....
.....

5.9 ANSWER KEY TO CHECK YOUR PROGRESS EXERCISE

- 1) Refer to 8.2
- 2) Refer to 8.3.1
- 3) Refer to 8.6
- 4) Refer to 8.5.2
- 5) Refer to 8.5
- 6) Refer to 8.5.2
- 7) Refer to 8.6
- 8) Refer to 8.7.1
- 9) Refer to 8.7.2
- 10) Refer to 8.7.1

UNIT 6: PRICING STRATEGY

Contents

- 6.0 Aims and Objectives
- 6.1 Introduction
- 6.2 Meaning of Price
- 6.3 Price and Non-Price Competition
- 6.4 Factors to be Considered When Setting Prices
 - 6.4.1 Internal Factors Affecting Pricing Decision
 - 6.4.2 External Factors Affecting Pricing Decision
- 6.5 Pricing Strategy
 - 6.5.1 Pricing Strategy for New Products
 - 6.5.2 Pricing Strategy for Existing Products
- 6.6 A General Pricing Model
- 6.7 Summary

6.8 Key to check your progress

6.0 AIMS AND OBJECTIVES

After developing its product, the marketer will be required to make pricing decision. This chapter examines the demand, supply and environmental influence that affect pricing decisions and emphasize that all the three must be considered for effective pricing.

By the time you finished this chapter you should be able to;

- define price;
- differentiate price and non price competition;
- examine the factors affecting pricing decisions;
- study the overall process of designing a pricing strategy.

6.1 INTRODUCTION

A marketer should make a sound decision related to the price of its product or service because the consumers perception of price will affect the business. For instance if buyers perceive a price to be high, they may purchase competitors brand, leading to a loss of sales. If price is too low, sales might increase, but profit may suffer.

6.2 MEANING OF PRICE

Price is the amount of money charged for a product or service or it is the sum of the values that consumers exchange for the benefit of using the product/service. Therefore pricing represents the value of a good or service for both the seller and buyers.

From business point of view pricing is important because it is the only revenue generating elements of a marketing mix, others consume resource.

6.3 PRICE AND NON-PRICE COMPETITION

Competition between marketers to attract customers and generate income is made in different ways, which can be broadly categorized into price and non-price competition.

- a) **Price competition** - Here sellers influence demand of the purchaser primarily through changes in price level. Sellers move along a demand curve by rising or lowering their prices. Price competition is a flexible tool because price can be adjusted quickly and easily. However, of all the controllable marketing variables pricing strategy is the easiest for competitors to duplicate i.e. competitors can have the flexibility to adjust their prices.
- b) **Non-price competition** - Emphasizing on factors other than price in relation to competitors' product occurs when the seller decides not to focus on price and use other factors to distinguish their product from competitors' offer. It includes quality, delivery service, unique feature etc. Even though this competitive tool is challenging and difficult to adapt, it helps the firm to develop 'good will'

6.4 FACTORS TO CONSIDER WHEN SETTING PRICES

A company's pricing decision is affected by both internal company factors and external environmental factors. In the next part of this unit these factors will be discussed in detail.

6.4.1 Internal Factors Affecting Pricing Decision

a) Marketing Objectives

The co's marketing objective has a great influence on the pricing decision of the firm. These objectives might include

- i. Survival – firms usually consider survival as their major objective when they are troubled by too much capacity, heavy competition or changing consumer want. Here in order to keep the plant going, a company may set a low price hoping to increase demand.
- ii. Current profit maximization – In this case the company chooses the price that will produce the maximum current profit or cash rather than long run performance.
- iii. Market share leadership – company's may also want to obtain the dominant market share. They believe that the company with large market share will enjoy the lowest costs and highest longer profit. In order to be a market share leader, these firms set price as low as possible.
- iv. Product quality leadership – A company with this objective wants to have the highest quality product on the market which may call for charging a high price to cover R & D costs.
- v. Other objectives – A company might also use price to achieve other specific objectives. For instance, it can set low price to prevent competitors from entering the market or set price at competitors level to stabilize the market.

b) Marketing Mix Strategy

Price is the only marketing tool that the company uses to achieve its marketing objectives. Price decision must be coordinated with product design, distribution and promotion decision to form a consistent and effective marketing program. Decision made for other marketing mix elements may affect pricing decision. For example, the decision to position the product on high quality will mean that the seller must charge higher price to cover its higher costs.

