# MBA – I
# Semester II
# Subject: Marketing Management -201

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# UNIT 1 PRODUCT


# What is Marketing?

Marketing is the process of discovering and translating consumer wants into products and services and then in turn making it possible for them to enjoy the products and services

Discovering consumer wants

↓

Translating into products and services

↓

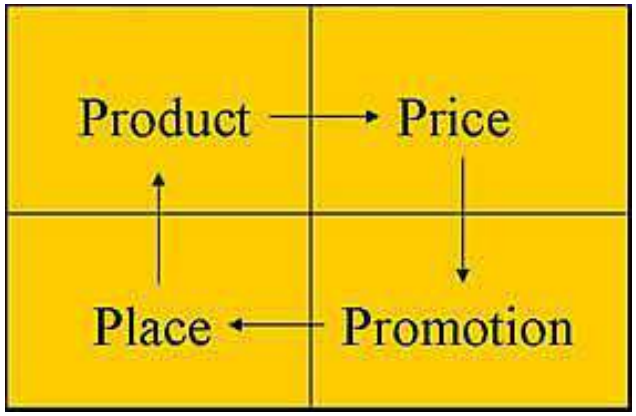
Customer Satisfaction

*Marketing involves finding out what your customers want and supplying it to them at a profit*

# What is Marketing Mix?

**It is the combination of four inputs which constitute the core of a company's marketing system:**

- product,
- price structure,
- promotional activities
- distribution system (Place)

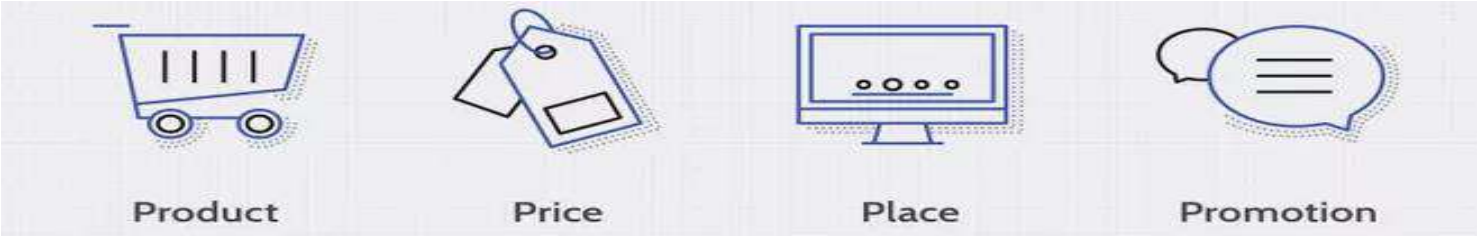


# Marketing Mix

- The term "marketing mix" is a foundation model for businesses, historically centered around product, price, place, and promotion. The marketing mix has been defined as the "set of marketing tools that the firm uses to pursue its marketing objectives in the target market".

# Purpose of Marketing Mix

The purpose of marketing mix is to satisfy the needs and wants of the customers in most effective and economical manner




# Elements of Marketing Mix

| Product | Promotion | Price | Place |
|---|---|---|---|
| Variety | Advertising | List price | Channels |
| Quality | Promotions | Discounts | Coverage |
| Design | Personal selling | Allowances | Assortments |
| Features | Publicity | Payment period | Locations |
| Brand name | | Credit terms | Inventory |
| Packaging | | | Transport |
| Services | | | |
| Warranties | | | |

Target market

# Product

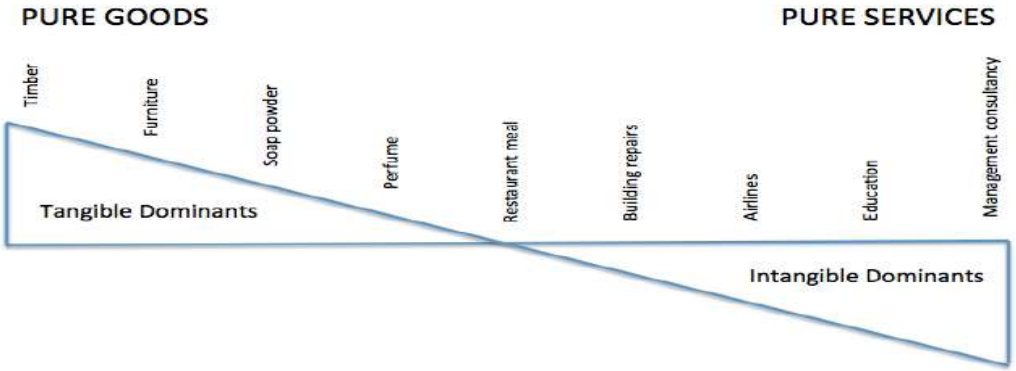
- Product refers to the goods and services offered by the organisation.
- A pair of shoes, a plate of dahi-vada, a lipstick, all are products. All these are purchased because they satisfy one or more of our needs. We are paying not for the tangible product but for the benefit it will provide. So, in simple words, product can be described as a bundle of benefits which a marketer offers to the consumer for a price.
- While buying a pair of shoes, we are actually buying comfort for our feet, while buying a lipstick we are actually paying for beauty because lipstick is likely to make us look good. Product can also take the form of a service like an air travel, telecommunication, etc. Thus, the term **product** refers to goods and services offered by the organisation for sale.


