Chapter One

Introduction

Today's successful companies have one thing in common: they are strongly customer focused and heavily committed to marketing. These companies share a passion for satisfying customer needs in well-defined target markets. They motivate everyone in the organization to help build lasting customer relationships through superior customer value and satisfaction.

Marketing more than any other business function, deals with customers. Although we will soon explore more detailed definitions of marketing, perhaps the simplest definition is this one:

Marketing is managing profitable customer relationships. The twofold goal of marketing is to attract new customers by promising superior value and to keep and grow current customers by delivering satisfaction.

1.1. MARKETING DEFINED

What is marketing? Many people think of marketing only as selling and advertising and no wonder- everyday we are bombarded with television commercials, direct mail offers, sales calls, and internet pitches. However selling and advertising are only the tip of the marketing iceberg.

Today marketing must be understood not in the old sense of making a sale---"telling and selling" – but in the new sense of "Satisfying customer needs". If the marketer does a good job of understanding consumer needs; develops products that provide superior value; and prices, distributes, and promotes them effectively, these products will sell very easily. Thus the selling and advertising are only part of a larger " marketing mix" – a set of marketing tools that work together to satisfy customer needs and build customer relationships. Broadly defined marketing is a social; and managerial process by which individuals and groups obtain what they need and want through creating and exchanging value with others. In a narrow business context, marketing involves building profitable, value-laden exchange relationships with customers. Hence, **we define marketing as the**

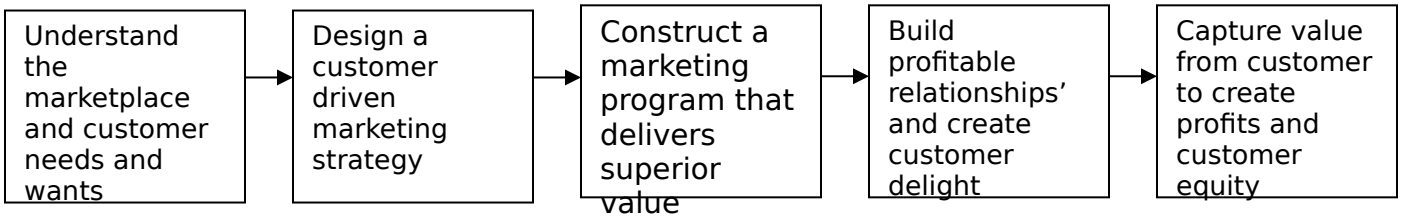
process by which companies create value for customers and build strong customer relationships in order to capture value from customers in return.

The Marketing Process

Figure 1.1 presents simple five-step model of the marketing process. In the first four steps, companies work to understand consumers, create customer value, and build strong customer relationships. In the final step, companies reap the rewards of creating superior customer value. By creating value for customers, they in turn capture value from consumers in the form of sales, profit, and long term customer equity.

Fig 1.1 A simple model of the Marketing process

Create value for customers and build customer relationship. Capture values from customers increase



1.2. UNDERSTANDING THE MAREKT PLACE AND CUSTOMER NEEDS

As a first step Marketers need to understand customer needs and wants and the market place within which they operate. We now examine five core customer needs and wants and the market place concepts: needs, wants, and demands; marketing offers; value and satisfaction; exchange and relationships; and markets.

1. Customer Needs, Wants and Demands

The most basic concept underlying marketing is that of human needs. Human needs are states of felt deprivation. They include basic physical needs for food, clothing, warmth, and safety; social needs for belonging and affection; and individual needs for knowledge and self expression. These needs were not created by marketers; they are a basic part of the human make up.

Wants are the form human needs take as they are shaped by culture, and individual personality. An Ethiopian needs food but wants 'Injera' with 'Doro Wot'. Where as an American needs food but want a Big Mac, French fries, and a soft drink. Wants are

shaped by one's society and are described in terms of objects that will satisfy needs. When backed by buying power, wants become **demands**. Given their wants and resources, people demand products with benefits that add up to the most value and satisfaction.

Outstanding marketing companies go to great lengths to learn about and understand their customers' needs, wants and demands. They conduct consumer research and analyze mountains of customer data. Their people at all level-including top management-stay close to customers.

2. Marketing offers- products, Services and Experiences

Consumers' needs and wants are fulfilled through marketing offers- some combination of products services, information or experiences offered to market to satisfy a need or want. Marketing offers are not limited to physical products. They also include services, activities or benefits offered for sale that are essentially intangible and do not result in the ownership of anything. Examples include banking, airline, hotel, tax preparation, and home repair services. More broadly marketing offers also include other entities, such as person, place, organization, information and ideas. Many sellers make the mistake of paying more attention to the specific products they offer than to the benefits and experiences produced by these products. These sellers suffer from "Marketing Myopia". They are so taken with their products that they focus only on existing wants and lose sight of underlying customer needs. They forget that a product is only a tool to solve a consumer problem. A manufacturer of drill bits may think that the consumer needs is a hole. These sellers will have a trouble if anew product comes along that serves the customer's need better or less expensively. The customer will have the same need but will want the new product.

3. Customer value and satisfaction

Customers usually face a broad array of products and services that might satisfy a given need. How do they choose among these many marketing offers? Customers' value refers to the customer's evaluation of the difference between all the benefits and all the costs of a marketing offer relative to those of competing offers. In other words we can define value as the ratio between what the customer gets and what he/she gives. The benefit

includes functional benefits and emotional benefits. The cost includes monetary costs, time costs and energy costs. Customers form expectations about the value and satisfaction that various marketing offers will deliver and buy accordingly.

Customer satisfaction is the extent to which a product perceived performance matches a buyer's expectation. If the products performance falls short of expectations the customer is dissatisfied. If performance matches expectations, the customer is satisfied. If performance exceeds expectations, the customer is highly satisfied or delighted. Satisfied customers buy again and tell others about their good experience. Dissatisfied customers often switch to competitors and disparage the product to others.

Marketers must be careful to set the right level of expectations. If they set expectations too low, they may satisfy those who buy but fail to attract enough buyers. If they raise expectations too high, buyers will be disappointed. Customer value and customer satisfaction are key building rocks for developing and managing customer relationships.

4. Exchanges and Relationships

Marketing occurs when people decide to satisfy needs and wants through exchange relationships. Exchange is the act of obtaining a desired object from someone by offering something in return. In the broadest sense, the marketer tries to bring about a response to some marketing offer. The response may be more than simply buying or trading products and services. A political candidate, for instance, wants votes a church wants membership, and a social action group wants idea acceptance.

For exchange potential to exist, five conditions must be satisfied:

1. There are at least two parties
2. Each party has something that might be of value to the other party
3. Each party is capable of communication and delivery.
4. Each party is free to accept or reject the exchange offer.
5. Each party believes it is appropriate or desirable to deal with the other party.

Marketing consists of actions taken to build and maintain desirable exchange relationships with target audiences involving a product, service, idea or other object.

Beyond simply attracting new customers and creating transactions, the goal is to retain customers and grow their business with the company. Marketers want to build strong relationship by consistently delivering superior customer value.

5. Markets

The concept of exchange and relationships lead to the concept of market. A market is the set of actual and potential buyers of a product. These buyers share a particular need and want that can be satisfied through exchange relationships.

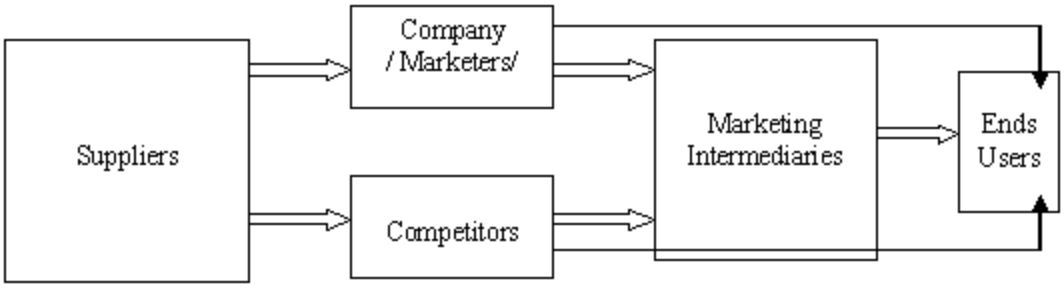
Marketing means managing markets to bring about profitable customer relationships. However, creating these relationships takes work. Sellers must search for buyers, identify their needs, design good marketing offers, set prices for them, promote them and store and deliver them. Activities such as product development, research, communication, distribution, pricing and services are core marketing activities.

Although we normally think of marketing as being carried on by sellers, buyers also carry on marketing. Consumers do marketing when they search for the goods they need at the price they can afforded. Company purchasing agents do marketing when they track down sellers and bargain for goods terms.

Figure 1.2 illustrates the main elements in a modern marketing system. In the usual situation, marketing involves serving a market of final consumers in the face of competitors. The company and the competitors send their respective offers and messages to consumers, either directly or through marketing intermediaries. All of the actors in the system are affected by major environmental forces (demographic, economic, physical, technological, political/ legal, and social/cultural).

Each party in the system adds value for the next level. All of the arrows represent relationships that must be developed and managed. Thus, a company's success at building profitable relationships depends not only on its own actions but also on how well the entire system serves the needs of final consumers.

Fig 1.2 Elements of a Modern marketing System



1.3 DESIGNING A CUSTOMER–DRIVEN MARKETING STRATEGY

Once it fully understands consumers and the marketplace, marketing management can design a customer driven marketing strategy. We define **marketing management** as the art and science of choosing target markets and building profitable relationships with them. The marketing manager's aim is to find, attract, keep and grow target customers by creating, delivering, and communicating superior customer value.

To design a winning marketing strategy, the marketing manager must answer two important questions: What customers will we serve (what is our target market)? And how can we serve the customers best (what is our value proposition) A company's value preposition is the set of benefits or values it promises to deliver to consumers to satisfy their needs.

Individuals may think of marketing management as finding enough customers for company's current output but this view is too limited. Any organization has a desired level of demand for its products. At any point in time, there may be no demand, adequate demand, irregular demand or too much demand and marketing management must find ways to deal with these different demand states. Marketing management is concerned not only with finding and increasing demand, but also with changing or even reducing it.

1. **Negative Demand-** A market is in a state of negative demand if a major part of the market dislikes the product and may even pay a price to avoid it. Some people have negative demand for vaccination and in some situation they even pay a higher price to replace it by tablets or some other form of treatment. The marketing task is to analyze

why the market dislikes the product and whether a marketing program consisting of product redesign, lower prices, and more positive promotion can change the market's beliefs and attitudes these marketing task/ activity is known as " conversional marketing".

2. **No Demand**- Target consumers may be unaware of or uninterested in the product or services. Thus, farmers may not be interested in a new farming method, and college students may not be interested in foreign language courses. The marketing task is known as "stimulational marketing"; its task is to find ways to connect the benefits of the product with the person's natural needs and interests.

3. **Latent Demand**- Many consumers may share a strong need that cannot be satisfied by any existing actual product. There is a strong latent demand for harmless cigarettes and HIV/AIDS medicine. The marketing task is called; "developmental marketing" its main task is to measure the size of the potential market and develop effective goods and services that would satisfy the demand.

4. **Declining/ falling Demand**- Every organization, sooner or later, faces declining demand for one or more of its products. The marketer must analyze the causes of market decline and determine whether demand can be restimulated by finding new target markets, changing the product's features or developing more effective communication. The marketing task is, "remarketing" to reverse the declining demand through creative remarketing of the product.

5. **Irregular Demand**— Many organizations- face demand that varies on a seasonal, daily, or even hourly basis, causing problems of idle or overworked capacity. Museums are under visited on weekdays and overcrowded on weekends. Hotels, restaurants, recreational areas are also overworked in weekends and some specific hours and less attended on others. The marketing task, which is called 'synchromarketing', is to find ways to alter the same pattern of demand through flexible pricing, promotion, and other incentives.

6. **Full Demand**- Organizations face full demand when they are pleased with their volume of business. "Maintenance marketing" is the marketing task, which designs to maintain the current level of demand in the face of changing consumer preferences and

increasing competition. The organization must maintain or improve its quality and continually measure consumer satisfaction to make sure it is doing a good job.

7. **Overfull Demand**— In some situations, organizations face a demand level that is higher than what they can or want to handle. The marketing task, which is called "demarketing", it requires finding ways to reduce demand temporarily or permanently. Demarketing seeks to discourage overall demand and consists of such steps as raising prices and reducing promotion and service. Demarketing aims not to destroy demand but also to reduce its level, temporarily or permanently.

8. **Unwholesome Demand**- It is the demand for unhealthy products like cigarette, alcohol, hard drugs, handguns, and X-rated movies. Unwholesome products will attract organized efforts to discourage their consumption. The marketing task is to get people who like something to give it up, using such tools as fear massage, price hikes, and reduced availability. The corresponding marketing task is known as "counter marketing".

Marketing Management Orientations

Marketing management wants to design strategies that will build profitable relationships with target consumers. But what philosophy should guide these marketing strategies? What weight should be given to the interest of customers, the organization and society? Very often, these interests conflict.

There are five alternative concepts under which organizations design and carry out their marketing strategies: the production, product, selling, marketing and societal marketing concepts.

1. The Production Concept

The production concept holds that consumers will favor products that are available and highly affordable. Therefore, management should focus on improving production and distribution efficiency. This concept is one of the oldest orientations that guides sellers.

The production concept is still a useful philosophy in two types of situation. The first occurs when the demand for a product exceeds the supply. Here, managements should look for ways to increase production. The second situation occurs when the product's cost is too high and improved productivity is needed to bring it down.

Although useful in some situations. The production concept can lead to marketing mayopia. Companies adopting this orientation run a major risk of focusing too narrowly on their own operations and losing sight of the real objective-satisfying customer need and building customer relationships.

2. The Product Concept

The product concept holds that consumers will favor products that offer the most in quality, performance, and innovation features. Under this concept marketing strategy focuses on making continuous product improvement. Some manufacturers believe that if they can build a better mouse-trap, the world will beat a path to their door. But they are often rudely shocked. Buyers may well be looking for a better solution to a mouse problem but not necessarily for a better mousetrap. The solution might be a chemical spray, an exterminating service, or something that works better than mousetrap. Furthermore a better mousetrap will not sell unless the manufacturer designs, packages, and price it attractively; place it in convenient distribution channels; brings it to the attention of people who need it; and convinces buyers that it is better product. Thus, the product concept also can lead to marketing myopia.

3. The Selling Concept

Many companies follow the selling concept, which holds that consumers will not buy enough of the firms products unless it under takes a large-scale selling and promotion effort. The concept is typically practiced with unsought goods- those that buyers do not normally think of buying, such as insurance or blood donations. These industries must be good at tracking down prospects and selling them on product benefits.

Most firms practice the selling concept when they face overcapacity. Their aim is to sell what they make rather than make what the market wants. Such a marketing strategy carries high risks. It focuses on creating sales transactions rather than on building long-term profitable customer relationships.

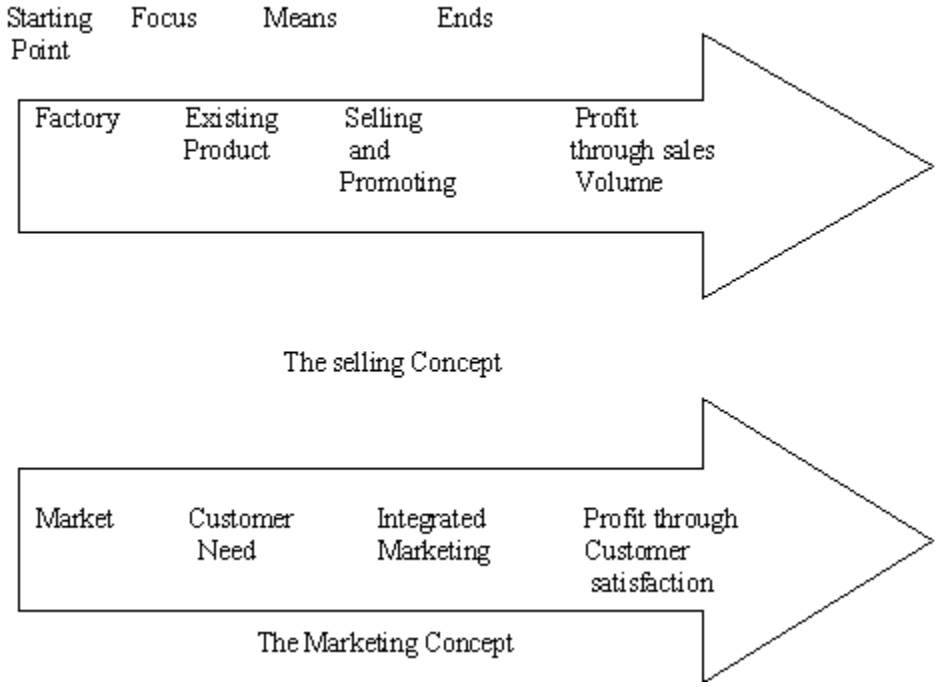
4. The Marketing Concept

The marketing concept holds that achieving organizational goals depends on knowing the needs and wants of target markets and delivering the desired satisfactions better than

competitors do. Under this concept, customer focus and value are the paths to sales and profit.

Instead of a product centered "market and sell" philosophy, the marketing concept is a customer-centered "sense and respond" philosophy. It views marketing not as 'hunting' but as 'gardening'. The job is not to find the right customer for your product but to find the right product for your customer. Figure 1.3 contrasts the selling concept and the marketing concept. The selling concept takes an "inside-out" perspective, whereas, the marketing concept takes an "outside- in" perspective.