Thus, the marketer must consider the total marketing mix when setting prices. If the product is positioned on non-price factors, then decision about other marketing mix tools will strongly affect price. If price is a crucial positioning factor then price will strongly affect the decision of other marketing mix elements.

c) Costs

Costs set the floor for the price that the company can charge for its product. The price of the product usually must cover cost of production, promotion and distribution, plus a profit for the offering to be of value to the firm. In addition when products are priced on the basis of costs plus a fair profit, there is an implicit assumption that this sum represents the economic value of the product in the market place.

Cost-oriented pricing is the most common approach in practice, and there are two variations: Markup pricing and cost - plus pricing.

- 1) Markup pricing - This is commonly used in retail business, where a percentage is added to the retailers invoice price to determine the final selling price.
- 2) Cost - plus pricing - Closely related to markup pricing is cost - plus pricing, where the costs of producing a product are totaled and a profit amount or percentage is added on.

Cost-oriented approaches to pricing have the advantage of simplicity and many practitioners believe that they generally yield a good pricing decision. However, such approaches have been criticized for two basic reasons. First, cost approaches give little or no consideration to demand factors. Second, cost approaches fail to reflect competition adequately. Only in industries where all firms use this approach and have similar cost component, this approach yields similar prices and minimize price competition.

6.4.2 External Factors Affecting Pricing Decisions

The external environmental factors, which affect pricing decision, are;

a) Demand

The relationship between price and consumer purchase decision can be explained by the economists law of demand which state that consumer usually buy more units at lower price and less units at higher prices.

Price elasticity can also be used to describe the influence of demand on price decision. Price elasticity of demand is a measure of consumers' price sensitivity and it is estimated by dividing relative changes in the quantity sold by the relative price change.

$$e_{\text{demand}} = \frac{\text{Percentage change in quantity}}{\text{Percentage change in price}}$$

Although difficult to measure, there are two methods commonly used to estimate price elasticity. First, price elasticity can be estimated from historical data. Second, price elasticity can be estimated by sampling a group of consumers from the target market and polling them concerning various price/quantity relationship.

b) Competition

The level of competition also affects pricing. Therefore in order to set or change

prices, the firm must consider its competition and how competition will react to the price of the product. Here emphasis must be given by the firm for the following factors.

- Number and size of competitors.
- Location of competitors.
- Number of products sold by competitors.

- Cost structure of competitors.
- Past/previous reaction of competitors to price change.

These factors determine whether the firm's selling price should be at, below, or above competition. (Each of these pricing strategies will be discussed later under pricing strategy).

3. Government Regulations

Prices of certain goods and services are regulated by state and federal governments. Public utilities such as gasoline, taxi-fare are examples of state regulations of prices. Since most marketing managers are not trained as lawyers, they usually seek legal counsel when developing pricing strategies to ensure conformity to state and federal legislations.

6.5 PRICING STRATEGY

Pricing strategy can be used to develop (fix) price of existing or new products.

6.5.1 Pricing Strategies for New Products

When a company introduces a new product for the market, it can apply any one of the following pricing strategies.

A) A Skimming policy – This involves setting price at high level usually in the introduction stage of the product life cycle and lower the price in the later stages. The firm is essentially trying to “skim the cream” of demand of those people that strongly desire the product at a premium price. Skimming price will be successful under two situations. First, when the company

B) A Penetration policy - Here the seller changes a relatively low price on a new product. Generally this policy is used when the firm expects competition to move in rapidly and where demand for the product is, at least in the short run, price elastic (i.e. a small percentage change in

price in leads to a high percentage change in quantity demand). This policy is also used to achieve economies of sale. In latter stage the firm will be required to alter its price so as to meets changes in the market place.

6.5.2 Pricing Strategies for Existing Products

When a company introduces a new product for itself but not for the market, it can take one of the three strategies; pricing above the market, pricing below the market and market price.

- a) Pricing above the market – This is when a firm sets a price to its product higher than similar products sold by its competitors. If one uses price above the market the product must be distinct or should have some unique features than competitor's product in the eyes of the consumer.
- b) Pricing below the market – Marketers use this price when they plan to get profit by increasing sales volume or when they are able to reduce cost per unit.
- c) Market price – This is liking the price that is reflecting the prevailing market, i.e. applying the price that is currently charges by our competitors.

6.6 A GENERAL PRICING DECISION MODEL

It is clear that effective pricing decision involves the consideration of many factors and depending on the situation any of these factors can be the primary considerations in setting price. In addition, it is difficult to formulate an exact sequencing of when each factor should be considered. However, the following pricing decision model views pricing decision as a step sequence.

1. **Define target markets** - Any marketing decision making activity should begin with a definition of segmentation strategy and identification of potential customers.