Fig. 1.3. The selling and marketing concepts contrasted

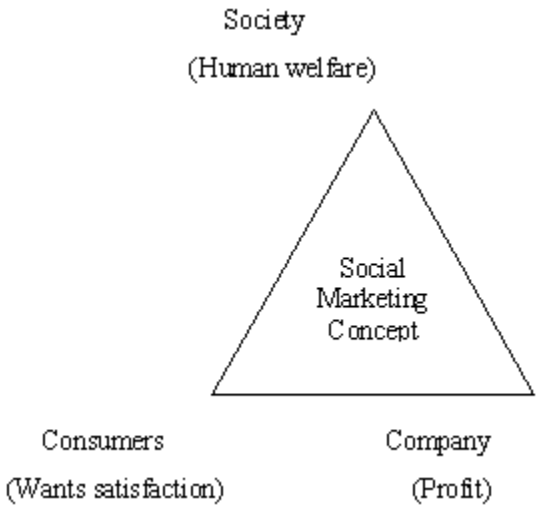


5. The Societal Marketing Concept

The societal marketing concept questions whether the pure marketing concept overlooks possible conflicts between consumers' short-run wants and consumer long-run welfare. Is a firm that satisfies the immediate needs and wants of a target markets always doing what is best for consumers in the long run? The societal marketing concept holds that marketing strategy should deliver value to customers in a way that maintains or improves both the consumer's and the society's well –being.

As the figure 1.4 shows, companies should balance there considerations in setting their marketing strategies: company profits, consumer wants, and society's interests.

Fig. 1.4. Three considerations underlying the societal marketing concept



1.4. Preparing a Marketing plan and program

The company's marketing strategy outlines which customers the company will serve and how it will create value for these customers. Next, the marketer constructs a marketing program that will actually deliver the intended value to target customers. The marketing program builds customer relationships by transforming the marketing strategy into action. It consists of the firms marketing mix, the set of marketing tools the firm uses to implement its marketing strategy.

The major marketing mix tools are classified into four broad groups, called the four P's of marketing: product, Price, Place and promotion. To deliver on its value proposition the firm must firs create a need-satisfying marketing offer (product). It must decide how much it will charge for the offer (price). And how it will make the offer available to target customers (place). Finally, it must communicate with target customers about the offer and persuade them of its merits (promotion).

1.5. Building Customer Relationship

The first three steps in the marketing process lead up to the fourth and most important step: building customer relationships.

Customer relationship management (CRM) is perhaps the most important concept of modern marketing. Until recently, CRM had been defined narrowly as a customer data management activity. By this definition, it involves managing detailed information about individual customers and carefully managing customer touch points in order to maximize customer loyalty.

More recently, however, CRM has taken on a broader meaning. In this broader sense, it is the overall process of building and maintaining profitable customer relationships by delivering superior customer value and satisfaction. It deals with all aspects of acquiring, keeping and growing customers.

1.6 Capturing Value from Customers

The first four steps in marketing process involve building customer relationships by creating and delivering superior customer value. The final step involves capturing value in return, in the form of current and future sales, market share, and profits. By creating superior customer value, the firm creates highly satisfied customers who stay loyal and buy more. This, in turn, means greater long-run returns for the firm. It deals with the outcome of creating customer value: customer loyalty and retention, share of market and share of customer, and customer equity.

1.7 The New Marketing Landscape

As the world spins into the first decade of the twenty- first century, dramatic changes are occurring in the market-place. In this section, we examine the major trends and forces that are changing the marketing landscape and challenging marketing strategy. We look at four major developments: the new digital age, rapid globalization, the call for more ethics, and social responsibility, and the growth in not-for –profit marketing.

1. The New Digital Age

The recent technology boom has created a new digital age. The explosive growth in computer, telecommunications, information, transportation, and other technologies has had a major impact on the ways companies bring value to their customers.

The technology boom has created existing new ways to learn about and track customers, and to create products and services tailored to individual customer needs. Technology is

also helping companies to distribute products more efficiently and effectively. And it's helping them to communicate with customers in large groups or one to one.

Through videoconferencing, marketing researchers at company's headquarters can look in on focus groups in some other location without ever stepping in a plane. With only a few clicks of a mouth button, a direct marketer can tap into online data services to learn anything from what car you drive to what flavor of ice cream you prefer.

Technology has also brought a new wave of communication and advertising tools- ranging from cell phones, fax machines, CD-ROM, and interactive TV to video kiosks at airports and shopping malls. Through E-commerce, customers can learn about, design, order, and pay for products and services- without ever leaving home. Then, through the marvels of express delivery, they can receive their purchases in less than 24 hours.

Perhaps the most dramatic new technology is the Internet. Today the internet links individuals and business of all types of each other and to information all around the world. It allows anytime, anywhere connections to information, entertainment, and communication. Companies are using the internet to build closer relationships with customers and marketing partners.

2. Rapid Globalization

As they are redefining their relationships with customers and partners, marketers are also taking a fresh look at the ways in which they connect with the broader world around them. In an increasingly smaller world, many marketers are now connected globally with their customers and marketing partners.

Today, almost every company, large or small, is touched in some way by global competition. Today, companies are not only trying to sell more of their locally produced goods in international market, they also are buying more supplies and components abroad. Thus managers in countries around the world are increasingly taking a global, not just local, view of the company's industry, competitors and opportunities. They are asking: what is global marketing? How does it differ from domestic marketing? How do global competitors and forces affect our business? To what extent should we go global?

3. The Call for More Ethical and Social Responsibility

Marketers are reexamining their relationships with social values and responsibilities and with the very Earth that sustain us. As the world wide consumerism is and environmentalism movements mature, today's marketers are being called upon to take greater responsibility for the social and environmental impact of their actions. Corporate ethics and social responsibility have become hot topics for almost every business. And few companies can ignore the renewed and very demanding environmental movement.

The social- responsibility and environmental movements will place even stricter demands on companies in the future. Some companies resist these movements, budging only when forced by legislation or organized consumer outcries. More forward looking companies, however readily accept their responsibility to the world around them. They view socially responsible actions as an opportunity to do well by doing good. They seek ways to profit by serving the best long-run interests of their customers and communities.

4. The Growth of Not –for-Profit Marketing

In the past marketing has been most widely applied in the for-profit business sector. In recent years, however, marketing also has become a major part of the strategies of many not-for-profit organizations, such as colleges, hospitals museums etc. Government agencies have also shown an increased interest in marketing.

Chapter Two
The Marketing Environment

Marketers need to be good at building relationships with customers, others in the company, and external partners. To do this effectively, they must understand the major environmental forces that surround all of these relationships. A company's Marketing Environmental consists of the actors and forces outside marketing that affect marketing management's ability to build and maintain successful relationships with target customers. Successful companies know the vital importance of constantly watching and adapting to the changing environment.

As we move into the twenty-first century, both consumers and marketers wonder what the future will bring. The environment continues to change rapidly. More than any other in the company, marketers must be the trend trackers and opportunity seekers. All though every manager in an organization needs to observe the outside environment, marketers have two special aptitudes. They have disciplined methods-marketing intelligence and marketing research for collecting information about the marketing environment. They also spend more time in the customer and competitor environments. By carefully studying the environment, marketers adapt their strategies to meet new market place challenges and opportunities.

The marketing environment is made up of a microenvironment and a macro environment. The microenvironment consists of the actors close to the company that affect its ability to service its customers- the Company, suppliers, marketing intermediaries, customer markets, competitors and publics. The macro environment consists of the larger

societal forces that affect the microenvironment- demographic, economic, natural, technological, political, and cultural forces.

2.1. The Company's Microenvironment

Marketing Managements job is to build relationship with customers by creating customer value and satisfaction. However, marketing managers cannot do this alone. Marketing success will require building relationships with other parties, which combine to make up the company's value delivery network.

The Company

In designing marketing plans, marketing management takes other company group into account- groups such as top management, finance, research and development / R and D/ , purchasing, operation, and accounting. All these inter related groups form the internal environment. Top management sets the company's mission, objectives, broader strategies and policies. Marketing managers make decision within the strategies and plans made by top management.

Marketing managers must also work closely with the other company departments. Finance is concerned with finding and using funds to carry out the marketing plans. The R and D department focuses on designing safe and attractive products, whereas operations is responsible for producing and distributing the desired quality and quantity of products. Accounting has to measure revenues and costs to help marketing know how it is achieving its objectives. Together, all of these departments have an impact on the marketing department's plans and actions. Under the marketing concept all of these must "think customers''. They should work in harmony to provide superior customer value and satisfaction.

Suppliers

Suppliers form an important link in the company's overall customer value delivery system. They provide the resources needed by the company to produce its goods and services. Supplier problems can seriously affect marketing. Marketing managers must watch supply availability- supply shortages and delays, labor strikes, and other events can cost sales in the short-run and damage customer satisfaction in the long run. Marketing managers also damage customer satisfaction in the long run. Marketing managers also monitor the price tends of their key inputs. Rising supply costs may force price increases that can harm the company's sales volume. Most marketers today treat their suppliers as partners in creating and delivering customer value.

Marketing Intermediaries

Marketing intermediaries help the company to promote, sell and distribute its goods to final buyers. They include resellers, physical distribution firms, marketing service agencies, and financial intermediaries.

Resellers - are distribution channel firms that help the company fined customers or make sales to them. These include wholesalers and retailers who buy and sell merchandise. Selecting and partnering with resellers is not easy. No longer do manufacturers have many small, independent resellers from which to choose.

Physical Distribution firms - help the company to stock and move goods from their points of origin to their distribution. Working with

warehouse and transportation firms, a company must determine the best ways to store and ships goods, balancing factors such as cost, delivering, speed and safety.

Marketing Service Agencies - are the marketing research firms, advertising agencies, media firms, and marketing consulting firms that help the company target and promoter its products to the customer. When the company decides to use one of these agencies, it must choose carefully because these firms vary in creativity, quality, service, and price.

Financial intermediaries - Include banks credit companies, insurance companies and other businesses that help finance transactions or insure against the risks associated with the buying and selling of goods. Most firms and customers depend on financial intermediaries to finance their transactions. Like suppliers marketing intermediaries form an important component of the company's overall value delivery system. In its guest to create satisfying customer relationships, the company must do more than just optimize its own performance. It must partner effectively with marketing intermediaries to optimize the performance of the entire system.

Customer

The company needs to study five types of customer markets closely

- **Consumer Markets** - consist of individuals and households that buy goods and services for personal consumption.

- **Business markets** - buy goods and services for further processing or for use in their production process.
- **Reseller markets**- buy goods and services to resell at profit
- **Government market**- are made up of government agencies that buy goods and services to produce public service or transfer the goods and services to others who needs them.
- **International markets**--- consists of these buyers in other countries including consumers, producers, resellers, and governments. Each market type has special characteristics that call for careful study by the seller.

Competitors

The marketing concept states that to be successful, a company must provide greater customer value and satisfaction than its competitors to. 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 competitors' offerings in the minds of consumers.

No single competitive marketing strategy is best for all companies. Each firm should consider its own size and industry position compared with those of its competitors. Large firms with dominant positions in an industry can use certain strategies that smaller firms cannot afford. But being a large is not enough. There are winning strategies for large firms, but there are also losing ones. And small firms can develop strategies that give them better rates of return than large firms enjoy.

Public

The companies marketing environment also including various publics. A public is any group that has an actual or potential interest in or impact on an organization's ability to achieve its objectives. We can identify seven types of publics.

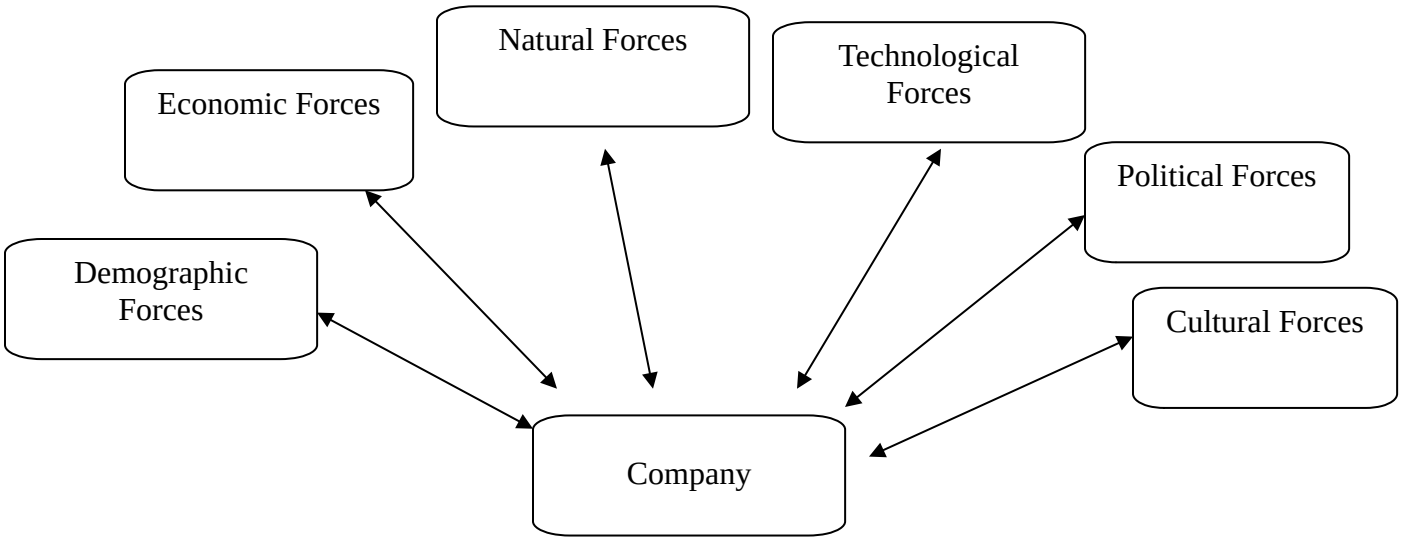
- **Financial publics**- influence the company's to obtain funds. Banks, investment houses, and stockholders are the major financial publics.
- **Media publics**-carry news, features, and editorial opinion. They include newspapers, magazines, and radio and television stations.
- **Government Publics**-management must take government developments into account. Marketers must consult the company's lawyers on issues of product safety, truth in adverting, and other matters.
- **Citizen action publics-**a company's marketing decisions may be questioned by consumer organizations, environmental groups, minority groups, and others. Its public relations department can help it stay in touch with consumer and citizen groups.
- **Local Publics**-include neighborhood residents and community organizations. Large companies usually appoint a community relations officer to deal with community, attend meetings, answer questions, and contribute to worthwhile causes.
- **General public**-A company needs to be concerned about the general public's attitude towards its products and activities. The publics image of the company affects its buying.
- **Internal Publics**- include workers, managers, volunteers, and the board of directors. Large companies use newsletters and

other of directors. Large companies use newsletters and other means to inform and motivate their internal publics. When employees feel good about their company, this positive attitude spills over the external publics.

A company can prepare marketing plans for these major publics as well as its customers markets. Suppose the company wants a specific response from a particular public, such as goodwill, favorable word of mouth, or donations of time or money. The company would have to design an offer to this public what is attractive enough to produce the desired response.

2.2 THE COMPANY'S MACRO ENVIRONMENT

The company and all of the other actors operate in a larger macro environment of forces that shape opportunities and pose threats to company. The figure below shows the six major forces in the company's macro- environment. In the remaining sections of this unit, we examine these forces and show how they affect marketing plans.



Major Forces in the company's macro-environment

Demographic Environment

Demographic tell marketers who current and potential customers are; where they are; and how many are likely to buy what the marketer is selling. Demography is the study of human population in terms of size, density, location, age, gender, race, occupation and other statistics. The demographics environment is of major interest to marketers because it involves, people, and people make up markets. The world population is growing at an explosive rate. It now totals more than 6.1 billion by the year 2030.

Changes in the world demographic environment have major implications for business. For example, consider China. Twenty-five years ago, to curb its skyrocketing population, the Chinese government passed regulations limiting families to one child each. As a result, Chinese children known as " little emperors and empresses" – are being showered with attention and luxuries under what's known as " six-pocket syndrome" As many as six adults two parents and four doting grandparents- may be including the whims of each child. Parents in the average Beijing household now spend about 40 percent of their income on their cherished only childe. Among other things, this trend has created huge market opportunities for children's educational products.

The world's large and highly diverse population poses both opportunities and challengers. Thus, marketers keep close track of demographic trends and developments in their markets, both at home and abroad. As a result marketers basically focus on the following demographic issues.

- Changing age and family structures
- Geographic population shifts
- Educational Characteristics, and
- Population diversity

Economic Environment

Marketers require buying power as well as people. The Economic Environment consists of factors that affect consumer purchasing power and spending patterns. Nations vary greatly in their levels and distribution of income. Some countries have subsistence economies- they consume most of their own agricultural and industrial output. These countries offer few market opportunities. The other extreme are industrial economies- Which constitute rich markets for many different kinds of goods. Marketers must pay close attention to major trends and consumer spending patterns both across and with in their world markets. Following are some of the major economic trends:

Changes in Income: GDP, Per Capita Income, Disposable Income and so on are economic variables that may describe a nation's aggregate favorable or unfavorable nature of the economy. Individual's purchasing power is relied on such general truths. These economic variables are taken as misleading figures for there might be a large amount of money shifting towards one group, rich people. So, it is advisable to refer to market segment's income rather than nation wide margin of earning.

Growth and Recession: These two economic variables affect the marketing environment differently. An increase in the capacity of an economy to produce goods and services, Compared from one period of time to another. Economic growth attracts many companies even from

highly developed countries. China can be a role model; growth at 9% is a blistering phenomenon which attracts large number of multinational companies. Recession is a significant decline in activity spread across the economy, lasting longer than a few months. It is visible in industrial production, Employment, real income and wholesale-retail trade. The technical indicator of recession is two consecutive quarters of negative economic growth as measured by a country's gross domestic products (GDP).

Changing consumer spending patterns: Consumers at different income levels have different spending patterns. Ernest Engel, who studied how people shifted their spending as their incomer rose, noted some of these differences over a century ago. He found that as family income rises, the percentage spent on food declines, the percentage spent on housing remains about constant (except for such utilities as gas, electricity, and public services, which decrease), and both the percentage spent on most other categories and that devoted to savings increase.

Changes in major economic variables such as income, cost of living, interest rates, savings and borrowing patterns have a large impact on the market place. Companies watch these variables by using economic forecasting. Businesses do not have to be wiped out by an economic downturn or caught short in boom. With adequate warning, they can take advantage of changes in the economic environment.

Natural Environment

The natural environment involves the natural resources that are need as inputs by marketers or that are affected by marketing activities. In many cities around the world, air and water pollution have reached

dangerous levels. World concern continues to amount about the possibilities of global warming, and may environmentalists fear that we soon will be buried on our own trash.