2. **Estimate market potential** - The maximum size of the available market determines what is possible.
3. **Develop product positioning** - The firm's brand image in the market place provides important constraints on the pricing decision as the firm attempts to obtain a unique competitive advantage by differentiating its product offering from that of competitors.
4. **Designing marketing mix** - Developing marketing mix elements defines the role to be played by pricing in relation to and in support of other marketing variables.
5. **Estimate all relevant costs** - while straight cost plus pricing is to be avoided because it is insensitive to demand, pricing decisions must take into account necessary plant investment, investment in R&D, and investment in market development, as well as variable costs of production and marketing.
6. **Analyze environmental factors and set pricing objectives** - pricing decisions are constrained by industry practices and legal requirements so the pricing decision must be a clear statement of objectives that recognizes environmental factors and defines the role of pricing in the marketing strategy of the firm.
7. **Develop the price of the product** - At this step the price of the product can be determined and will define selling prices of the product.

6.7 SUMMARY

Pricing decision that integrates the firm's costs with marketing strategy, business condition, competition, consumer demand, product, channels of distribution and general resources can determine the success or failure of a business. This places a heavy burden on the price maker.

In general the price maker has to consider both internal and external factors, which may affect pricing decisions. Internal factors include the

company's pricing objectives, marketing mix. Strategy and costs. Demand for the product, competitor's price and offer, and gov't actions are some of the major external factors influencing price decision.

Check Your Progress Exercise

1. Why is don't price such an important marketing variable.
.....
.....
2. Differentiate between price and non price competition.
.....
.....
3. Give examples of product or service with elastic demand. Explain why their demand is elastic.
.....
.....
4. List the major factors affecting the pricing strategy of a company.
.....
.....
5. Which is determined first, product quality or price? Explain your answer.
.....
.....
6. List the pricing strategies for a new and existing product.
.....
.....

6.8 ANSWER KEY TO CHECK YOUR PROGRESS QUESTIONS

- | | |
|--|--------------------|
| 1) Refer to unit 2 | 2) Refer to unit 3 |
| 3) Refer to 4.2 | 4) Refer to unit 4 |
| 5) Refer to the steps of the general pricing model (-,6) | |

6) Refer to unit 5

UNIT 7. DISTRIBUTION STRATEGY

Content

- 7.0 Aims and Objectives
- 7.1 Introduction
- 7.2 The need for Marketing Intermediaries
- 7.3 Channel of Distribution
- 7.4 Selecting Channel of Distribution
- 7.5 Summary
- 7.6 Answer Key to Check Your Progress Exercises

7.0 AIMS AND OBJECTIVES

It is to be recalled from unit one that channels of distribution provide the ultimate consumer or organizational buyer with time, place and possession utility. Thus an efficient channel is one that deliver the product when and where it is wanted at a minimum total cost. This unit is concerned with the development and management of channels of distribution.

By the time you finish this unit, you should be able to:

- discuss the needs for a distribution channel;
- identity the conventional distribution channels for consumer and organizational product;
- Identity the general and specific considerations in channel selection.

7.1 INTRODUCTION

Channel of distribution decisions involve numerous interrelated variables that must be integrated into the total marketing mix. Because of the time and money required to set up an efficient channel, and since channels are

often hard to change once they are setup these decision are critical to the success of the firm.

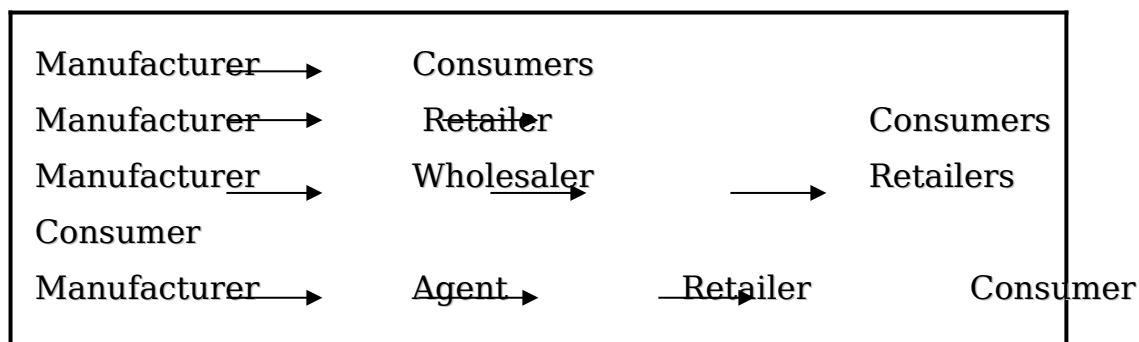
7.2 THE NEED FOR MARKETING INTERMEDIARIES

A channel of distribution is the combination of institution through which a seller markets products to the user or ultimate consumer. The need for other institutions or intermediaries in the delivery of goods is sometimes questioned, particularly since the profit they make are viewed as adding to the cost of the product. However, this reasoning is not logical, since producers use marketing intermediaries because the intermediary can perform functions more cheaply and more efficiently than the producer can.

7.3 CHANNEL OF DISTRIBUTIONS

As previously noted, a channel of distribution is the combination of institutions through which a seller markets product to the user or ultimate consumer. Some of these links assume the risks of ownership; others do not. Some perform marketing functions while other perform non-marketing or facilitating functions, such as transportation. The conventional channel of distribution pattern for consumer goods market is shown bellow.

Fig 10.1 Conventional Channels for Distribution of Consumer Goods



Manufacturer → Agent → Wholesaler → Retailer
 Consumer

Some manufacturers use a direct channel, selling directly to a market. Using a direct channel, called direct marketing increased in popularity as marketers found that products could be sold directly using a variety of media. These media include direct mail, telemarketing, direct-action advertising, on-line selling and direct selling through demonstrations at home or work place.

In other cases, one or more intermediaries may be used in the distribution process. A common channel for consumer goods is one in which the manufacturer sells through wholesalers and retailers. Small manufacturers may also use agents, since they don't have sufficient capital for their own sales forces.

The final channel in the above figure is used primarily when small wholesalers and retailers are involved.

In contrast to consumer products, organizational goods have a conventional channel of distribution. The conventional distribution channels of organizational goods are shown below:

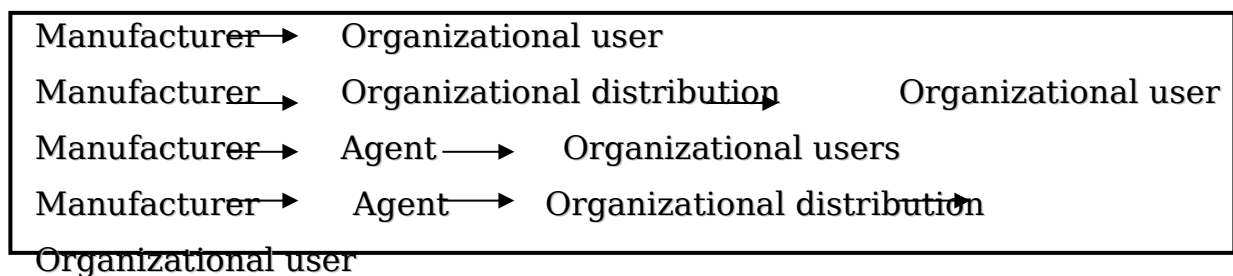


Figure 10.2 Conventional distribution channel for organization products.

The direct channel is often used in the distribution of organizational goods. The reason for this stems from the structure of most

organizational markets, which often have relatively few but extremely large customers. Also, many organizational products such as computers, need a great deal of presale and post sale service. Distributions are used in organizational markets when the number of buyers is large and the size of the buying firm is small. As in the consumer good, agents are used in organizational markets in case where manufactures don't wish to have their own sales force. Such arrangement can be used by small manufacturers or when the market is geographically dispersed.

7.4 SELECTING CHANNELS OF DISTRIBUTION

Given the numerous types of channel intermediaries and functions that must be performed, the task of selling and designing a channel of distribution may at first appears to be over whelming. However in many industries, channel of distributions have developed over many years and have become some what traditional. This is not to say that a traditional channel is always the most efficient that there are no opportunities for new creativity, but the fact that such a channel is widely accepted in the industry suggests it is highly efficient.

There are general and specific consideration in channel selection.

Some of the general considerations are;

- a) Customer characteristics which includes number of customers, geographic dispersion, purchasing patterns of consumers and use of new channels
- b) Product characteristics like unit value of the product, its pershiability, bulkiness and degree of standardization.
- c) Competitor characteristics like their numbers, relative market share, distribution channels and strategy, size of product mix and product lines and over all marketing strategy of competitors.

- d) Company characteristics includes relative size and market share, financial condition, size of its product lines, marketing objectives and past channel experience.
- e) Environmental characteristics such as economic condition, legal regulation and restrictions, political issues and technological changes.