Marketers should be aware of several trends in the natural environment.

The first involves **growing shortages** of raw materials. Air and water may seem to be **infinite resources**, but some groups see long-run dangers. Air pollution chokes many of the world's large cities and water shortages are already a big problem in some parts of the world. **Renewable resources**, such as oil, coal, and various minerals, pose a serious problem. Firms making products that require these scarce resources face large cost increases, even if the materials do remain available.

A second environmental trend is increased pollution. Industry will almost always damage the quality of the natural environment. Consider the disposal of chemical and nuclear wastes, the dangerous mercury levels in the ocean, the quantity of chemical pollutants in the soil and food supply; and the littering of the environment with non-biodegradable bottles, Plastics, and other packaging materials.

A third trend is **increased government intervention in natural resource management**. The governments of different countries vary in their concern and efforts to promote a clean environment. Some like the German government vigorously pursue environmental quality. Others, especially many poorer nations, do little about pollution, largely because they lack the needed funds or political will. Even the richer nations lack the vast funds and political harmony needs to mount a worldwide environmental effort. The general hope is that

companies around the world will accept more social responsibility and that less expensive **devices can be found to control and reduce pollution**.

Concern for the natural environment has spawned the so-called green movement. Today, enlightened companies go beyond what government regulations dictate. They are developing environmentally sustainable strategies and practices in an effort to create a world economy that the planet can support indefinitely. They are responding to consumer demands with ecologically safer products, recyclable or biodegradable packaging, better pollution control, and more energy-efficient operations. Some organizations run a pollution prevention pays program that has led to a substantial reduction in pollution and costs. Others use a special software package to choose the least harmful materials, cut hazardous waste, reduce energy use, and improve product recycling in its operations. Still others eliminated polystyrene cartons and now use smaller, recyclable paper wrappings and napkins.

Technological Environment

The technological environment is perhaps the most dramatic forces now shaping our destiny. Technology has released such wonders as antibiotics, organ transplants, laptop computers and the Internet. It also has released such horrors as nuclear missiles, chemical weapons and assault rifles. It has released such mixed blessings as the automobile, television and credit cards. Our attitude towards technology depends on weather we are more impressed with its wonders or its blunders.

The technological environment changers rapidly. Think of all of today's common products that were not available 100 years ago, or even 30 years ago. Abraham Lincoln didn't know about automobiles, airplanes, radios, or the electric light. Woodrow Wilson didn't know about television, aerosol cans, automatic dishwashers, room air conditioners, antibiotics, or computers. Fraanklin Delano Roosevelt didn't know about Xerography, synthetic detergents, tape recorders birth control pills, or earth satellites. John F. Kennedy didn't know about personal computers, compact disk players, DVD players or the internet

New technologies create new markets and opportunities. However, every new technology replaces an older technology. Transistors hurt the vacuum-tube industry, Xerography hurt the carbon paper business, the auto hurt the railroads and compact disks hurt phonograph records. When old industries fought or ignored new technologies, their business declined. Thus, marketers should watch the technological environment closely. Companies that don't keep up with technological environment closely. Companies that don't keep up with technological change soon will find their products outdated. They will miss new product and market opportunities.

The marketer should monitor the following trends in technology: the pace of change, the opportunities for innovation, and increased regulation.

Accelerating Pace of the Technological Change: many of today's common products were not available 40 years ago. For example, personal computers, digital wristwatches, radio recorders or fax machines were not available some decades ago. More ideas are being worked on; the time lag between new ideas and their successful implementation is decreasing rapidly; and the timer between

introduction and peak production is shortening considerably. Ninety percent of all the scientists who ever lived are alive today, and technology feeds upon itself.

The advent of personal computers and fax machines has made it possible for people to telecommute- that is, work at home instead of traveling to offices that may be 30 or more minutes away. Some hope that this trend will reduce auto pollution, bring the family closer together, and create more home- centered entertainment and activity. It will also have substantial impact on shopping behavior and marketing performance.

Unlimited Opportunities for Innovation: Scientist today are working on a starting range of new technologies that will revolutionize products and production processes. Some of the most exciting work is being done in biotechnology, solid-state electronics, robotics and materials sciences, Researchers are working on AIDS cures, happiness pills, painkillers, totally safe contraceptives and nonfattening foods. They are designing robots for firefighting, underwater exploration and home nursing. In addition, scientists also work on fantasy products, such as small flying cars, three- dimensional television, and space colonies. The Challenge in each case is not only technical but also commercial-to develop affordable versions of these products.

Increased Regulation of Technological Change: as products become more complex, the public needs to know that these are safe. Consequently, government agencies powers to investigate and ban potentially unsafe products have been expanded. Safety and health regulations have also increased in the areas of food, automobiles, clothing, electrical appliances and construction marketers must be

aware of these regulations when proposing, developing, and launching new products.

Political 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.

Legislation regulating business: business legislation has three main purposes; **to protect companies form unfair competition, to protect consumers form unfair business practices** and **to protect the interest of society form unbridled business behavior**. A major purpose of business legislation and enforcement is to charge businesses with the social costs created by their products or production processes. Legislation affecting businesses has steadily increased over the years. Several countries have been active in establishing a new framework of laws covering competitive behavior, product standards, product reliability and commercial transactions. And other countries are passing laws to promote and regulate an open market economy.

Marketers must have a good working knowledge of the major laws protecting competition, consumers, and society. Companies generally establish legal review procedures and promulgate ethical standards to guide their marketing managers. As more and more business takes place in cyberspace, marketers must establish new parameters for dong business ethically.

Growth of Special Interest Groups: the number and power of special interest groups have increased over the past three decades.

Political action committees lobby government officials and pressure business executives to pay more attention to consumer rights, women's rights, senior citizen rights, and minority rights. Many companies have established public affairs departments to deal with these groups and issues. An important force affecting business is the consumerist movement- an organized movement of citizens and government to strengthen the rights and powers of buyers in relation to sellers.

Clearly, new laws and growing numbers of pressure groups have put more restraints on marketers. Marketers have to clear their plans with the company's legal, public relations, public affairs and consumer-affairs departments.

Cultural Environment

The cultural environment is made up of institutions and other forces that affect a society's basic values, perceptions, preferences, and behaviors. People grow up in a particular society that shapes their basic beliefs and values. They absorb a worldview that defines their relationships with others. The following cultural characteristics can affect marketing decision making.

Persistence of cultural Values

People in a given society hold many beliefs and values. Their core beliefs and values have a high degree of persistence. These beliefs shape more specific attitudes and behaviors found in everyday life. Core beliefs and values are passed on from parents to children and are reinforced by schools, churches, business, and government.

Secondary beliefs and values are more open to change. Believing in marriage is a core belief; believing that people should et married early

in life is secondary belief. Marketers have some chance of changing secondary values but little chance of changing core values. For example, family- planning marketers could argue more effectively that people should get married later than that they should not get married at all.

Although core values are fairly persistent, cultural swing do take place. Consider the impact of popular music groups, movie personalities, and other celebrities on young people's hair styling and clothing norms. Marketers want to predict cultural shifts in order to spot new opportunities or threats.

The major cultural values of a society are expressed in people's views of themselves and others as well as in their views of organizations, society, and nature.

- **Views of themselves**: People vary in the relative emphasis they place on self gratification. Earlier "pleasure seekers" Sought fun, change and escape. Others sought "self-realization". People bought products, brands and services as a means of self-expression. They bought dream cars, dream vacations and spent more time in health activities, in introspection, and in arts and crafts. Today, in contrast people are adapting more conservative behaviors and ambitions. They have witnessed harder times and cannot rely on continuous employment and rising real income. They are more cautious in their spending pattern and more value-driven in their purchases.

- **Views of others**: some observers have pointed to countermovement from a "me society" to "we society". People are concerned about the homeless; crime and victims, and other social

problems. They would like to live in a more human society. At the same time problems. They would like to live in amore human society. At the same time people are seeking out there "own kind" and avoiding strangers. People hunger for serious and long-lasting relationships with a few others. These trends portend a growing market for social support products and services that promote direct relationships between human beings, such as health clubs, cruises, and religious activity. They also suggest a growing market for " social surrogates " things that allow who are alone to feel that they are not such as television, home video games, and chat rooms on the Internet.

- **Views of Organizations**: People vary in their attitudes toward corporations, government agencies, trade unions and other organizations. Most people are willing to work for these organizations, although they may be critical of particular ones. But there has been an overall decline in organizational loyalty. The massive wave of company downsizing has bred cynicism and distrust. Many people today see work not as a source of satisfaction but as required chore to earn money to enjoy their non-work hours.

This outlook has several marketing implications. Companies need to find new ways to win back consumer and employee confidence. They need to make sure that they are good corporate citizens and that their consumer messages are honest. More companies are turning to social audits and public relations to improve their image with publics.

- *Views of Society:* People vary in their attitudes toward their society. Some defend it (preservers), some run it (makers), some take what they can from it (takers), and some want to leave it (escapers). Often consumption patterns reflect

changers usually live more frugally, driving smaller cars and wearing simpler clothes. Escapers and seekers are a major market for movies, music, surfing and camping.

- *Views of Nature:* people vary in their attitude toward nature. Some feel subjugated by it, others feel harmony with it and still others seek mastery over it. A long-term trend has been humankind's growing mastery of nature through technology. More recently, however, people have awakened to nature's fragility and finite resources. They recognize that nature can be destroyed by human activities.

Love of nature is leading to more camping, hiking, boating and fishing. Business has responded with hiking boots, tenting equipments, and other gear. Tour operators are packing more tours to wilderness areas. Marketing communicators are using more scenic backgrounds in advertising. Food producers have found growing markets for "natural" products, such as, natural cereal, natural ice-cream, and health foods.

2.2. Responding to the Marketing Environment

Someone once observed "there are three kinds of companies: those who make things happen, those who watch things happen, and those who wonder what has happened." Many companies view the marketing environment as an uncontrollable element to which they must react and adapt. They passively accept the marketing environment and do not try to change it. They passively accept the marketing environment and do not try to change it. They analyze the environmental forces and design strategies that will help the company avoid the threats and take advantage of the opportunities the environment provides.

Other companies take a proactive stance toward the marketing environment. Rather than simply watching and reacting, these firms tale aggressive actions to affect the publics and forces in their marketing environment. Such companies hire lobbyists to influence legislation affecting their industries and stage media events to gain favorable press coverage. They run advertorials (ads expressing editorial points of view) to shape public opinion. They press law suits and file complaints with regulators to keep competitors in line, and they form contractual agreements to better control their distribution channels. Marketing management cannot always control environmental forces. In many cases, it must settle for simply watching and reacting to the environment. For example would have little success trying to influence geographic population shifts, the economic environment or major cultural values. But whenever possible, smart marketing mangers will take a proactive rather than reactive approach to the marketing environment.

Chapter Three
Managing Marketing Information

In order to produce superior value and satisfaction for customers, companies need information at almost every turn. Good products and marketing programs begin with solid information on consumer needs and wants. Companies also need an abundance of information on competitors, resellers, and other actors and forces in the marketplace.

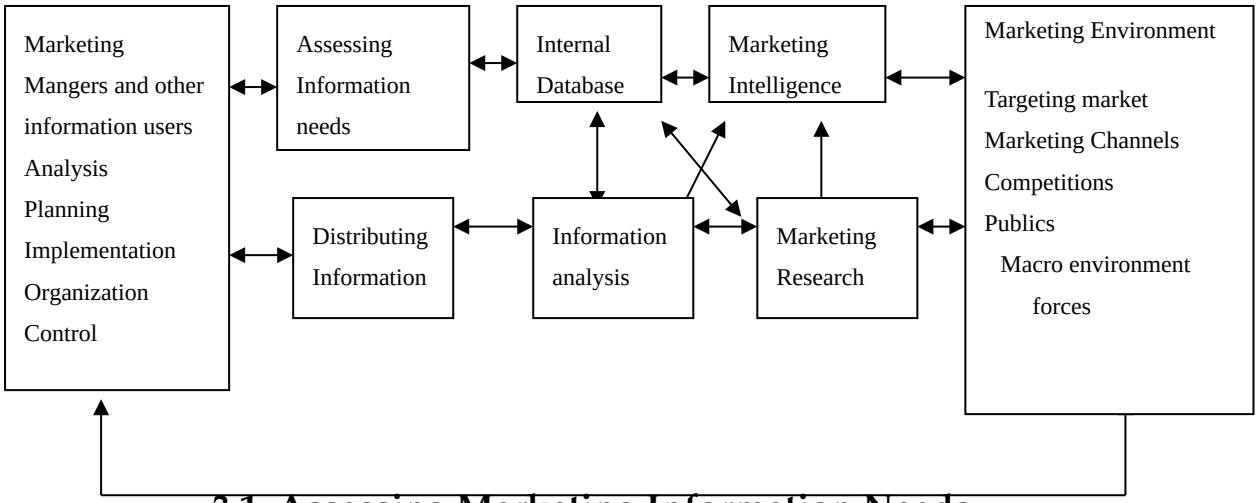
With the recent explosion of information technologies, companies can now generate information in great quantities. In fact, today's managers often receive too much information. One study found that with all the companies offering data, and with all the information now available through supermarket scanners, large retailers typically now have the equivalent of 320 miles of bookshelves of information on their products.

Despite this data glut, marketers frequently complain that they lack enough information of the right kind. One recent study found that although half of the mangers surveyed said they couldn't cope with the volume of information coming at them, two-thirds wanted even more. The researcher concluded that "despite the volume, they're still not getting what they want." Thus, most marketing mangers don't need better information. A former CEO at Unilever once said that if Unilever only knew what it knows, it would double its profits. The meaning is clear: Many companies sit on rich information but fail to manage and use it well. Companies must design effective marketing information systems that give mangers the right information, in the right form, at the right time to help them make better marketing decisions.

Every firm must organize the flow of information to its marketing mangers. Companies are studying their manger's information's needs and designing marketing information system to meet these needs.

A marketing information system (MIS) is a continuing and interacting structure of people, equipment, and procedures together, sort, analyze, evaluate and distribute pertinent, timely and accurate information for use by marketing decision markers to improve their marketing planning, implementation and control. The figure below shows that the MIS begins and ends with information users-marketing mangers, internal and external partners, and others-who need marketing information. First, it interacts with these information users to asses information needs. Next it develops needed information from internal company database, marketing intelligence activities, and marketing research. Then it helps users to analyze information to put it in the right form for making marketing decisions and managing customer relationships. Finally, the MIS distributes the marketing information and helps mangers use it in their decision making.

The marketing information system is illustrated as below:



3.1. Assessing Marketing Information Needs

The marketing information system primarily serves the company's marketing and other managers. However it may also provide information to external partners, such as suppliers, resellers, or marketing services agencies. A good marketing information system balances the information users would like to have against what they really and what is feasible to offer. The company begins by interviewing mangers to find out what information they would like some mangers will ask for whatever information they can get with out thinking carefully about what they really need. Too much information can be as harmful as too little. Other managers may omit things they ought to know, or they may not know to ask for some types of information they should have for example, mangers might need to know, that a competitor plans to introduce a new product during the coming year. Because they do not know about the new product, they do not think to ask about it. The MIS must monitor the marketing environment in order to provide decision makers with information they should have to make key marketing decisions.

Sometimes the company cannot provide the needed information, either because it is not available or because of MIS limitations. For example, a brand manger might want to know how competitors will change their advertising budgets next year and how these changes will affect industry market shares. The information on planned budgets probably is not available. Even if it is, the company's MIS may not be advanced enough to forecast resulting changes in market shares.

Finally, the costs of obtaining, processing, storing, and delivering information can mount quickly. The company must decide whether the benefits of having additional information are worth the cost of providing it, and both value and cost are often hard to assess. By itself, information has no worth; its value comes form its use. In many cases, additional information may exceed the returns from the improved decisions. Marketers should not assume that additional information will always be worth obtaining. Rather, they should weigh carefully the costs of getting more information against the benefits resulting from it.

3.2. Developing Marketing Information

Marketers can obtain the needed information from internal data, marketing intelligence, and marketing research.

Internal Data

The most basic information system used by marketing mangers is the internal records system. Included in the system are reports on orders, sales, prices, inventory levels, receivables, payables and so on. By analyzing this information, marketing mangers can sport important opportunities and problems.

Many companies build extensive internal database, electronic collection of information obtained from data sources within the company. Marketing managers can readily access and work with information in the database to identify marketing opportunities and problems, plan programs and evaluate performance.

Information in the database can come from many sources. The accounting department prepares financial statements and keeps detailed records of sales costs and cash flows. Operation reports on production schedules, shipments, and inventories. The sales force reports on reseller reactions and competitors activities. The marketing department furnishes information on customer demographics, psychographics, and buying behavior. And the customer service department keeps records of customer satisfaction or service problems. Research studies done for one department may useful information for several others.

Internal database usually can be accessed more quickly and cheaply than other information sources, but they also present some problems. Because internal information was collected for other purposes, it may be incomplete or in the wrong form for making marketing decisions. For example, sales and cost data used by the accounting department for preparing financial statements must be adapted for use in evaluating the value of specific customer segment, sales force, or channel performance. Data also ages quickly; keeping the database current requires a major effort. In addition a large company produces mountains of information, which must be well integrated and readily accessible so that managers can find it easily and use it effectively.

Marketing Intelligence

The internal records system supplies result data, where as the marketing intelligence system supplies happening data. A marketing intelligence is systematic collection and analysis of publicly available information about competitors and developments in the marketplace. The goal of marketing

intelligence is to improve strategic decision making, assess and track competitors' actions, and provide early warning of opportunities and threats.

Competitive intelligence gathering has grown dramatically as more and more companies are now busily snooping on their competitors. Techniques range from quizzing the company's own employees and benchmarking competitors' products to researching the Internet, lurking around industry trade shows, and rooting through rival's trash bins.

Marketing mangers collect marketing intelligence by reading books, newspapers, and trade publications, talking to customers, suppliers, and distributors; and meeting with other company managers. A company can take several steps to improve the quality of its marketing intelligence.