It should be noted that for a particular product any one of these characteristics greatly influences choice of channels. For instance, highly perishable products generally require direct channels, or a firm with little financial strength may require intermediaries to perform all the marketing functions.

The above characteristics play an important part in framing the channel selection decision. Based on them, the choice of channels can be further refined in terms of distribution coverage required, degree of control desired, total distribution cost and channel flexibility which are specific considerations in channel selection.

- **Distribution Coverage Required** - Because of the characteristics of the product, the environment needed to sell the product and the needs and expectations of the potential buyers, products will vary in the intensity of distribution coverage they require.
- **Degree of control desired** - In selecting channels of distribution, the seller must make decisions concerning the degree of control desired over the marketing of the firm's product. Some manufacturers prefer to keep as much control over the policies surrounding their product as possible. Ordinarily, the degree of control is achieved by the sellers through a direct channel.

- **Total distribution cost** - The total distribution cost concept has developed out of the more general topic of systems theory. The concept suggests that a channel of distribution should be viewed as a total system composed of interdependent subsystems and the objective of the channel (system) manager should be to increase total system performance.

In terms of distribution cost, it generally is assumed that the total system should be designed to minimize cost, other things being equal.

- **Channel flexibility** - This is the ability of the manufacturer to adapt to changing conditions

7.5 SUMMARY

Distribution strategy is a systematic decision making pertaining to the physical movement and transfer of ownership of a product or service from producer to consumer. A channel of distribution contains the institution or people involved with the movement and exchange of product or services. Channel members are the institutions or peoples in the process. Distribution affects the firm's marketing program, it is difficult to alter, influences costs, and must relate to the size and nature of the consumer market.

There are two basic types of distribution channel. The direct channel requires the manufacturer to perform all distribution functions. The indirect channel apportions among the manufacturer, and independent middle men. In comparing the two methods, the firm must balance cost and ability against control and total sales.

In the selection of a channel, the company should consider consumer, itself, the product, competition and distribution alternatives.

The channel of distribution for industrial product tends not to use retailers but tends to be direct, involve few transactions and large orders, requires.

Specification selling and know indepeble channel members.

Check Your Progress Exercise

1) Define channel of distribution?

.....
.....

2) Are independent channel members always necessary? Explain your answer?

.....
.....

3) Why would a manufacturer utilize both direct and indirect distribution channels?

.....
.....

4) Lost the factors affecting the choice of channel of distribution?

.....
.....

5) Why do some firms consider the selection of a channel of distribution to be their most important decision?

.....
.....

7.6 KEY TO CHECK YOUR PROGRESS

1) Refer to 10.1

- 2) Refer to 10.3
- 3) Refer to 10.3
- 4) Refer to 10.4
- 5) Refer to 10.2

UNIT 8: PROMOTION STRATEGY

Contents

- 8.0 Aims and Objectives
- 8.1 Introduction
- 8.2 Meaning of Promotion
- 8.3 Function of Promotion
- 8.4 Developing Effective Communications
 - 8.4.1 Identity the Target Audience
 - 8.4.2 Determining the Communication Objective
 - 8.4.3 Designing the Message
 - 8.4.4 Selecting the Communication Channel
 - 8.4.5 Establishing the Total Promotional Budget
 - 8.4.6 Deciding on the Promotional Mix
 - 8.4.7 Measuring the Promotion's Result
- 8.5 Summary
- 8.6 Answer Key to Check Your Progress Exercise

8.0 AIMS AND OBJECTIVES

Promotion is a critical ingredient of the marketing Mix-with promotion activities the firm directly communicates with customers, unlike the other

elements of marketing mix. A good promotional activity also compliments the product, distribution and price. This chapter explores the meaning of promotion and identifies the basic steps for effective promotional campaign.

By the time you finish this chapter you should be able:

- define promotion and detail its function;
- examine the component of effective communication;
- examine scope and importance's of promotional mixs elements;
- identify the different approaches to set promotional budget.

8.1 INTRODUCTION

Modern marketing calls for more than developing a good product, pricing it attractively, and making it accessible to target customers. Companies must also communicate with their present and potential customers, retailers, supplies and other stakeholders and the general public. For most companies the question is not whether to communicate but rather what to say, to whom and how often.

8.2 WHAT IS PROMOTION?

Promotion is an element in the organization marketing mix that serves to inform, persuade and remind the market of an organization and/or its product. So to be successful a marketer must not offer a good product at a reasonable price but also communicate with potential customers about the product and where they can buy it.

8.3 FUNCTIONS OF PROMOTION

Some of the reliable functions performed by promotion are:

- Promotion establishes an image such as prestige for the company.
- Communicate features of goods and services.
- It creates awareness for new good and service.

- Keeps existing goods and service popular.
- Explains where goods and service can be purchased.
- Justify the prices of goods and services.
- Places the company and its good and services in a favorable light relative to competitors.

8.4 DEVELOPING EFFECTIVE COMMUNICATION

There are eight steps in developing an effective total communication and promotion program.

8.4.1 Identify the Target Audience

A marketing communicator must start with a clear target audience in mind. The audience could be potential buyer of the company's product, current users, deciders or influencers. The audience could be individuals, groups, special public or the general public. The target audience will critically influence the communicator's decision on what to say, how to say it, when to say it, where to say and who to say it.

In identifying audiences, image analysis entails the audience's current image of the company, its product and its competitors.

8.4.2 Determining the Communication Objective

Once the target market has been defined, the marketing communicator must decide on the desired audience response. The desired ultimate responses are purchase, but purchase behavior is the end result of a long process of consumer decision-making. The marketing communicator needs to know how to move the target audience to higher states of readiness to buy.

The marketer can be seeking a cognitive, affective or behavioral response from the target audience. That is, the marketer may want to put something in to the consumer's mind, change the consumer's attitude, or get the consumer to act.

The target consumer may be in any of the six buyers-readiness state, the state consumer normally pass through on their way to making a purchase. These states include;

Awareness - If most of the target audience is unaware of the object the communicator's task is to build awareness, perhaps just name recognition. This task can be accomplished with simple messages repeating the product name. But building awareness takes time. Suppose a small college named 'Dinkeneshe' seeks applicants but has no name recognition. And suppose there are 45,000 high school junior and seniors who may potentially be interested in Dinkeneshe College. The college might set the objective of making 60% of these students aware of Dinkeneshe's name with in one year.

Knowledge - The target audience might have company or product awareness but not know much more. Dinkeneshe may want its target audience to know that it is a private four-year college with excellent programs in marketing and finance. It thus needs to learn how many people in the target audience have little, some, or much more knowledge about Dinkeneshe. Based on this information, the college may then decide to select product knowledge as its communication objective.

Liking - If target members know about the product, how do they feel about it? If the audience looks unfavorably on Dinkenshe College, the communicator has to find out why and then develop a communication campaign to shore up favorable feelings. If the unfavorable view is based on real problem of the college, then a communication campaign alone cannot do a job. Dinkeneshe will have to fix its problems and then communicate its renewed quality.

Preference - The target audience might like the product but not prefer it to others. In this case, the communicator must try to build consumer

preference. The communicator can check on the campaign's success by measuring audience preference again after the promotional campaign.

Conviction – A target audience might prefer a particular product but not developed a conviction about buying it. The communicator's job is to build conviction among interested student that Dinkeneshe is the best college.

Purchase – Finally, Some members of the target audience might have convictions but not quite get around to make the purchase. They may wait for more information to plan or act later.

The communicator must lead these consumers to take the final step. Action might include offering the product at a low price, offering a premium, or letting consumers try in on a limited basis. Thus Dinkenesh might invite selected high school students to visit the campus and attend some classes, or it might offer partial scholar ship for some students.

8.4.3 Designing the Message

Having defined the desired audience response, the communicator moves to developing an effective message. Ideally, the message should gain attention, hold interest, arouse desire and elicit action. In practice, few messages take the consumer all the way from awareness through purchase.

In putting the message together, the marketing communicator must solve four problems; what to say (message content), how to say it logically (message structure), how to say it symbolically (message format) and who should say it (message source).

- i. Message Content – The communicator has to figure out what to say to the target audience to produce the desired response. In determining the best message content, management searches for an appeal or

theme. There are three types of appeals: rational, emotional and moral.

- Rational appeals relate to the audience's self-interest. They show that the product will produce the desired benefit. Examples are messages demonstrating a product's quality, economy value or performance. It is widely believed that industrial buyers are most responsive to rational appeals.
 - Emotional appeals – attempts to stir up negative or positive emotions that will motivate purchase. The product may be similar to the competitors offering but has unique association for consumers so communication should appeal to these associations. In addition, communicators have worked with negative appeals such as fear, guilt, and shame to get people to do things they should (eg. Brush their teeth) or stop doing things they should not (e.g. Stop smoking). Communicators also use positive emotional appeals such as humor, love, pride and joy.
 - Moral appeal – are directed to the audience's sense of what is right and wrong. They are often used to urge people to support social cause, such as a cleaner environment and fighting HIV.
- ii. Message structure – A message's effectiveness depends on its structure as well as its content. Research has shed much light on message content and its relation to conclusion drawing, one- versus two – side argument, and order of presentation.