- It can train and motivate the sales force to spot and report new developments.
- The company can motivate distributors, retailers, and other intermediaries to pass along important intelligence.
- Many companies hire specialists to gather marketing intelligence. Retailers often send mystery shoppers to their stores to assess how employees treat customers.
- Companies can learn about competitors by purchasing their products; attending open houses and trade shows; reading competitors' published reports etc.
- The company can set up a customer advisory panel made up of representative customers or the company's largest customers or its most outspoken or sophisticated customers.
- The company can purchase information from outside suppliers.
- Companies can establish a marketing information center to collect and circulate marketing intelligence.

Marketing Research

In addition to information about competitor and marketplace happenings, marketers often need formal studies of specific situations. In such situations, marketing intelligence will not provide the detailed information needed. Mangers will need marketing research.

Marketing research is the systematic design, collection, analysis and reporting of data relevant to a specific marketing situation facing an organization. Companies use Marketing research in a wide variety of situations. For example, marketing research can help marketers understand customer satisfaction and purchase behavior. It can help them assess market potential and market share, or to measure the effectiveness of pricing, product, distribution, and promotion activities.

Some large companies have their own research departments that work with marketing mangers on marketing research projects. In addition these

companies like their smaller counterparts frequently hire outside research specialists to consult with management on specific marketing problems and conduct marketing research studies. Sometimes firms simply purchase data collected by outside firms to aid in their decision making. Marketing research firms fall into three categories.

Syndicated – service research firms: these firms gather consumer and trade information, which they sell for a fee.

Custom marketing research firms: these firms are hired to carry out specific project they design the study and report the findings.

Specialty – line marketing research firms: these firms provide specialized research services. The best example is the field-service firm, which sells field interviewing services to other firms.

The marketing research process

The marketing research process has four steps: defining the problem and research objectives, developing the research plan, implementing the research plan, and interpreting and reporting the findings.

Step1 Defining the Problem and Research Objectives

The first step calls for the marketing mangers to define the problem carefully and agree of the research objectives. There is a saying, "A problem well defined is half solved".

Marketing mangers and researchers must work closely together to define the problem and agree on research objectives. The manger best understands the decision for which information is needed; the researcher best understands marketing research objectives is often the hardest step in the research process the manger may know that something is wrong, without knowing the specific causes.

Careful problem definition avoids the cost and delay of doing adverting research.

Management must work at defining the problem neither too broadly nor narrowly. Not all research projects can be specific in their objectives. The objective of **exploratory research** is to gather preliminary data to shed light on the real nature of the problem and to suggest possible solutions or new ideas. The objectives of **descriptive research** is to describe things, such as the market potential for a product or the demographics and attitudes of consumers who

buy the products. The objective of **causal research** is to test hypothesis about cause and effect relationship.

The statement of the problem and research objective guides the entire research process. The manager and researcher should put the statement in writing to be certain that they agree on the purpose and expected results of the research.

Step 2 Develop the Research Plan

The second stage of marketing research calls for developing the most efficient plan for gathering the needed information. Once the research problems and objectives have been defined, researchers must determine the exact information needed, develop a plan for gathering it efficiently, and present the plan to management.

The marketing manger needs to know the coist of the research plan before approving it. Designing a research plan calls for decision on the data sources, research approaches, research instruments, sampling plan and contact methods.

Step 3 Implementing the Research Plan

The researcher next puts the marketing research plan into action. This involves collecting, processing and analyzing the information. Data collection can be carried out by the company's marketing research staff for by outside firms. The data collection phase of the marketing research process is generally the most subject to error. Researchers should watch closely to make sure that the plan is implemented correctly. They must guard against problems with contacting respondents, with respondents who refuse to cooperate or who give biased answers, and with interviewers who make mistakes or take shortcuts.

Researchers must process and analyze the collected data to isolate important information and findings. They need to check data for accuracy and completeness and code it for analysis. The researchers then tabulate the results and compute averages and other statistical measures.

Step 4 Interpreting and Reporting the Findings

The market researchers must now interpret the findings, draw conclusions, and report them to management. The researcher should not try to overwhelm mangers with numbers and fancy statistical techniques. Rather, the researcher should present important findings that are useful in the major decisions faced by management.

However, interpretation should not be felt only to the researchers. They are often experts in research design and statistics, but the marketing manger

knows more about the problem and the decisions that must be made. The best research is meaningless if the manger blindly accepts faulty interpretations from the researcher. Similarly, mangers may be biased-they might tend to accept research results that show what they expected and to reject those that they did ways, and discussions between researchers and managers will help point to the best interpretations. Thus, managers and researchers must work together closely when interpreting research results, and both must share responsibility for the research process and resulting decisions.

CHAPTER FOUR

Customer Buyer Behavior

4.1. Consumer Markets and Consumer Buyer Behavior

Managers in an organization spend a great deal of time thinking about customers. They want to know who their customers are, what they think and how they feel, and why customers buy their product rather than competitors' owners themselves do not know exactly what motivates their buying. But management needs to put top priority on understanding customers and what makes them tick.

Thus, understanding buyers' behavior is an essential but difficult task the company must carefully produce its product and its image to match buyer needs and desires. But buyers are moved by a complex set of deep and subtle motivations. Buyer behavior springs from deeply held values and attitudes, from what they think of themselves and what they want others to think of them, from rationality and common sense, and from whimsy and impulse.

Consumer buyer behavior refers to the buying behavior of final consumer- individuals and households who buy goods and services for personal consumption. All of these final consumers make up the consumer market. Consumers or buyers behaviors involves the activities of people engaged when selecting, purchasing, using and disposing products, so as to satisfy the need and desire.

Consumers around the world vary tremendously in age, income, educational level, and tastes. They also buy an incredible variety of goods and services. How these diverse consumers connect with each other and other elements of the world around them impacts their choice among various products, services, and companies. Here we examine the fascinating array of factors that affect consumer behavior. Therefore, marketers need to satisfy consumer needs. And in order to do this, they need to understand the consumers or buyers behavior. If consumers are satisfied:

- They will buy more of a companies products
- They advocate or talk favorably about the company and company's product
- They may advice the company for improvement
- They give little attention to other companies and their goods
- They may buy new products of the company.

4.1.1 Model of Consumer Behavior

Consumers make many buying decisions every day. Most large companies' research consumer buying decisions in great detail to answer the questions about what consumers buy, where they buy, how and how much they buy, when they buy, and why they buy. Marketers can study actual consumer purchases to find out what they buy, where, and how much. But learning about the whys of consumer buyer behavior is not so easy – the answers are often locked deep within the consumer's head.

Penetrating the dark recesses of the consumer's mind is no easy task. Often, consumers themselves don't know exactly what influences their purchases. "Ninety-five percent of the thought, emotion, and learning [that drive our purchases] occur in the unconscious mind – that is without our awareness," notes one consumer behavior expert.

The central question in marketing is: how do consumers respond to various marketing efforts the company might use? The starting point is the stimulus response model of buyer behavior shown in the figure below. This figure shows that marketing and other stimuli enter the consumer's "black box" and produce certain responses. Marketers must figure out what is in the buyer's black box.

Marketing stimuli consist of the four P's: Product, price, place and promotion. Other stimuli include major forces and events in the buyer's environment: economic, technological' political and cultural. All these inputs enter the buyer's black box, where they are turned in to a set of observable buyer responses: product choice, brand choice, dealer choice, purchase timing, and purchase amount.

The marketer wants to understand how stimuli are changed in to responses inside the consumer's black box, which has tow parts. First, the buyer's characteristics influences how he or she perceives and reacts to the stimuli. Second, the buyer's decision process itself affects the buyer's behavior.

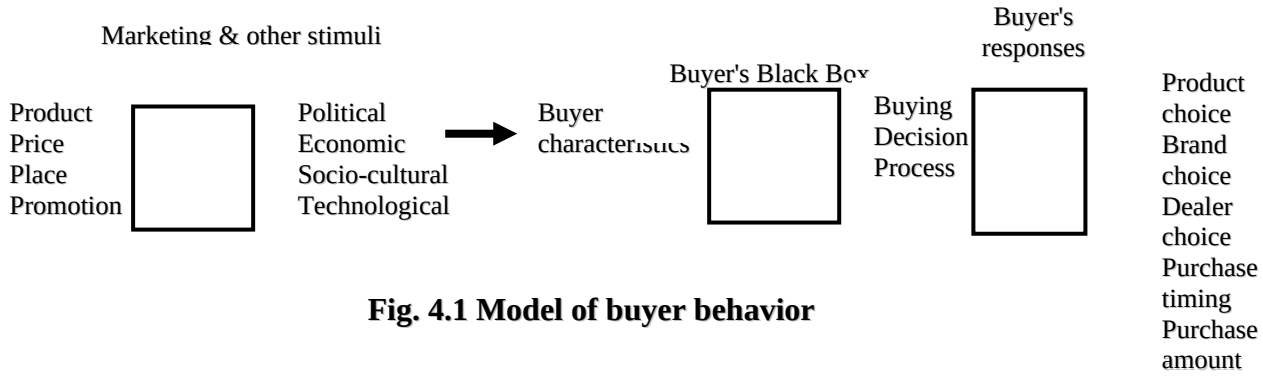


Fig. 4.1 Model of buyer behavior

4.1.2. CHARACTETISTICS AFFECTING CONSUMER BEHAVIOR

Consumer purchases are influenced strongly by culture, social groups, personal and psychological characteristics. For the most part marketers cannot control such factors, but they must take them into account.

A. Cultural Factors

Cultural factors exert the broadest and deepest influence on consumer behavior. The marketer needs to understand the role played by the buyer's culture, sub-culture and social class.

I. Culture

It is the most basic cause of a person's wants and behavior. Human behavior is largely learned. Growing up in a society, a child learns basic values, perceptions wants and behaviors from the family and other important institutions. Every group or society has a culture, and cultural influences on buying behavior may vary greatly from country to country. Failure to adjust to these differences can result in ineffective marketing or embarrassing mistakes. Hence marketers are always trying to spot cultural shifts in order to imagine new products that might be wanted.

II. Subculture

Each culture contains smaller sub-cultures, or groups of people with shared value systems based on common life experiences and situations. Subcultures include nationalities religions, racial groups, and geographic regions. Many subcultures make up important market segments, and marketers often design products and marketing programs tailored to their needs.

III. **Social Class**

Almost every society has some form of social class structure. Social classes are society's relatively permanent and ordered divisions whose members share similar values, interests, and behaviors.

Social class is not determined by a single factor, such as income, but is measured as a combination of occupation income, education, wealth and other variables. In some social systems, members of different classes are reared for certain roles and can't change their social position. Marketers are interested in social class because people with in a given social class tend to exhibit similar buying behavior.

Social classes should distinct product and brand preferences in areas such as clothing, home furnishings, leisure activity and automobiles.

B. Social Factors

A consumer behavior also is influenced by social factors, such as consumer's small groups, family and social roles and status. Because these social factors can strongly affect consumer responses, companies must take them in to account when designing their marketing strategies.

I. Groups

Many small groups influence a person's behavior. Groups which have a direct influence and to which a person belongs are called membership groups. Some are primary groups with whom there is regular but informal interaction such as family, friends, neighbors and co-workers. Some are secondary groups, which are more formal and have less regular interaction. These include organizations like religious groups, professional associations and trade unions.

Reference groups are groups that serve as direct (face to face) or indirect points of comparison or reference in forming a persons attitudes or behavior. Reference groups to which they don't belong often influence people. For example, an aspiration group is one to which the individual wishes to be a member of or whishes to be identified with such as a professional society.

Marketers try to identify the reference groups of their target market. Reference groups influence a person in at least three ways. They expose a person to new behaviors and lifestyles.

They influence the person's attitudes and self-concept because he/she wants to "fit in". They also create pressures to conform that may affect the person's product and brand choices.

The importance of group influence varies across products and brands, but it tends to be strongest for conspicuous purchases. A product or brand can be conspicuous for one of two reasons. First, it may be noticeable because the buyer is one of few people who own it. Second, a product can be conspicuous because the buyer consumes it in public where others can see it.

Manufacturers of products and brands subject to strong group influence must figure out how to reach the opinion leaders in the relevant reference groups. Opinion leaders are people with in a reference group who, because of special skills knowledge, personality or other characteristics, exert influence on others. Opinion leaders are found in all strata of society and one person may be an opinion leader in certain product areas and an opinion follower in others. Marketers try to identify the personal characteristics of opinion leaders for their products, determine what media they use, and direct messages at them.

II. Family

Family members can strongly influence buyer behavior. We can distinguish between two families in the buyer's life. The buyer's parents make up the family of orientation. Parents provide a person with an orientation toward religion, politics, and economics and a sense of personal ambition, self-worth, and love. Even if the buyer no longer interacts very much with parents, they can still significantly influence the buyer's behavior. In countries where parents continue to live with their children their influence can be crucial.

The families of procreation – the buyer's spouse and children have a more direct influence on everyday buying behavior. This family is the most important consumer buying organization in society, and it has been researched extensively. Marketers are interested in the roles and relative influence of the husband, wife and children on the purchase of a large variety of products and services.

III. Roles and Status

A person belongs to many groups – family, clubs, and organizations. The person's position in each group can be defined in terms of both role and status. For instance, a person plays the role of a child with his/her parents. In his/her family, he/she plays the role of marketing manager. A role consists of the activities people are expected to perform according to the persons around them. Each of a person's roles will influence some of his/her 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. For example, the role of marketing manager has more status in our society than the role of a child. As a marketing manager, a person will buy the kind of clothing that reflects his/her role and status.

C. Personal Factors

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

I. Age and Lifecycle Stage

People change the goods and services they buy over their life times. Tastes in food, clothes, furniture and recreation are often age related. Buying is also shaped by the stage of the family life cycle – the stages through which families might pass as they mature overtime. Marketers often define their target markets in terms of life cycle stage and develop appropriate products and marketing plans for each stage.

II. Occupation

A person's occupation affects the goods and services bought. Blue-collar workers tend to buy more work clothes, where as white –collar workers buy more suits and ties. Marketers try to identify the occupational groups that have an above – average interest in their products and services. A company can even specialize in making products needed by a give occupational group. For example, computer software companies will design different products for marketing managers, accountants, engineers, lawyers and doctors.

III. Economic Situation

A person's economic situation will affect product choice. A person can consider buying an expensive product (brand) if he/she has enough spendable income, savings, or borrowing power. Marketers of income sensitive goods closely watch trends in personal income, savings and interest rates. If economic indicators point to a recession, marketers can take steps to redesign, reposition, and re-price their products.

IV. Life Style

People coming from the same subculture, social class, and occupation may have quite different lifestyle. Lifestyle is a person's pattern of living as expressed in his/her activities, interest and opinions. Lifestyle 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.

The technique of measuring lifestyle is known as psychographics. It involves measuring the major dimensions shown in the table below.

Activities	**Interest**	**Opinions**	**Demographics**
Work	Family	Themselves	Age
Hobbies	Home	Social issues	Education
Social events	Job	Politics	Income
Vacation	Community	Business	Occupation
Entertainment	Recreation	Economics	Family size
Club membership	Fashion	Education	Dwelling
Community	Food	Products	Geography
Shopping	Media	Future	City size
Sports	Achievements	Culture	Stage in life cycle

Fig. 4.3 Life Style Dimensions

Life style classifications are by no means universal – they can vary significantly from country to country. The lifestyle concept, when used carefully can help the marketer understand changing consumer values how they affect buying behavior.

V. Personality and Self-Concept: each person's distinct personality influences his/her buying behavior. Personality refers to the unique psychological characteristics that lead to relatively consistent and lasting responses to one's 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 in analyzing consumer behavior for certain product or brand choices.

Many marketers use a concept related to personality – a person's self-concept (also called self image). The basic self-concept premise is that people's possessions contribute to and reflect their identities; that is, "We are what we have". Thus, in order to understand consumer behavior, the marketer must first understand the relationship between consumer self-concept and possessions.

D. Psychological Factors

A person's buying choices are further influenced by four major psychological factors: Motivation, Perception, Learning, Beliefs and attitudes.

I. Motivation

A person has many needs at any given time. Some are biological, arising from states of tension such as hunger, thirst or discomfort. Others are psychological, arising from the need for recognition, esteem or belongingness. Most or 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. Psychologists have developed theories of human motivation. Two of the most popular-the theories of Sigmund Freud and Abraham Maslow – have quite different meanings for consumer analysis and marketing.

- **Freud's Theory of Motivation**

He assumes that people are largely unconscious about the real psychological forces shaping their behavior. He sees the person as growing up and repressing many urges. These urges are never eliminated or under perfect control, they emerge in dreams, in slips of the tongue, in neurotic and obsessive behavior, or ultimately in psychoses.

Thus, Freud suggests that a person doesn't fully understand his/her motivation.

- **Fig. Maslow's Theory of Motivation**

Abraham Maslow sought to explain why people are driven by particular need at particular time. Why does one person spend much time and energy on personal safety and another on gaining the esteem of others? Maslow's answer is that human needs are arranged in hierarchy from the most pressing to the least pressing. In order of importance, they are physiological needs, safety needs, social needs, esteem needs, and self-actualization needs.

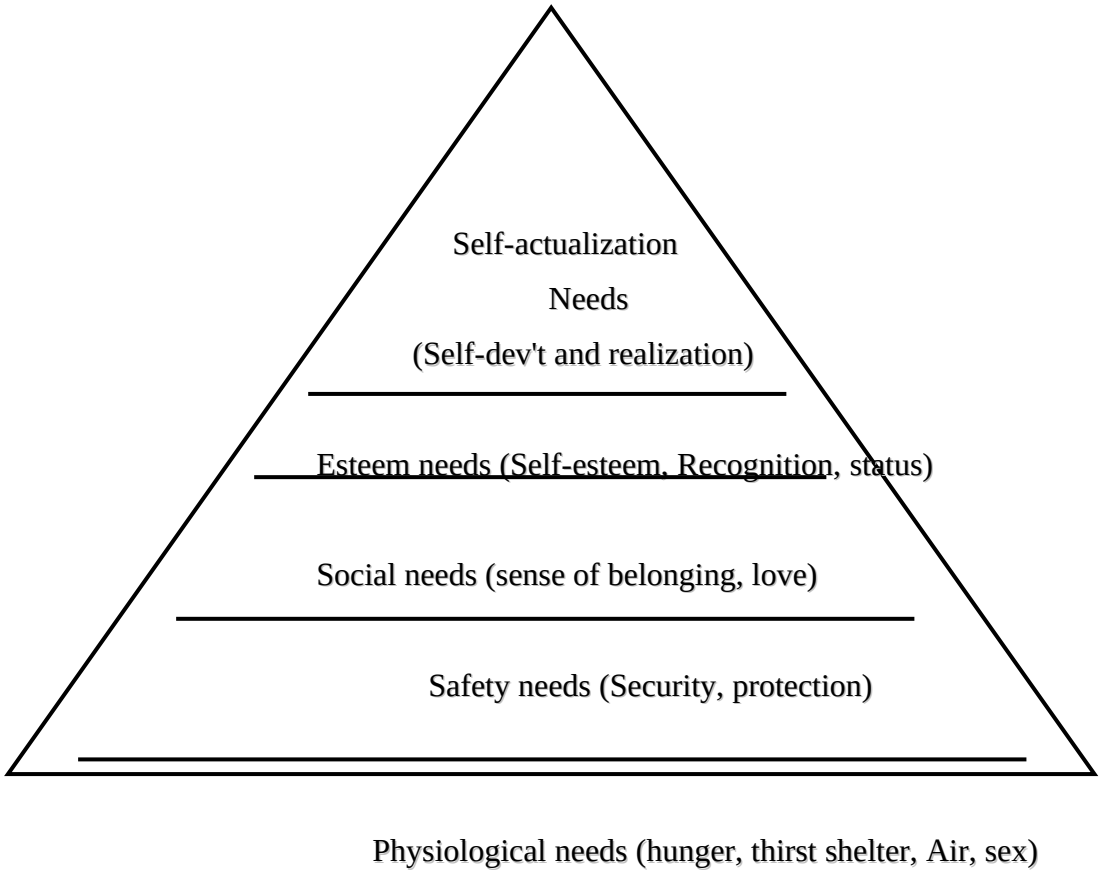


Fig. 4.4 Maslow's Hierarchy of Needs

A person tries to satisfy the most important need first. When that important need is satisfied, it will stop being a motivator and the person will then try to satisfy the next most important need. For instance, a starving man will not take an interest in the latest happenings in the art world, or in how he/she is seen or esteemed by others, nor even

in whether he is breathing clean air. But as each important need is satisfied, the next most important need will come in to play.

II. 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.

Why do people perceive the same situation differently? All of us learn by the flow of information through our five senses: sight, hearing, smell, touch and taste. However, each of us receives, organizes, and interprets this sensory information in an individual way. Perception is the process by which people select, organize and interpret information to form meaningful picture of the world.

People can form different perceptions of the same stimulus because of three perceptual processes: selective attention, selective distortion and selective retention.

- ***Selective Attention:*** the tendency for people to screen out most of the information to which they are exposed. People are exposed to a great amount of stimuli every day. For example, the average person may be exposed to a lot of ads a day. And it is impossible for a person to pay attention to all these stimuli. Thus, marketers have to work especially hard to attract the consumer's attention. Their message will be lost on most people who are not in the market for the product. Moreover, even people who are in the market may not notice the message unless it stands out from the surrounding sea of other ads.
- ***Selective Distortion:*** it describes the tendency of people to adapt information to personal meanings. In other words, noted stimuli do not always come across in the intended way. Each person fits incoming information into un-existing mind-set. People tend to interpret information in a way that will support what they already believe. Thus, marketers must try to understand the mindsets of consumers and how these will affect interpretations of advertising and sales information.
- ***Selective Retention:*** people also will forget much that they learn. They tend to retain information that supports their attitudes and beliefs. Because of selective retention, a person is likely to remember good points made about a

particular product, which he/she is familiar, and forget good points made about competing products.

Because of selective exposure, distortion and retention marketers have to work hard to get their messages through. This fact explains why marketers use so much drama and repetition in sending messages to their market.

III. Learning

When people act, they learn. Learning describes changes in an individual's behavior arising from experience. Learning theorists say that most human behavior is learned. Learning occurs through the interplay of drives, stimuli, responses and reinforcement.

The practical significance of learning theory for marketers is that they can build up demand for a product by associating it with strong drives, using motivating cues, and providing positive reinforcement.

IV. Beliefs and Attitudes

Through doing and learning, people acquire their beliefs and attitudes. These, in turn, influence their buying behavior. A belief is a descriptive thought that a person has about something.

Marketers are interested in the beliefs that people formulate about specific products and services, because there beliefs make up product and brand images that affect buying behavior. If some of the beliefs are wrong and prevent purchase, the marketer will want to launch a campaign to correct them.

People have attitudes regarding religion, politics, clothes, music, food and almost everything else. An attitude describes a person's relatively consistent evaluations, feelings and tendencies toward an object or idea. Attitudes put people into a frame of mind of liking or disliking things, of moving toward or away from them.

Attitudes are difficult to change. A person's attitudes fit into a pattern, and to change one attitude may require difficult adjustments in many others. Thus, a company should usually try to fit its products into existing attitudes rather than try to change attitudes. Of course, there are expectations in which the great cost of trying to change attitudes may pay off.

We can now appreciate the many individual characteristics and forces acting on consumer behavior. The consumer's choice results from the complex interplay of

cultural, social, personal, and psychological factors. Although many of these factors cannot be influenced by the marketer, they can be useful in identifying interested buyers and in shaping products and appeals to better serve their needs.

4.1.3. Types of Buying Decision Behavior

There are four types of consumer buying behavior based on the degree of buyer involvement and the degree of differences among brands.

- **Complex Buying Behavior**: Consumers undertake complex buying behavior when they are highly involved in a purchase and perceive significant brand differences. Consumers may be involved when the product is expensive, risky, purchase infrequently, and highly self-expressive (e.g. Car). Typically the consumer has to learn about the product
- **Dissonance-reducing Buying Behavior**: It occurs when consumers are highly involved with an expensive, infrequent, or risky purchase, but see little difference among brands. For example a consumer buying carpeting may face a high-involvement decision because carpeting is expensive and self-expressive. Yet buyers may consider most carpet brands in a given price range to be the same. In this case, because perceived brand differences are not large, buyers may shop around to learn what is available, but buy relatively quickly. They may respond primarily to a good price or purchase convenience. After the purchase, consumer might experience post-purchase dissonance (after sale discomfort) when they notice certain disadvantage of the purchased carpet or hear favorable things about brands not purchased. To encounter such dissonance, marketer's after-sale communications should provide evidence and support to help consumers feel good about their brand choices.
- **Habitual Buying Behavior:** It occurs under conditions of low involvement and little significant brand difference. For example, Sal. Consumers have little involvement in this product category- they simply go the store and reach a brand. Consumers appear to have low involvement with most low cost, frequently purchased products.
- **Variety-seeking Buying Behavior:** Consumers undertake variety-seeking buying behavior in situations characterized by low consumer involvement, but

significant perceived brand differences. In such cases, brand switching occurs for the sake of variety rather than because of dissatisfaction.

4.1.4. The Buyer Decision Processes

The consumer passes through five stages: ***need recognition, information search, evaluation of alternatives, purchase decision, and post purchase behavior***. Clearly the buying process starts long before actual purchase and continues long after. Marketers need to focus on the entire buying process rather than on just the purchase decision.

Consumers pass through all the five stages with every purchase. But in more routine purchases, they often skip or reverse some of the stages. However, we use the model in the figure below because it shows all the considerations that arise when a consumer face a next and complex purchase situations.

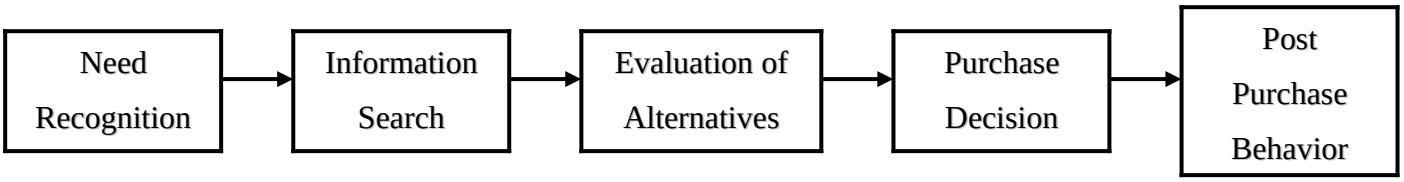


Fig. 5.2 Buyer Decision Process

Need Recognition

The buying process starts with need recognition where the buyer recognizes a problem or need. The buyer senses his/her actual state and some desired state. The need can be triggered by internal stimuli when one of the persons normal needs, hunger, thirst, sex – rises to a level high enough to become a drive. A need can also be triggered by external stimuli. At this stage the marketer should research consumers to find out what kinds of needs or problems arise, what brought them about, and how they led the consumer to this particular product.

Information Search

An aroused consumer may or may not search for more information. If the consumer's drive is strong and a satisfying product is near at hand, the consumer is likely to buy it then. If not the consumer may not store the need in memory or undertake an information search related to the need.

The consumer can obtain information from any of several sources:

- *Personal Source*: family, friends, neighbors, acquaintances.
- *Commercial Sources:* advertising, salespersons, dealers, packages, displays
- *Public Sources:* mass media, consumer-rating organizations.

As more information is obtained, the consumers' awareness and knowledge of the available brands and features increase. A company must design a marketing mix to make prospects aware of and knowledgeable about its brand. Consumers should be asked how they first heard about the brand, what information they received, and what importance they placed on different information sources.

Evaluation of Alternatives

How does the consumer choose among the alternative brands? The marketer needs to know about alternative evaluation that is, how the consumer processes information to arrive at brand choices.

Certain basic concepts help explain consumer evaluation process:

1. We assume that each consumer sees a product as a bundle of product attributes. They pay the most attention to those attributes connected with their needs.
2. The consumer will attach different degrees of importance to different attributes according to his/her needs and wants.
3. The consumer is likely to develop a set of brand beliefs about where each brand stands to each attribute. The set of beliefs held about a particular brand is known as the brand image.
4. The consumer's expected total product satisfaction will vary with levels of different attributes.
5. The consumer arrives at attitudes toward (through) the different brands through some evaluation procedure.

   Marketers should study buyers to find out how they actually evaluate brand alternatives.

Purchase Decisions

In the evaluation stage, the consumer ranks brands and forms purchase intentions. Generally, the consumer's purchase decision will be to buy most prepared brand, but two factors can come between the purchase intention and the purchase decision. The

first factor is the attitude of others. The second factor is unexpected situational factors. The consumer may form a purchase intention based on factors such as expected income, expected price, and expected product benefits.

Post Purchase Behavior

The marketer's job doesn't end when the product is bought. After purchasing the product, the consumer will be satisfied or dissatisfied and will engage in post purchase behavior of interest to the marketer. The negative feeling that may occur after a commitment purchase has been made is called cognitive dissonance. What determines whether the buyer is satisfied or dissatisfied with a purchase? The answer lies in the relationship between the consumer's expectations and the product's perceived performance. If the product falls short of expectations, the consumer is disappointed, if it meets expectations, the consumer is satisfied, if product's performance exceeds expectations, the consumer is delighted.

Chapter Five

Strategic Marketing Planning

Each company must find the game plan that makes the most sense given its specific situation, opportunities, objectives, and resources. This is the focus of strategic planning- the process of developing and maintaining a strategic fit between the organization's goals and capabilities and its changing marketing opportunities.

Strategic planning sets the stage for the rest of the planning in the firm. Companies usually prepare annual plans, long range plans, and strategic plans. The annual and long range plans deal with the company's current business and how to keep them going. In contrast, the strategic plan involves adapting the firm to take advantage of opportunities in its constantly changing environment.

At the corporate level, the company starts the strategic planning process by defining its overall purpose and mission. This mission then is turned into detailed supporting objectives that guide the whole company. Next, headquarters decides what portfolio of businesses and products is best for the company and how much support to give each one. In turn, each business and product develops detailed marketing and other departmental plans that support the company wide plans. Thus marketing planning occurs at the business. Unit, product, and market levels, supporting company strategic planning with more detailed planning for specific marketing opportunities.

5.1 Defining a Market –Oriented Mission

An organization exists to accomplish something. At first, it has a clear purpose or mission, but over time its mission may become unclear as the organization grows, adds new products and markets, or face new conditions in the environment. When management serves that the organization is drifting, it must renew its search for purpose. It is time to ask: what is our business, who is the customer? What do consumers vaule? What should our business be? These simple sounding questions are among the most difficult the company will ever have to answer. Successful companies continuously raise these questions and answer them carefully and completely.

Many organizations develop formal mission statements that answer these questions. A mission statement is a statement of the organization's – what it wants to accomplish in the larger environment. A clear mission statement acts as an "invisible hand" that guides people in the organization.

Some companies define their mission in product or technology term. But mission statements should be market oriented. Products and technologies eventually became outdated, but basic market needs may last forever. A market-oriented mission statement defines the business in terms of satisfying basic customer needs.

Management should avoid making its mission too narrow or too broad. Missions should be realistic. Missions should also be specific. Many mission statements are written for public relation purpose and lack specific, workable guidelines. Missions should fit the market environment. The organization should base its mission on its distinctive competencies. And finally, mission statements should be motivating.

5.2 Setting Company Objectives and Goals

The company's mission needs to be turned into detailed supporting objectives for each level of management. Each manager should have objectives and be responsible for reaching them. Mission leads to a hierarchy of objectives, including business objectives and marketing objectives.

Turning objectives into measurable goals facilitates management planning, implementation, and control. Very few businesses pursue only one objective. Rather, most business unit pursue a mix of objectives including profitability, sales growth, market share improvement, risk containment, innovativeness, reputation, and so on. The objectives of the business unit must meet four criteria:

- Objectives must be arranged hierarchically, from the most to the least important.
- Objectives should be stated quantitatively whenever possible.
- Goals should be realistic, they should arise from an analysis of the business unit's opportunities and strengths, not from a wishful thinking.
- The company's objectives must be consistent. For instance it may not be possible to maximize both sales and profit simultaneously.

5.3 Designing the business portfolio

Guided by the company's mission statements and objectives, management now must plan its business portfolio - the collection of businesses and products that make up the company. The best business portfolio is the one that best fits the company's strengths and weaknesses to opportunities in the environment. Business portfolio planning involves two steps. First the company must analyze its current business portfolio and decide which businesses should receive more, less, or no investment. Second, it must shape the future portfolio by developing strategies for growth and downsizing.

Analyzing the current business portfolio

The major activity in strategic planning is business portfolio analysis, where by management evaluates the products and businesses making up the company. The company will want to put strong resources into its more profitable businesses and phase down or drop its weaker ones. Management's first step is to identify the key businesses making up the company. These can be called the strategic business unit. A strategic business unit (SBU) is a unit of the company that has a separate mission and objectives and that can be planned independently from other company businesses. An SBU can be a company division, a product line within a division, or sometimes a single product or brand. The next step in business portfolio analysis calls for management to assess the attractiveness of its various SBUs and decide how much support each deserves.

The purpose of strategic planning is to find ways in which the company can best use its strengths to take advantage of attractive opportunities in the environment. Thus, most standard portfolio analysis methods evaluate SBUs on two important dimensions – the attractiveness of the SBU's market or industry and the strength of the SBU's position in the market or industry. The best known portfolio planning method was developed by the Boston Consulting Group, a leading management consulting firm.

Boston Consulting Group Model

The Boston Consulting Group (BCG), a leading management consulting rim, developed and popularized a model which is commonly known as the growth- share matrix indicated in the next table.

Market/Industry Growth Rate	**High**	★ **Star**	? **Question Mark**
	Low	 **Cash Cow**	 **Dog**
		High	**Low**
	Relative Market Share		

The Boston Consulting Group's Growth–Share Matix,

Source-Marketing Management, 11th Edition, P. Kotler.

Question Mark

Most business starts off as question marks as the company tries to enter a high growth market in which there is already a market leader.

- **Question Mark** is a kind of business that operates in high-growth market but have low relative market share.

If the question mark type of business is successful, it becomes a star. A star is the market leader in a high growth industry.

- **The marketing Strategy (Build)** that the company should follow for a question mark type of business is to intensify all the marketing activities including the conception, pricing. Promotion and distribution of the product so that it can survive in a highly competitive industry.

- **A Star** is a kind of business that is a market leader (has a higher relative market share as compared to competitors) in a

- **The Market Strategy** that the company should follow for a star type of business is to intensify all the marketing activities including the conception, pricing, promotion and distribution of the product so that it can maintain or grow its market share

Cash Cow

When the industry's annual growth rate falls to lower percentages, the star becomes a cash cow if it still has the largest relative market share.

- **A Cash cow** is a kind of business that is the market leader (has a higher relative market share as compared to competitors) in a slow –growth industry.

- **A Marketing Strategy (Hold)** that the company should follow for a Cash Cow type of business is to make use of

Dog

The fourth type of businesses according to the BCG-Model is a dog.

- **A Dog** is a kind of business that has a small market share in a low growth industry.

- **A Marketing Strategy (Harvest/Divest)** that the company should follow for a Dog type of business is to concentrate on cost reduction, by minimizing R&D expenses and promotional expenditures. Furthermore, the company can think of selling or liquidating the business so that resources can be better used elsewhere.

Developing strategies for growth and downsizing

Beyond evaluating current businesses, designing the business portfolio involves finding businesses and products the company should consider in the future. Companies need growth if they are to compete more effectively, satisfy their stakeholders, and attract top talent. "Growth is pure oxygen" states one executive; "it creates a vital, enthusiastic corporation where people see genuine opportunity." At the same time a firm must be careful not to make growth itself an objective. The company's objective must be " profitable growth."

Marketing has the main responsibility for achieving profitable growth for the company. Marketing must identify, evaluate, and select market opportunities and lay down strategies for capturing them. One useful device for identifying growth opportunities is the product/market expansion grid.