Some early experiments supported stating conclusion for the audience rather than allowing the audience to reach its own conclusion. More recent research, however, indicates that the best advertising asks question and allow readers and viewers to form

their own conclusion. One would think that one-sided presentation that praise a product would be more effective than two sided argument that also mention the product's shortcoming. Yet two - sided messages may be more appropriate in certain situations, especially when some negative association must be overcome.

Finally the order in which arguments are presented is important. In case of a one sided message, presenting the strongest argument first has the advantage of establishing attention and interest. In case of a two-sided message the issue is whether to present the positive argument first or last.

- iii. Message Format - The communicator must develop a strong format for the message. In a printed advertising, the communicator has to decide on the headline, copy, illustration, and color. If the message is to be carried over radio, the communicator has to carefully choose words, voice qualities (speech rate, rhythm or pitch). If the message is to be carried on television then all of these elements plus body language (non-verbal clues) have to be planned.
- iv. Message source - message delivered by attractive or popular sources achieve higher attention and credibility. Message delivered by highly credible sources are persuasive. Pharmaceutical companies want doctors to testify about their products' benefit because doctors have high credibility

8.4.4 Selecting the Communication Channels

The communicator must select efficient channel of communication to carry the message.

There are two broad types of communication channels; personal and non-personal.

- a) Personal communication channels - This involves two or more persons communicating directly with each other. They might communicate face - to - face, over the telephone or through mail. Personal communication channels derive their effectiveness through the opportunities for individualizing the presentation and feedback.

This form of communication carries great weight in two situations. One is with products that are expensive, risky or purchased frequently. Here buyers are likely to be strong information seekers and go beyond mass - media information. The other situation is where the product suggests something about the user's status or taste. Here buyers consult others to avoid embarrassment.

- b) Non-personal communication channels - This carry message without personal contact or interaction. They include media, atmosphere and events.
- Media consists of print media (news paper, magazine, direct mail), broadcast media (radio, television), electronic media (audio tape, videotape) and display media (billboards, posters).
 - Atmospheres are "packaged environments" that create and reinforce the buyer's learning towards product purchase.
 - Events are occurrences designed to communicate particular messages to target audiences. New conferences, grand openings and sport sponsorships are events designed to achieve specific communication effect to target audiences.

8.4.5 Establishing the Total Promotional Budget

Budget setting is also one phase in developing effective promotional campaign. Setting budget for promotion is a challenging task. To make this task easy four alternative techniques are sited. These are:

- a) **All you can afford method** - In this technique fund will be allocated for every element of marketing mix except for promotion.

Whatever fund left over is placed in promotion budget. This method holds least potential for making sound promotional decision. There is also high risk of having no promotion budget, if no funds are left over.

- b) **Percentage of sales method** - Using this method the company ties the promotion budget to sales revenue. In this case sales volume determines promotional budget rather than planning the promotional budget to achieve some desired sales objectives. The limitations of this method are; there is no relation ship to objectives, promotion is used as a sales follower not as a leader and it also provides too large budget during high sales period and too small budget during low sales period.
- c) **Competitive parity method** - Some company's set their promotion budget to achieve share - voice parity with their competitor. That is, the company's promotion budget is raised or lowered according to the action of competitors. The method is a market - oriented approach. However, it is a following not a leading approach.
- d) **Objective and task method** - This method calls up on marketers to develop their promotion budget by defining their specific objective, determining the task that must be performed to achieve these objectives and estimating the cost of performing these task. The sum of these costs is the proposed promotion budget.

Consequently, managers must always be aware that there is no universally accepted method of setting budget. It is unlikely for a firm to employ a certain method as a sole means of establishing the promotional budget.

8.4.6 Deciding on the Promotional Mix

Promotion mix is the specific mix of advertising, personal selling, sales promotion, publicity and direct marketing, that a company uses to pursue its marketing objectives. It is possible to achieve a given sales level with varying promotion mixes.

Each of the promotional tool elements has unique characteristics and plays a distinctive role in an integrated promotion.

The five promotional tools are;

A) Advertising – is any paid form of non-personal communication regarding goods, services or ideas that is transmitted through various media by a business firm or not for profit organizations. Advertising provides opportunities for dramatizing the company and its product through the artful use of printed, sound and color.