I- Ansoff's Product/Market Expansion Grid

Another model used for creating marketing strategy is the one developed by Igor Ansoff. The company's first course action should be a review of whether any opportunity exists for improving its existing businesses' performance. Ansoff has proposed a useful framework for detecting new intensive growth opportunities called a Product/Market Expansion Grid. The Ansoff's Model uses two dimensions:

- The Product Dimension
- The Market Dimension

Under the Ansoff's Product/Market Opportunity Matrix, the product dimension is further divided into current products and new products and the market dimension is also divided in to Current Markets and New Markets. According to Ansoff, the company can concentrate on Growth Opportunities or Diversification Opportunities for its marketing strategy.

The following table clearly depicts the four strategies that can be pursued by the company.

	Current Products	**New Products**	
Current Markets	1. Market-Penetration Strategy	3. Product-Development Strategy	
New Markets	4. Market-Development Strategy	4. Diversification	

Ansoff's Product-Market Expansion Grid

Source-Marketing Management 11th Edition, P.kotler.

According to the Ansoff's Product-Market Opportunity Matrix, the company can make use of one or few of the four marketing strategies. In the next section, we shall be discussing about all strategies and how they can be used by the company.

I. INTENSIVE GROWTH STRATEGIES

1. Market-Penetration Strategy

From the above diagram, you can learn that this strategy is pursued for current products in the current market.

- First the company considers whether it could gain more market share with its current products in their current markets. This is the **Market-Penetration Strategy.**

What possible approaches do you think the company can use in order to increase current products' market share in their current market?

There are three major approaches that the company can use in order to increase current products market share in the existing market.

i. The company could try to encourage its current customers to buy more of its existing products.

   In order to make use of the above approach, the company should be able to show customers the benefit of using more of its products. For instance, if the product is toothpaste, the company can show customers the benefit of using the product twice a day- in the night and in the morning, instead of using the product just once in a day.

ii. The second possible approach in order to increase current products' market share is to try to attract competitors' customers.

   In order to make use of the above approach, the company should be able to notice major weaknesses in competitors' products and show competitors how better its products are.

iii. The third possible approach in order to increase current products' market share is to convince nonusers of the product to start using them.

   This approach could be effective if the company notice that there are still many people who are not currently using the product in the market.

2. Market-Development Strategy

From the above diagram, you can learn that this strategy is pursued for current products in a new market.

- When the company looks for new markets whose needs might be met by its current products, then it is trying to make use of **Market-development Strategy.**

What possible approaches do you think the company can use in order to get new markets whose need might be met by current products?

i. First the company might try to identify potential user groups in the current sales area whose interests in the product might be stimulated.

   If for instance the company has been selling its products only to consumer markets, it might go after industrial/business markets. (The distinction between consumer market and industrial market shall be discussed in the units to come)

ii. Second the company might seek additional distribution channel in the present locations.

If the company has a direct distribution practice, i.e. producer to consumer, it might seek to find additional channel members like wholesalers and retailers that can distribute the product to a wider extent.

iii. The company might also consider selling in new locations, i.e. entering into new geographical market in its home country or abroad. If for instance the company is selling the product in the area of Addis Ababa, it might consider opening branch offices in areas like Awassa, Dire Dawa, etc, so that it can access new markets.

3. Product-Development Strategy

In addition to penetration and developing markets, the company should also consider new-product possibilities.

> When the company develops new products to current market, then it is trying to make use of **Product-Development Strategy**

i. There are different approaches that the company can use in order to get new current product.

ii. The company could develop different quality levels of the product such as a higher quality product for those customers with higher living standards and lower-quality product for the mass market.

iii. The company can also look for an alternative technology to the product and try to design and develop a new product.

II. DIVERSTIFICATION STRATEGY

Diversification strategy is undertaken so that the firm will not become overly dependent up on one or few products or SBUs. This strategy can also be pursued whenever there is a good opportunity outside the current business market and product.

- A Good Opportunity is one in which the industry is highly attractive and the company has the mix of business strengths to be successful.

The company can make use of three types of diversification strategies:

i. Concentric Diversification Strategy

- When the company seeks new products that have technological relationship with the existing product, then it is following **Concentric Diversification Strategy.**

Concentric Diversification Strategy can be best explained by the following example. Consider a soft drink manufacturing company. The company can easily start producing mineral water without a huge technological transfer in its machineries.

ii. Horizontal Diversification Strategy

- When the company thinks of new products to its current customers that are unrelated to its current product in terms of use of technology, then it is following **Horizontal Diversification Strategy.**

Let's consider again an example for better understanding of this strategy. Assume the same soft drink manufacturing organization trying to diversify its business in to products with plastic or canned packages. Here the technologies used are entirely different from that of soft drink with glass bottles.

iii. Conglomerate Diversification Strategy

- When the company tries to seek new businesses that have no business relationship to the company's current technology, products, or markets, then it is trying to make use of **Conglomerate Diversification Strategy.**

Conglomerate Diversification Strategy is the most difficult diversification technique as the company tries to go into a business that uses an entirely different technology. That is the company is trying to go into an entirely new business areas and markets.

Consider for instance that same soft drink manufacturing company we mentioned in the above examples. Here the company is diversifying its business into areas like textile, food or electronics, where it makes use of an entirely new technology for different market.

III. INTEGRATIVE GROWTH STRATEGIES

Companies could also use Integrative Growth Strategies to increase their sales and profit performance. Let us now consider what possible strategies we can use under the integrative growth strategy.

i. Backward Integration

> When a company intends to acquire another business in the input direction, then it is making use of the **Backward Integration Strategy**

The backward integration strategy can be best explained through the following examples.

- A textile manufacturing organization acquiring a cotton farm.
- A food (biscuits) manufacturing organization acquiring Flourmill Company that only processes wheat into flour.

In the above examples the textile and the food manufacturing organizations are acquiring business in their input direction.

ii. Forward Integration

> When a company intends to acquire another business in the output direction, then it is making use of the Forward Integration Strategy

We can still make use of an example for better understanding of forward integration strategy. The exact opposite of the above example works for this strategy.

- A company that runs cotton farm business acquiring a textile manufacturing organization.
- A company that produces flour acquiring the food (biscuits) manufacturing organization.

In the above examples the flourmill and cotton farm companies are acquiring business in their output direction.

Let's again consider the following examples for better understanding of this strategy.

- NAS Foods PLC acquiring Dukum biscuit.
- United Insurance Company acquiring Lion Insurance Company.

From the above examples you can learn that when a company tries to acquire its own competitors, then it is making use of horizontal integration strategy.

CHAPTER SIX
SEGMENTATION, TARGETING AND POSITIONING

Companies today recognize that they cannot appeal to all buyers in the marketplace or at least not to all buyers in the same way. Buyers are too numerous, too widely scattered, and too varied in their needs and buying practices. Moreover, the companies themselves vary widely in their abilities to serve different segments of the market. Instead, a company must identify the parts of the market that it can serve best and most profitably. It needs to design strategies to build the right relationships with the right customers.

Thus, most companies have moved away from mass marketing and toward market segmentation and targeting- identifying market segments, selecting one or more of them, and developing products and marketing programs tailored to each. Instead of scattering their marketing efforts (the "shotgun" approach), focusing on the buyers who have greater interest in the values they create best (the "rifle" approach).

Companies have not always practiced market segmentation and targeting. For most of the past century, major consumer products companies held fast to mass marketing- mass producing, mass distributing, and mass promoting about the same product in about the same way to all consumers.

Market segmentation	**Target Marketing**	**Market Positioning**
-Identify bases for segmenting the market	- Develop measure of Segment attractiveness	-Develop positioning for target segments
-Develop segment profile	-Select target segments	-Develop a marketing mix for each segment

The above figure shows the three major steps in target marketing. The first is Market segmentation- dividing a market into smaller groups of buyers with distinct needs, characteristics, or behaviors who might require separate products or marketing mix. The company identifies different ways to segment the market and develops profiles of the resulting market segments. The second step is target marketing- evaluating each market segment's attractiveness and selecting one or more of the market segments to enter. The third step is market positioning- setting the competitive positioning for the product and creating a detailed marketing mix.

6.1 Market Segmentation

Markets consist of buyers, and buyers differ in one or more ways. They may differ in their wants, resources, locations, buying attitudes, and buying practices. Through market segmentation, companies divide large, heterogeneous markets into smaller segments that can be reached more efficiently and effectively with products and services that match their unique needs. In this section, we discuss segmenting consumer markets and requirements for effective segmentation.

CONSUMER MARKET SEGMENTATION VARIABLES

Dividing the total market into ultimate consumer and business user segments, results in segments that are still broad and varied for most products. The customer market may be divided into further segments using the following characteristics.

1. Geographic
2. Demographic
3. Psychographics
4. Buying Behavior

Geographic Segmentation

Subdividing markets into segments based on different geographical units –the regions, countries, cities, and towns where people live and work –is usually used. The reason for this is simply that consumers wants and products usage often are related to one or more of these subcategories. Geographic characteristics are also measurable and accessible –two of the conditions for effective segmentations. Many firms market their products in a limited number of geographic regions, or they may market nationally but prepare a separate marketing mix for each region.

The regional distribution of population is important to marketers because people within a given region generally tend to share the same value, attitude and style preference. However, significant differences do exist among regions because of differences, in climate, social customs, and other factors.

Demographic Segmentation

In demographic segmentation, the market is divided into groups on the basis of variables such as age, family size, family lifecycle, gender, income, occupation, education, religion, race, generation, and nationality.

Demographic variables are the most popular bases for distinguishing customer groups. One reason so that consumer wants, preferences and usage rates are often associated with demographic variables. Another is that demographic variables are easier to measure.

Even when the target market is described in non-demographic term (say, a personality types), demographic characteristic is needed in order to estimate the size of the target market and the media that should be used to reach it efficiently. Here is how certain demographic variables have been used to segment markets.

1. **Age and lifecycle stage**

Consumer's wants and abilities change with age. Photo companies are now applying age and lifecycle segmentation to the film market. With film sales down, photo companies are working hard to exploit promising niche markets: moms, kids, and older people. Nevertheless, age and lifecycle can be tricky variables. For example, the Ford motor company designed its Mustang automobile to appeal to young people who wanted an inexpensive sport car. But ford found that all age groups were purchasing the car, it then realized that its target market was not chronologically young but the psychologically young.

Marketers must be careful to guard against stereotypes when using age and life-cycle segmentation. For example, some 70 year olds require wheelchair, others play tennis. Thus, age often is a poor predictor of a person's life cycle, health, work or family status, needs, and buying power

2. Gender

Gender segmentation has long been applied in clothing, hairstyling, cosmetics, and magazines. Occasionally other marketers notice an opportunity for Gender segmentation.

The automobile industry is beginning to recognize Gender segmentation. With more women car owners, some manufacturers are designing certain features to appeal to women, although stopping short of advertising the cars as women's cars.

3. Income

Income segmentation is a long-standing practice in such product and service categories as automobiles, boats, clothing, cosmetics, and travel. However, income does not always predict the best customers for a given product.

4. Social Class

Social class has a strong influence on preference in clothing, house furnishing, leisure activities, reading habits, and retailers. Many companies design products and services for specific social classes.

Behavioral Segmentation

Some marketers regularly attempt to segment their markets on the basis of product related behavior they utilize behavioral segmentation. Many marketers believe that behavior variables are the best starting point for building segments.

1. Occasions

Buyers can be grouped according to occasions when they get the idea to buy, actually make their purchase, or use the purchased item. Occasion segmentation can help firms build up product usage. For example, juice is most often consumed at breakfast, but orange goers have promoted drinking orange juice as a cool and refreshing drink at other times of the day.

1. Benefits Sought

Many companies credited with drawing attentions to the notion of benefit segmentation when they described a hypothetical division of their product market based on the benefits desired.

Two things determine the effectiveness of benefits segmentation. First, the specific benefits consumers are seeking must be identified. This typically involves several research steps, beginning with the identification of all possible benefits related to a particular product or behavior through brainstorming, observing consumers, and listing to focus groups.

The second task, once the separate benefits are known, is to describe the demographic and psychographics characteristics of the people seeking each benefit.

3. User Status

Markets can be segmented into groups of nonusers, ex-users, potential users, first time users, and regular users of a product. A company's market position influences its focus. Marketer share leaders focus on attracting potential users, whereas smaller firms focus on attracting current users away from the market leader.

4. Usage Rate

Markets can also be segmented in to light, medium, and heavy product 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

5. Loyal Status

Consumers have varying degree of loyalty to specific brands, stores, and others entities. Buyers can be divided into four groups according to brand loyalty status: -

-Hard-core loyal: - Consumers who buy one brand all the time

-Split loyal: - Consumers who are loyal to two or three brands.

-Shifting loyal: - Consumers who shift from one brand to another

-Switchers: - Consumers who show no loyalty to any brand.

Each market consists of different numbers of the four types of buyers. A brand loyal market is one with a high percentage of hard-core brand loyal buyers. A company can learn a great deal by analyzing the degree of brand loyalty. By studying its hard-core loyal, the company can identify its products strengths. By studying its split loyal, the company can pin point which brands are most competitive with its own. By looking at customers, who are shifting away from its brand, the company can learn about its marketing weakness and attempt to

correct them. One caution: what appear to be a 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.

Psychographics Segmentation

In psychographics segmentation, buyers are divided into different groups on the bases of lifestyle or personality and values. People with the same demographic group can exhibit very different psychographics profiles.

Lifestyle: - People exhibit many more lifestyle than are suggested by the seven social classes. The goods they consume express their lifestyle. Companies making cosmetics, alcoholic beverages and furniture are always seeking opportunities in lifestyle segmentation. But lifestyle segmentation does not always work.

Personality: - Marketers have used personality variable to segment markets. They endow their products with brand personalities that correspond to consumer's personalities. In the late 1950, Fords and Chevrolets were promoted as having different personalities. Ford buyers were identified as independent, impulsive, muscular, alert to change and self-confident. Chevrolet owners were conservative, thrifty, prestige-conscious, less masculine, and seeking to avoid extremes.

Requirements for effective segmentation

Clearly there are many ways to segment the market, but not all segmentation are effective. To be useful market segments must be:

Measurable-the size, purchasing power, and profiles of the segments can be measured.

Accessible-the market segments can be effectively reached and served.

Substantial- the market segments are large or profitable enough to serve.

Differentiable- the segments are conceptually distinguishable and respond differently to different marketing mix elements and programs.

Actionable- effective programs can be designed for attracting and serving the segments.

Evaluating market segments

In evaluating different market segments a firm must look at three factors

a. -Segment size and growth
b. -Segment structural attractiveness, and
c. -Company objectives and resources.

The company must first collect and analyze data on current segment sales, growth rates, and expected profitability for various segments. It will be interested in segments that have the right size and growth characteristics. However, the **'right size and growth'** is a relative mater.

The company also needs to examine major structural factors that affect long run segment attractiveness. For example a segment is less attractive if it already contains many strong and aggressive competitors. The existence of many actual or potential substitute products may limit prices and profits that can be earned in a segment. The relative power of buyers also affects the segment attractiveness. Finally, a segment may be less attractive if it contains powerful suppliers who can control prices or reduce the quality and quantity of ordered goods and services.

Even if a segment has the right size and growth and is structurally attractive, the company must consider its own objectives and resources some attractive segments can be dismissed quickly because they do not mesh with the company's long run objectives. Or the

company may lack the skills and resources needed to succeed in an attractive segment. The company should enter only segments in which it can offer superior value and gain advantages over competitors.

6.2 Market Targeting

Market Targeting is the process of selecting one or more market segments to enter

Let's assume that a company has segmented the total market for its product. Now management is in a position to select one or more segments as its target markets.

Target market consists of a set of buyers who share common needs or characteristics that the company decides to serve. Because buyers have unique needs and wants, a seller could potentially view each buyer as a separate target market. Ideally then a seller might design a separate marketing program for each buyer. However, although some companies do attempt to serve buyers individually, most face larger numbers of smaller buyers and do not find individual targeting worthwhile. Instead they look for broader segments of buyers. More generally, target marketing can be carried out at several different levels.

Undifferentiated marketing

Using an undifferentiated marketing (mass marketing) strategy, a firm might decide to ignore market segment differences and target the whole market with one offer. This mass marketing strategy focuses on what is common in the needs of consumers rather than on what is different. The company designs a product and a marketing program that will appeal to the largest number of buyers. Most modern marketers have strong doubts about this strategy. Difficulties arise in developing a product or brand that will satisfy all consumers. Moreover mass marketers often have trouble competing with more focused firms

that do a better job of satisfying the needs of specific segments and niches.

Differentiated Marketing

Using differentiated marketing (segmented marketing) strategy, a firm decides to target several market segments and designs separate offers for each. By offering product and marketing variations to segments, companies hope for higher sales and a stronger position within each market segment. Developing a stronger position within several segments create more total sales than undifferentiated marketing across all segments.

But differentiated marketing also increases the costs of ding business. A firm usually finds it more expensive to develop and produce, say, 10 units of 10 different products than 100 units of one product. Developing separate marketing plans for the separate segments requires extra marketing research, forecasting, sales analysis, promotion planning, and channel management. Thus, the company must weigh increased sales against increased costs when deciding on a differentiated marketing strategy.

Concentrated Marketing

A third market coverage strategy, concentrated marketing (niche marketing), is especially appealing when company resources are limited. Instead of going after a small share of a large market, the firm goes after a large share of one or a few segments or niches.

Through concentrated marketing, the firm achieves a strong market position because of its grater knowledge of consumer needs in the niches it serves and the special reputation it acquires. It can market more effectively by fin-tuning its products, prices and programs to the needs of carefully defined segments. It can also market more

efficiently, targeting its products or services, channels, and communications programs toward only consumers that can serve best and most profitably.

Whereas segments are fairly large and normally attract several competitors, niches are smaller and may attract only one or a few competitors. Niching offers smaller companies an opportunity to compete by focusing their limited resources on serving niches that may be unimportant to or overlooked by larger competitors.

Many companies start as nichers to get a foothold against larger, more resourceful competitors, and then grow into broader competitors. Concentrated marketing can be highly profitable. At the same time, it involves higher than-normal risks. Companies that rely on one or a few segments for all of their business will suffer greatly if the segment turns sour. Or larger competitors may decide to enter the same segment with greater resources. For these reasons, many companies prefer to diversify in several market segments.

Micromarketing

Differentiate and concentrated marketers tailor their offers and marketing programs to meet the needs of various segments and niches. Micromarketing is the practice of tailoring products and marketing programs to suit the tastes of specific individuals and locations. Micromarketing includes local marketing and individual marketing.