There are different advertising medias. Some of them are:

- Newspaper – As an advertising medium, newspaper are flexible and timely. Newspaper can be used to reach an entire citizen. It also provides very intensive converge of a local market because most peoples read them. Their limitation is they are usually discarded after being read.
- Television – Advertisement through television use combination of motion and sound where by product or service can be demonstrated as well as described. It provides a wide geographic coverage but it is relatively expensive.
- Direct mail – It reaches only to precise audience i.e. to the people the advertising wishes to conduct. So there is almost no waste of circulation. Printing and postage fees make the cost of direct mail per person quite high.
- Magazine – It is an excellent medium when high quality printing and colors are described in advertisement. It can reach a national market at a relatively low cost per reader.

- **Radio** – It is frequently selective and has low cost. It makes only an audio impression relying entirely on the listener's ability to retain information after hearing it.

B) Personal selling - It is a face-to-face interaction with one or more prospective purchaser for the purpose of making presentation, answering question and processing orders.

On the positive side, personal selling is the most flexible tool because the seller can see or hear the buyer's reaction. Feedback is immediate and precise since the customer can generally assess the impact of sales presentation.

On the negative side personal selling is costly that means the costs of operating a sales force is high.

C) Sales Promotion - are those promotional activities that are intended to stimulate customer demand and improve the marketing performance of sellers.

Companies use sales promotion tools to create a stronger and quicker response. Some of the sales promotional tools are;

- Trade shows or exhibitions
- Samples
- Demonstrations
- Coupons
- Consumer contest

D) Public relation and publicity - public relation is a broad overall communication to influence various groups attitude towards the organization and/or its product. The old name for public relation was publicity, which was seen simply as activities to promote a company, or its product by planning news about it in the media not paid for by the sponsor.

The appeal of public relation and publicity is based on their three distinctive qualities.

1. High credibility – news stories and features are more authentic and credible to readers than advertising.
2. Ability to catch buyers off guard – it can reach many prospects who prefer to avoid salespeople and advertising. The message gets to the buyer as news rather than as a sale directed communication.
3. Dramatization – like advertising, public relation has the potential for dramatizing a company or product.

E) Direct Marketing – use of mail, telephone, fax, e-mail and other non-personal contact tools to communicate directly with or solicit a direct response from a specified customer and prospects.

Finally, companies must consider several factors in developing their promotion mix the type of product, market in which they are selling, whether to use a push or pull strategy, how ready consumers are ready to make purchase, the product's stage in the product life cycle and the company's market rank.

8.4.7 Measuring the Promotion's Results

After implementing the promotional plan, the communicator must measure its impact on the target audience. This involves asking the target audience whether they recognize or recall the message, how many times they saw it, what points they recall, how they feel about the message, and their previous and current attitude towards the product and company.

8.5 SUMMARY

Promotion is one of the four major elements of the company's marketing mix. The main promotional tools – advertising, personal selling, sales promotion, publicity and direct marketing – work together to achieve the company's communication objectives.

In preparing marketing communications, the communicators first task is to identify the target audience and its characteristics. Next the communicator has to define the response sought: whether it is awareness, knowledge, liking, preference or purchase. Then a message should be constructed with an effective content, structure and format. Media must be selected, both for personal and non-personal communication. Next, the communicator must collect feedback by watching how much of the market become aware, tries the product and is satisfied in the product.

The company has to decide how much to spend on promotion. The most popular approaches are to spend what the company can afford, to use the percentage of sales method, to base promotion on competitors spending, or to base it on the communication objective or task. However these techniques have their own advantage or limitation. In order to offset the limitation of one method by the advantage of the other, the techniques must be used in combination.

Check Your Progress Exercises

- 1) Explain the major functions of promotional activities.

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- 2) Distinguish among advertising, publicity, personal selling, sales promotion and direct marketing.

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- 3) Describe a recent advertisement that you saw that could be misunderstood by the audience.

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4) Give a recent example of a moral appeal message.

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5) A consumer views an advertisement but does not make a purchase. Has the advertisement failed? Explain your answer.

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6) Evaluate the four methods of promotional budgeting.

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7) Develop a promotional mix for your business organization.

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8) Comment on this statement “Full disclosure of message in any promotion confuses consumers by giving them too much information. It also raises costs.”

8.6 ANSWER KEY TO CHECK YOUR PROGRESS EXERCISE

1. - 3

2. Failure to select the best communication channel. Refer - 4.4

3. Based on - 4.3
 4. Based on - 4.3 (i)
 5. No, refer - 4.2
 6. Refer - 4.5
 7. By referring - 4.6
 8. Refer - 4.3 (ii)
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