Local marketing- involves tailoring brands and promotions to the needs and wants of local customer groups- cities, neighborhoods, and even specific stores. Local marketing has some drawbacks. It can drive u manufacturing and marketing costs by reducing economies of scale. It can also create logistics problems as companies try to meet the varied requirements of different regional and local market.

Still, as companies face increasingly fragmented markets, and as new supporting technologies develop, the advantages of local marketing often outweigh the drawbacks.

Individual Marketing- in the extreme, micromarketing becomes individual marketing tailoring products and marketing programs to the needs and preferences of individual customers. It has also been labeled one- to- one marketing, mass customization and markets of one marketing.

The company can follow one of three strategies –market aggregation, single-segment concentration, or multiple –segment targeting. Four guidelines govern how to determine which segments should be the target markets. The first is that target markets should be **compatible with the organizations goal and image**. The second is to match the market opportunity represented in the target markets with the **company's resources**. Over the long run, a business must generate **a profit to survive**. This rather obvious statement translates into our third market –selection –gridline. Fourth, a company ordering should seek a market more there are the least and smallest **competitors**. A seller should not enter a market that is already saturated with competition inters it has save overriding differential advantage that will enable it to take customers from existing firms.

Choosing a Target Market Strategy

Companies need to consider many factors when choosing a target marketing strategy. Which strategy is best depends on **company resources**. When the firm's resources are limited, concentrated marketing makes the most sense. The best strategy also depends on the degree of **product variability.** Undifferentiated marketing is more suited for uniform products such as grapefruit or steel. Products that

can vary in design, such as cameras and automobiles, are more suited to differentiation or concentration. The **product's life-cycle stage** also must be considered. When a firm introduces a new product, it may be practical to launch only one version, and undifferentiated marketing may make the most sense. In the mature stage of the product life cycle, however, differentiated marketing begins to make more sense.

Another factor is **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. Finally, **competitors' marketing strategies** are important. When competitors use differentiated or concentrated marketing undifferentiated marketing can be suicidal. Conversely, when competitors use undifferentiated marketing, a firm can gain an advantage by using differentiated or concentrated marketing.

6.3 Market Positioning

Beyond deciding which segments of the market it will target, the company must decide what positions it wants to occupy in those segments. A product's position is the way the product is defined by consumers on important attributes- the place the product occupies in consumers' minds relative to competing products. Positioning involves implanting the brand's unique benefits and differentiation in customers' minds.

Consumers are overloaded with information about product and services. They cannot reevaluate products every time they make a buying decision. To simplify the buying process, consumers organize products, services, and companies into categories and position them in their minds. A products position is the complex set of perceptions impressions, and feelings that consumers have for the product with competing products.

Consumers position products with or without the help of marketers. But marketers don not want to leave their products positions to chance. They must plan positions that will give their products the greatest advantage in selected target markets, and they must design marketing mixes to create these planned positions.

A company must try to identify and differentiate the specific products to obtain a competitive advantage. Differentiation is the act of designing meaningful differences to distinguish the company's offering from competitors offering.

How exactly can a company differentiate its market offering from competitors? Here we will examine how a market offering can be differentiated along the lines of: - product, services, personnel, channel or image.

Product Differentiation

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

Service Differentiation

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

Personnel Differentiation

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

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

Channel Differentiations

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

Image Differentiations

Even when competing offers look the same buyers may respond differently to the company image or brand image. A company or brand image should convey the product's distinctive benefits and positioning. Developing a strong and distinctive image calls for creativity and hard work. A company can not develop an image in the publics mind overnight using only a few advertisements.

Developing a positioning strategy

Companies use several tactics to differentiate their products and brands. Even in the case of commodity products, the company must see its task as that of converting undifferentiated product into a differentiated offering. But all brand differences are meaningful or worthwhile. Not every difference is a differentiator. Each difference has the potential to create company costs as well as customer benefits. Therefore the company must carefully select the way 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.

Distractive

The difference either is not 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 benefits.

Communicable

The difference is communicable and visible to buyers.

Preemptive

The difference cannot be easily copied by competitors.

Affordable

The buyers can afford to pay for the difference

Profitable

The company will find it profitable to introduce the difference

Each firm will want to promote those few differences that will appeal most strongly to its target markets. In other words, the firm will want to develop a focused positioning strategy.

Different positioning strategies

Attribute Positioning

This occurs when a company positions itself on an attribute such as size, number of years in existence and so forth.

Benefit Positioning

Here the product is positioned, as the leader in a certain benefit.

Use/Application positioning

This involves positioning the product as best for some use or application. I.e. AutoCAD software can best be positioned as suitable to Architectural drawings.

User Positioning

This involves positioning the product as best for some uses group. I.e. AutoCAD software to Architects.

Competitor Positioning

Here the product positions itself as better in some way that a named or implied competitor.

Product category Positioning

Here the product positioned as the leader in a certain product category.

Quality price positioning

Here the product positioned as offering the best value i.e., high quality / high price, or lowest price.

Chapter Seven

Designing Customer Driven Market Strategy and Marketing Mix

7.1. Product Strategy

We define a product as anything that can be offered to a market for attention, acquisition, use, or consumption and that might satisfy a want or need. Products include more than just tangible goods, broadly defined; products include physical objects, services events, persons, places, organizations, ideas, or mixes of these entities. Thus, throughout this chapter, we use the term, product broadly to include any or all of these entities.

Because of their importance in the world economy we give special attention to services. Services are a form of product that consists of activities, benefits or satisfactions offered for sale that are essentially intangible and do not result in the ownership of anything. Examples are banking, hotel, airline, etc.

Product is a key element in the market offering, Marketing-mix planning begins with formulating an offering that brings value to target customers. This offering becomes the basis upon which the company builds profitable relationships with customers.

A company's market offering often includes both tangible goods and services. Each component can be a minor or a major part of the total offer. At one extreme, the offer may consist of a **pure tangible goods** such as soap, toothpaste, or salt-no service accompany the product. At other extreme are **pure services**, for which the offer consists primarily of a service. Examples include a doctor's exam or financial service. Between these two extremes, however, many goods and services combinations are possible (hybrid).

Today, as products and services become more and more commoditized, many companies are moving t o a new level in creating value for their customers. To differentiate their offers, beyond simply making products and delivering services, companies are staging, marketing and delivering memorable customer experiences.

Levels of Product and Services

Product planners need to think about products and services in three levels. Each level adds more customer value. The most basic level is the **core benefit**, which addresses the question what is the buyer really buying? When designing products, marketers must first define the core, problem-solving benefits or services that consumer seeks. A woman buying lipstick buys more than lip color.

At the second level, product planners must turn the core benefits into **an actual product**. They need to develop product and service features, design, a quality level, a brand name, and packaging. For example, a Sony camcorder is an actual product. Its name, parts, styling, features, packaging, and other attributes have all been combined carefully to deliver the core benefit – a convenient, high-quality way to capture important moments.

Finally, product planners must build an **augmented product** around the core benefit and actual product by offering additional consumer services and benefits. Sony must offer more than just a camcorder. It must provide consumers with a complete solution to their picture taking problems. Thus, when consumers buy a Sony camcorder, Sony and its dealers also might give buyers a warranty on parts and workmanship, instruction on how to use the camcorder, quick repair services when needed, and a toll-free telephone number to call if they have problems or questions.

Consumers see products as complex bundles of benefits that satisfy their needs. When developing products, marketers first must identify the core consumer needs the product will satisfy. They must then design the actual product and find ways to augment it in order to create the bundle of benefits that will provide the most satisfying customer experience.

Product and Service Classification

A. Consumer-Goods Classification

1. **Convenience Goods: Convenience goods** are goods that customers usually purchase frequently, immediately, and with minimum effort. Examples include tobacco products, soaps, and newspapers. Convenience goods typically have a low unit price, are not bulky and are not greatly affected by fad and fashion. Since the cost is low, the risk is also low, and customers often expend little effort in comparing stores for quality and price. The main marketing task is to make the product affordable at minimum cost. Customers buy with little ego involvement.

Convenience goods can also be further classified in to staples, impulse, and emergency goods.

- ***Staples*** are goods that consumers buy on regular basis like bread, salt, toothpaste etc…
- ***Impulse goods*** are purchased on *impulse*, without any planning or search effort. Consumers buy such products by emotion. Such products are like candy bars,

chocolates, magazines that are mostly kept widely around the casher or checkout counters. For instance, you may buy a chocolate while you are buying other goods in the shop. The need for such product comes as a result of immediate feeling, and often the need is instantaneous.

- ***Emergency goods*** are purchased when the need becomes urgent - like umbrella during a rainstorm, boots during the first snowstorm, etc… Such products are bought immediately when the problem arises.

2. **Shopping Goods: Shopping goods** are sometimes referred to as *comparison goods* where the customer, in the process of selection compares the products on such bases as *suitability*, *qualify*, *price* and *style*. Shopping goods are purchased less frequently than convenience goods. Examples include furniture, electronic goods, clothing etc…. Since there is difference between different products of the same nature in terms of quality, price, design, and style, customers makes comparison before buying the product. The price of such items is also large as compared to convenience goods which increase the level of risk customers face in case of buying the wrong brand. They are called shopping because customers make shopping several times to compare between brands in terms of quality, price, and other product feature. Ego involvement, or thought, before buying is high because of the high level of risk associated with such products.
3. **Specialty Goods: Specialty goods** are goods with unique characteristics and/or brand identification for which a significant group of buyers are habitually willing to make a special purchasing effort and to pay high price. Loyal customers cannot accept substitutes and will not purchase if their choice is not available. Consumers are willing to forgo more acceptable substitutes, and search for the wanted brand. An example could be known brands of stereo sound equipments, health foods, photographic equipments, and automobiles like Mercedes. For instance, a person who has a special preference to Mercedes cannot accept other close substitutes. Thus, Mercedes can be regarded as a specialty product.
4. **Unsought goods: Unsought goods** are goods that the customer does not normally think of buying. There are two kinds of unsought products: (1) new products that the consumer is not yet aware of, and (2) products that the consumer right now does not want. Examples are Encyclopedias, smoke detector, insurance,

etc…. Customers need a strong promotion to buy such products. Before buying customers need to be convinced as to the importance of the product.

B. Industrial-Goods Classification

Consumer goods are held for ultimate use or consumption, but industrial goods are held not for ultimate use but to produce another good that can be consumed by consumers. As is the case with consumer goods, the general category of industrial goods is too broad to use in developing marketing program. Consequently we separate industrial goods in to three categories

1. **Materials and Parts**

Raw Materials: are basic materials that actually become part of the physical product. They have not been processed in any way, except as necessary for economy or protection purpose during physical handling. Raw materials include:

Manufactured Materials and Parts: are business goods that become an actual part of the finished product. They have already been processed to some extent, in contrast to raw materials. They can be divided in to two categories: (1) *Manufactured Materials* that are semi-manufactured (processed) parts that will undergo further processing to make the final product. Examples include molded pig iron going into steel, and flour becoming part of bread. (2) Manufactured parts that are finished (manufactured parts) that will go in to (be assembled) a product with no further change or process. They include such products as zippers on clothing, car tier, and batteries.

2. **Capital Items**

Installations: are long lasting capital items that facilitate developing and/or managing the finished product. Installations consist of buildings (such as factories and offices) and equipment (such as generators, main frame computers, elevators). Installations are major purchases. They are usually purchased directly from the producers, with the typical sale preceded by a long negotiation period. The producers have to be willing to design to specifications and to supply post-sale services. They differ from equipment's in that they are relatively fixed in terms of position.

Equipment: comprises portable factory equipment and tools such as hand tools, lift truck, personal computers, desks, etc. These types of equipment usually do not become part of the finished product. They simply help in the production process.

They have a shorter life span than installations but a longer life span than operating supplies (operating supplies will be discussed below).

3. Supplies and Service

Operating Supplies and Business Services: are short-lasting goods and services that facilitate developing and/or managing the finished products**.** Operating supplies are the equivalent of convenience goods in the industrial field; they are usually purchased on a straight re - buy basis, a buying situation in which the buyer do not expend much time and effort, and the purchase is made based on past experience. They aid in a firm's operations but do not become part of the finished product. Examples are lubrication oils, pencils and stationery, registration slip in a college and washroom supplies.

Product and Service Decisions

Marketers make product decisions at three levels: individual product decisions, product line decisions and product mix decisions.

1. Individual Product and Service Decisions

The important decisions in the development and marketing of individual products and services include:

Product and service attributes.

Product Quality – is one of the marketers major positioning tools. Quality has a direct impact on product or service performance thus it is closely linked to customer value and satisfaction. In the narrowest sense quality can be defined as "freedom from defects." But most customer-centered companies go beyond this narrow definition. Instead they define quality as the characteristics of a product or service that bear on its ability to satisfy stated or implied customer needs.

Total Quality Management (TQM) is an approach in which all the company's people are involved in constantly improving the quality of products, services and business process.

Product quality has two dimensions – levels and consistency. In developing a product, the marketer must first choose a quality level that will support the product's position is the target market. Here product quality means performance quality. The ability of a product to perform its function.

Beyond quality level high quality also can mean high level of quality also can mean high level of quality consistency. Here product quality means conformance quality – freedom from defects and consistency in delivering a targeted level of performance.

Product Features – A product can be offered with varying features. A stripped – down model, one without any extras, is the starting point. The company can create higher level models by adding more features. Features are a competitive tool for differentiating tool the company's products from competitors' products. Being the first producer to introduce a needed and valued new feature is one of the most effective way to compete.

Product Style and Design

Another way to add customer value is through distinctive product style and design. Design is a larger concept than style. Style simply describes the appearance of the product. A sensational style may grab attention and produce pleasing aesthetics, but it does not necessarily make the product perform better. Unlike style, design is more than skin deep – it goes to the very heart of a product. Good design contributes to the products usefulness as well as to its looks.

Branding

Perhaps the most distinctive skill of professional marketers is their ability to build and manage their brands. A brand is a name, term, sign, symbol, or design or a combination of these, that identifies the maker or seller of a product or service. Consumers view a brand as an important part of a product and branding can add value to a product.

Branding help buyers in many ways. Brand names help consumers identify products that might benefit them. Brands also tell the buyer something about product quality. Buyers who always buy the same brand know that they will get the same features, benefits, and quality each time they buy. Branding also gives the seller several advantages. The brand name becomes the basis on which a whole story can be built about a product's special qualities. The seller's brand name and trademark provide legal protection for unique product features that other wise might be copied by competitors. And branding helps the seller to segment the market. Building and managing brands is perhaps the marketer's most important task.

Packaging

Packaging involves designing and producing the container or wrapper for a product. The packaging includes a product's primarily container (the tube holding Colgate toothpaste). It may also include a secondary package that is thrown away when the product is about to be used (the cardboard box containing the tube of Colgate). Finally, it can include a shipping package necessary to store, identity and ship the product (a corrugated box carrying six dozen tubes of Colgate).

Traditionally, the primarily function of the package was to contain and protect the product. In recent, times, however, numerous factors have made packaging and important marketing tool. Increased competition and clutter on retail store shelves means that packaging must now perform many sales tasks – from attracting attention to describing the product, to matching the sale.

Labeling

Labels may range from simple tags attached to products to complex graphics that are part of the package. They perform several functions. At the very least, the lable identifies the product or brand. The lable might also describe several things about the product – who made it, where it was made, when it was made, its contents, how it is to be used, and how to use it safely. Finally, the lable might promote the product through attractive graphics.

Product Support Services

Customer service is another element of product strategy. A company's offer usually includes some support services, which can be a minor or a major part of the total offering.

2. Product Line Decisions

Beyond decisions about individual products and services. Product strategy also calls for building a product line. A product line is a group of products that are closely related because they function in a similar manner, are sold to the same customer groups, are marketed through the same type of outlets or fall within given price ranges.

The major product line decision involves product line length – the number of items in the product line. The line is too short if the manager can increase profits by dropping items; the line is too long if the manager can increase profits by dropping items.

3. Product Mix Decisions

An organization within several product lines has a product mix. A product mix (product assortment) consists of all the product lines and items that a particular seller offers for sale.

A company's product mix has four important dimensions: width, length, depth and consistency.

- Product mix width refers to the number of different product lines the company carries
- Product mix length refers to the total number of items the company carries with in its product lines.
- Product line depth – refers to the number of versions offered of each product in the line.
- Consistency of the product mix – refers to how closely related the various product liens are in end use, production requirements, distribution channels, or some other way.

7.2. Pricing Strategies

In the narrowest sense price is the amount of money charged for a product or service. More broadly, price is the sum of all the values that consumers exchange for the benefits of having or using the product or service. Historically price has been the major factor affecting buyer choice. However, in recent decades, non price factors have become more important in buyer choice behaviors factors have become more important in buyer choice behavior.

Price is the only element in the marketing mix that produces revenue; all other elements represent costs. Price is also one of the most flexible elements of the marketing mix. Unlike product features and channel commitments, price can be changed quickly.

At the same time, pricing is the number one problem facing many marketing executives. Yet many companies do not handle pricing well. One frequent problem is that companies are too quick to reduce prices in order to get a sale rather than convincing buyers that their products are worth higher price. Other common mistakes include pricing that is too cost oriented rather than customer value oriented and pricing that does not take the rest of the marketing mix into account.

Factors to Consider when Setting Prices

A company's pricing decisions are affected by both internal company factors and external environmental factors.

A) Internal Factor Affecting Pricing Decisions

Internal factors affecting pricing include the company's marketing objectives, marketing mix strategy, costs and organizational considerations.

1) Marketing Objectives

Before setting price the company must decide on its strategy for the product. If the company has selected its target market and positions carefully, then its marketing mix strategy, including price, will be fairly straight forward. The company's objectives may include the following:

- **Survival –** Companies may set low prices in order to stay in the market.
- **Current profit maximization –** They estimate what demand and cost will be at different prices and choose the p rice that will produce the maximum current profits,, cash flow or return on investment.
- **Market share leadership –** To become the market share leader, these firms set prices as low as possible.
- **Product quality leadership –** This normally calls for charging high price to cover higher performance quality and high cost of R & P.
- **Not-for-profit and public organizations may adopt a number of other pricing –** A university aims for partial cost recovery, knowing that it must rely on private gifts and public grants to cover the remain cost. A not for-profit hospital may aim for full-cost recovery.

2) Marketing Mix Strategy

Price is only one of the marketing mix tools that a company uses to achieve its marketing objectives. Price decision must be coordinated with product design, distribution and promotion decisions to form a consistent and effective marketing program. Decisions made for other marketing mix variables may affect pricing decisions. For example, a decision to position the product on high performance quality will mean that the seller must charge a higher price to cover higher costs. And producers whose resellers are expected to support and promote their products may have to build larger reseller margins into their prices.

3) Costs

Costs set the floor for the price that the company can charge. The company wants to charge a price that both covers all its costs for producing, distributing, and selling the product and delivers a fair rate of return for its effort and risk. A company's cost may be an important element in its pricing strategy, Companies with lower costs can set lower prices that results in greater sales and profits.

A company's costs take two forms, fixed and variable. Fixed costs are costs that do not vary with production or sales levels. For example, a company must pay each month's bills for rent, heat, interest and executive salaries, whatever the company's output. Variable costs vary directly with the level of production. These costs tend to be the same for each unit produced. They are called variable because their total varies with the number of unit produced. Total costs are the sum of the fixed and variable costs for any given level of production. Management wants to charge a price that will at least cover the total production costs at a given level of production.

The company must watch its costs carefully. If it costs the company more than competitors to produce and sell its products the company will have to charge a higher price or make less profit, putting it at a competitive disadvantage.

4) Organizational Consideration

Management must decide who with in the organization should set prices. Companies handle pricing in a variety of ways. In small companies, prices are often set by top management rather than by the marketing or sales departments. In large companies, pricing is typically handled by divisional or product line managers. In industrial markets, sales people may be allowed to negotiate with customers with in certain price ranges. Even so, top management sets the pricing objectives and polices, and it often approves the prices proposed lower level managers or sales people.

B) External Factors Affecting Pricing Decisions

External factors that affect pricing decisions include the nature of the market and demand, competition, and other environmental element.

1) The Market and Demand

Whereas costs set the lower limit of prices, the market and demand set the upper limit. Both consumer and industrial buyers balance the price of a product or services against the

benefits of owning it. Thus before setting prices, the marketer must understand the relationship between price and demand for its product.

Pricing in Different Types of Markets

The sellers pricing freedom varies with different types of markets. Economists recognize four types of market each presenting a different pricing challenge.

Pure Competition – The market consists of many buyers and sellers trading a uniform commodity such as wheat, copper etc. No single buyers or seller has much effect on the going market price.

Monopolists Competition - the market consists of many buyers and sellers who trade over a range of prices rather than a single market price. A range of prices occurs because sellers can differentiate their offers to buyers.

Oligopolistic Competition – the market consists of a few sellers who are highly sensitive to each other's pricing and marketing strategies. The product can be uniform (steel, aluminum) or non uniform (cars, computer). There are few sellers because it is difficult for new sellers to enter the market. Each sellers is alert to competitors' strategies and moves.

Pure Monopoly – The market consists of one sellers. The seller may be a government or a private regulated monopoly or a private non regulated monopoly. Pricing is handled differently in each case.

Consumer Perceptions of Price and Value

In the end consumer will decide whether a product's price is right. Pricing decisions, like other marketing mix decisions, must be buyer oriented. When consumers buy a product they exchange something of value (the price) to get something of value (the benefits of having or using the product). Effective, buyer-oriented pricing involves understanding how much value consumers place on the benefits they receive from the product and setting the price that fits this value.

Analyzing the Price Demand Relationship. Each price the company might charge will lead to a different level of demand. The relationship between the price charged and the resulting demand level is shown in the demand curve. The demand curve shows the number of units the market will buy in a given time period at different prices that might be charged. In the normal case, demand and price are inversely related; that is, the higher the price the lower the demand. Thus the company would sell less if it raised its prices.

In short, consumers with limited budgets probably will buy less of something if its price is too high. In the case of prestige goods, the demand curve sometimes slopes upward. Consumer think higher prices mean more quality.

Marketers also need to know price elasticity how responsive demand will be to change in price.

2) Competitors cost, prices, and offers.

In setting its prices the company must also consider competitors costs and process, and possible competitor reactions to the company's own pricing moves. A consumer who is considering the purchase of a Sony Digital camera will evaluate Sony's prices and values of comparable products made by Nikon, Kodak, Cannon and others. In Addition the company's pricing strategy may affect the nature of the competition it faces.

3) Other External Factors.

When Setting Prices, the company must also consider a number of other factors in its External Environment. Economic conditions can have a strong impact on the firms pricing strategies. Economic Factors such as Boom or recession, inflation and Interest rates affect pricing decisions because they affect both the costs of producing a product and consumer perception of the product's price and value. The company must also consider what impacts its prices will have on other parties in its environment (resellers, government, etc….)

General Pricing Approaches

The price the company charges will be some where between one that is to low to produce a profit and one that is too high to produce any demand. Product costs set a floor to the price; consumer perceptions of the products value set the ceiling. Between these two extremes, the company must consider competitors' prices and other external and internal factors to find the best price.

Companies set prices by selecting a general pricing approach that includes one or more of these three sets of factors:

- The cost based approach
- The buyer based approach
- Competition based approach

1) Cost Based Pricing

The simplest pricing method is cost-plus pricing adding a standard mark up to the cost of the product. Construction companies, for example, submit job bids by estimating the total project cost and adding a standard markup for profit.

To illustrate mark up pricing suppose a toaster manufacturer had the following costs and expected sales:

Variable cost	$10
Fixed costs	$300,000
Expected unit sales	50,000

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

$$\text{Unit cost} = \frac{Variable}{\cos t} + \frac{fixed\ \cos t}{UnitSales} = \$10 + \frac{\$300{,}000}{50{,}000} = \$\ 16$$

Now suppose the manufacturer wants to earn a 20 percent markup on sales. The manufacturers mark up price is given by:

$$Markup\ \Pr ice = \frac{Unit\ \cos t}{(1 - Desiredreturnonslaes)} = \frac{\$16}{1 - 0.2} = \$20$$

The manufacturer should charge dealers $20 a toaster and make a profit of $4 per unit. The dealers in turn will mark up the toaster. If dealers want to earn 50% on sales price, they will mark up the toaster to $40 ($20+50% of $40). This number is equivalent to a mark up on cost of 100 percent ($\$20/\$20$).

Does using standard mark up to set prices make sense? Generally, no. Any pricing method that ignores demand and competitor prices is not likely to lead to the best price.

Still, markup pricing remains popular for many reasons:

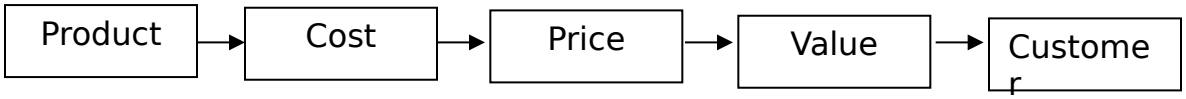
- Sellers are more certain about costs that demand. By typing the price to cost, sellers simplify pricing.
- When all firms in the industry use this pricing method, prices tend to be similar and price competition is thus minimized.
- Many people feel that cost – plus pricing is fairer to both buyers and sellers. Sellers earn a fair return on their investment but do not take advantage of buyers when buyers' demand becomes great.

2) Value Based Pricing

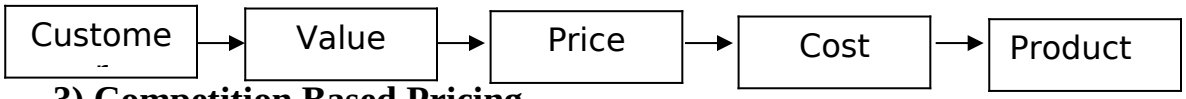
An increasing number of companies are basing their prices on the products perceived value. Value based pricing uses buyers' perceptions of value, not the seller's cost as the key to pricing. Value based pricing means that the marketer can not design a product and marketing program and then set the price. Price is considered along with the other marketing mix variables before the marketing program is set.

The following figure compares cost based pricing with value based pricing. Cost based pricing is product driven whereas value based pricing is customer driven.

Cost – based pricing



Value based pricing



3) Competition Based Pricing

Consumers will base their judgments of a product; value on the prices that competitors charge for similar products. One form of competition-based pricing is going rate pricing in which a firm bases its price largely on competitors prices, with less attention paid to its own costs or to demand. The firm might charge the same as, more than, or less than its major competitors.

Competition – based pricing is also used when firms bid for jobs. Using seal-bid pricing, a firm bases its price on how it thinks competitors, will price rather than on its own costs or on the demand. The firm wants to win a contract and wining the contract requires pricing less than other firms.

Pricing Strategies

The emphasis of this topic is to examine the major dynamic pricing strategies available to marketers. In turn, we look at:

- New product pricing strategies
- Product mix pricing strategies
- Price adjustment strategies

A. New-Product Pricing Strategies

Pricing strategies usually changes as product passes through its life cycle. The introductory stage is especially challenging. Companies bring out a new product face the challenge of setting prices for the first time. They can choose between two broad strategies:

- **Market Skimming Pricing** – Setting a high price for a new product to skim maximum revenues layer by layer from the segments wishing to pay the high price; the company makes fewer but more profitable sales.
- **Market Penetration Pricing** – setting a low price for a new product in order to attract a large number of buyers and a large market share.

B. Product Mix Pricing Strategies

The strategies for setting a product's price often has to be changed when the product is part of a product mix. In this case the firm looks for a set of prices that maximizes the profits on the total product mix.

Strategy	Description
- Product line pricing	- Setting price steps between product lines items
- Optional product pricing	- Pricing optional (accessory) product sold with the main product
- Captive-product pricing	- Pricing products that must be used with the main product
- By-product pricing	- Pricing low-level by-products to get rid of them
- Product bundle pricing	- Pricing bundles of products sold together.

Price Adjustment Strategies

Companies usually adjust their basic prices to account for various customer differences and changing situations. Here we examine the sic price adjustment strategies.

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

7.3. Integrated marketing communication strategies

Overview on Integrated Marketing communication Strategies

Modern marketing calls for more than just developing a good product, pricing it attractively, and making it available to target customers. Companies must also communicate with current and prospective customers, and what they communicate should not be left to chance. All of their communications efforts must be blended in to a consistent and coordinated communications program

The role and objective of promotion

Promotion is the element in an organization's marketing mix that serves to inform, persuade, and remind the market of the organization about its products.

In general promotion has **three** major objectives: Informing, persuading and reminding.

- ✓ **Informing**

  The major objective of promotion is to disseminate information, i.e. to let potential customers be informed.

- ✓ **Persuasion**- The intense competition among different industries, as well as among different firms in the same industry, puts tremendous pressure on the promotional programs of sellers.

- ✓ **Reminding**- consumers also must be reminded about a product's availability and satisfaction potential. Sellers bombard the marketplace with thousands of messages every day in the hope of attracting new customers and establishing markets for new products.

Elements of the Promotional Mix

In general the promotional mix contains four elements: advertising, personal selling, sales promotion, and publicity and public relation. The management of the company has to design the *promotional mix*-the combination of advertising personal selling, sales promotion, and public relation that will make the most effective promotional program for a firm.

- ✓ Advertising

Advertising can be defined as any paid form of non-personal presentation and promotion of ideas, goods, or services by an identified sponsor.

In developing an advertising program, marketing managers must always start by identifying the target market. Then they can proceed to make the five major decisions in developing an advertising program that are commonly known as the five Ms:

- ♦ Mission: what are the advertising objectives?
- ♦ Money: How much can be spent?
- ♦ Message: What message should be sent?
- ♦ Media: What media should be used?
- ♦ Measurement: How should the result be evaluated?

Advertising Media selection

There are four common types of media: Print media, electronic media, out door media, and direct mail. The sample composition of each media is given in the following table:

Print media	Electronic media	Out door media	Direct mail
✓ News paper ✓ Magazines ✓ Brochures ✓ Journals ✓ Brochures	✓ TV ✓ Radio ✓ Cinema ✓ Video	✓ Ads on transport menses ✓ Ads on boards	✓ Price list ✓ catalogues

- ✓ **Personal selling**

The goal of all marketing efforts is to achieve the organization's objectives by offering want-satisfaction to the market over the long run.

> Personal selling, the personal communication of information to persuade a prospective customer to buy a good, service, or idea, is the major promotional tool used to reach this goal.

- ✓ **Sales promotion**

The American marketing Association defined sales promotion as:

> "Those marketing activities, other than personal selling, advertising, and publicity, that stimulates consumer purchasing and dealer effectiveness, such as displays, shows and exhibitions, demonstrations, and various non recurrent selling efforts not in the ordinary routine."

The purpose of public relation is not to sell goods rather it helps to boast the image of the organization or its product and increase its goodwill. Public relation performs such activities as preparing publications, releasing news release, speeches and events like seminars, exhibitions, anniversaries, sports, etc.

7.4. placement/Distribution Strategies

The place element of the marketing mix, thus, incorporates both merchants and facilities that can be used to physically distribute the good. The merchants are referred as channels of distribution, and the facilities are referred as elements of the physical distribution.

Meaning of Channel Intermediaries

In almost all physical goods, the producer is geographically distanced from the ultimate consumer. The geographical separation between the manufacturer and the ultimate consumer requires intermediaries to bridge the gap. In other words, product ownership has to be transferred through some other intermediaries while moving it from the individual or organization making it to the consumer needing it. The intermediaries are just business men who make their livelihood by buying goods and selling it at a margin to those who need the product.

Definitions of channel intermediaries

The American Marketing Association has defined channels of distribution as follows: A channel of distribution or marketing channel is the structure of intra company organization units and extra company agents like dealers, wholesalers and retailers through which a commodity, product or a service is marketed.

Types and Role of Middlemen

Agents/Agency

> Agents are usually channels that provide various wholesaling functions, such as negotiating purchases and expediting sales.

Agents do not buy goods or do not have titles on goods. The title remains with the principal, the one who delegates the agent, but the agen sales on commission basis.

Wholesaling

> Wholesaling involves the bulk buying and handling of merchandises and its resale for organizational users, retailers and /or other wholesalers.

They can sell to retailers as well, but the size of sale to retailers should not be significant.

There are two broad categories of wholesalers:

i. Manufacturer Wholesaling- This is when the manufacturer itself handles wholesaling activities through its branches and offices.
ii. Merchant Wholesaling- This is when different organizations other than the manufacturer by the product and wholesale it.

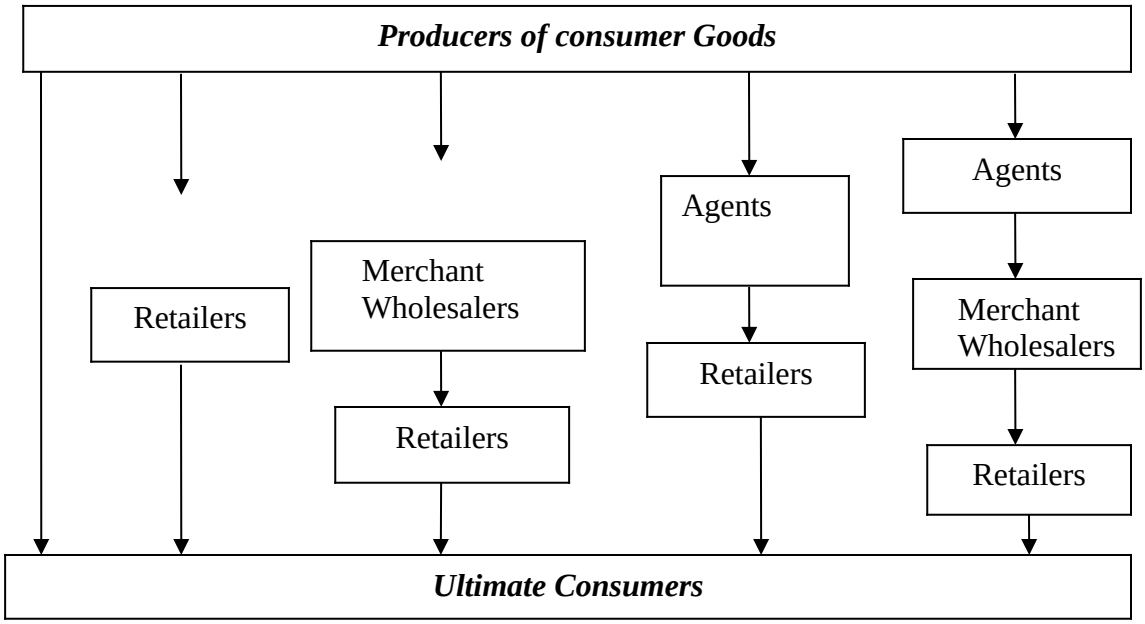
Retailing

> Retailing involves the sale of goods and services to final consumers for personal, family or household use.

It is the final stage in the distribution channel.

Alternative channel of distribution

A channel consisting only of producers and final customer, with no middlemen providing assistance is called *direct distribution*. In contrast, a channel of producer, final consumer, and at least one level of middleman represent *indirect distribution.* Five levels of channels are followed in marketing physical goods.



Physical Distribution Management: is concerned with the flow of goods from producer to the ultimate user.

It starts from the receipt of orders and ends up with delivery of the goods to the customer. It includes activities like *order processing, transportation, warehousing, and inventory management*

a. Order processing-order processing is the first of the four stages in the distribution process. Orders are received from the sales team in the sales department. Order processing is the starting point of the agreement between the buyer and seller to supply a particular product or commodity as and when required.
b. Transportation- transportation usually represents the greatest distribution cost. Cost be controlled through the mode of transport selected among alternatives, and this must be constantly reviewed. Road transport has become the dominant transport mode in almost most countries. It has the advantage of door-to-door delivery.
c. Warehousing is storing goods until they are delivered to customers Transportation can be carried out in bulk from the place of manufacture to respective warehouses where stocks will wait until ready for further distribution to the customers.
d. Inventory-Inventory or stock management is a critical area of physical distribution management because stock levels have a direct effect on levels of service and satisfaction.