# Role of a Product as a Market offering

- Consumer's needs and wants are fulfilled through **Market offerings.**
- The offerings are some combination of products, services, information, or experiences offered to a market to satisfy a need or a want.
- These offerings 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.

# Goods-Service Continuum

- It enables marketers to see total products' relative goods/services composition. A product position on the continuum, in turn, allows marketers to spot opportunities. At the pure goods ends of the continuum, goods with no related services are positioned. At the pure services, the future is services that are not associated with physical products. Products that are a combination of goods and services fall between the two ends.
- In the goods-services continuum, services can be classified under the range or degree of tangibility- highly tangible to highly intangible.
- 1. **Highly Tangible Services:** They have a high degree of tangibility because services are rendered on certain goods, e.g. car rentals. It is a service-based entirely on cars. If a place had no vehicles, such a service would cease to exist. For the marketer, it is both a boon and a curse.
- 2**. Service Linked to Tangible Goods**: In this, the service is linked to goods independently as a part of the marketer's offer. The service becomes a part of the total product concept if it is the latter. This occurs when Videocon, the home appliance company, includes repair as part of its marketing m 3. Highly Intangible Services: In this classification under the continuum model, service is high intangible. The services cannot be touched, felt or seen—for example, counselling, psychotherapy, physiotherapy, etc.
- Most business theorists see a continuum with pure service on one terminal point and pure commodity goods on the other terminal point. Like economists, marketers also view goods and services as two ends of a continuum.



# PRODUCT CLASSIFICATION

Based on use, the product can be classified as:

- (a) Consumer Goods; and
- (b) Industrial (Business)Goods.

# GOODS / PRODUCT CLASSIFICATION

## A. CONSUMER GOODS/PRODUCTS

Anything that is produced or consumed by the *consumer* to satisfy current needs and wants.

**1. CONVENIENCE GOODS/PRODUCTS**
It is frequently purchased and less expensive. E.g.: Medicine, Candy, Ice-cream, Cold Drinks, Groceries (Milk,Sugar,Tea,Soap)

**2. SHOPPING GOODS/PRODUCTS**
It is not purchased frequently and more expensive. E.g.: Dresses, Electronic Appliances and Items, Furniture

**3. SPECIALTY GOODS/PRODUCTS**
Branded Products with Unique Features and very expensive E.g.: Antique Products, Designer Items, Luxury Items, Jewellery

**4. UNSOUGHT GOODS/PRODUCTS**
Products which are unknown to consumers or they don't think about it. E.g.: Encyclopedia, Insurance, Fire Extinguisher

## B. INDUSTRIAL (BUSINESS) GOODS/PRODUCTS

*Products* which are used as input (raw material or parts & components) by companies to produce finished *goods*.

**1. CAPITAL ITEMS**
It is used in production process by companies to produce goods & services

- **a. INSTALLATION**
  E.g.: Heavy Machinery , Cranes,Elevators, Plants,Buildings
- **b. EQUIPMENTS**
  E.g.: Trucks, Hand Tools, Fork Lift, IT Systems(PCs,Printer, Desktop),Furniture

**2. MATERIALS & PARTS**
It is used as actual parts of finished goods

- **a. RAW MATERIALS**
  - **I. NATURAL GOODS/PRODUCT**
    E.g.: Minerals, Fish, Coal, Crude Oil, Wood
  - **II. FARM GOODS/PRODUCT**
    E.g.: Fruit, Vegetable Eggs, Cotton, Grains
- **b. MANUFACTURED MATERIALS**
  - **I. COMPONENT PARTS**
    E.g.: Battery, Bulb, Radiator, Chip,RAM
  - **II. COMPONENT MATERIALS**
    E.g.: Cement,Glass, Wires, Plastic, Iron

**3. SUPPLY & SERVICES**
It is used for facilitating or managing finished goods

- **a. MAINTENANCE & REPAIR**
  E.g.: Paints, Brooms, Repair Tools, Pumps, Laboratory, Cleaning
- **b. OPENING SUPPLIES**
  E.g.: Lubricants, Stationary Items (Pen, A4 Sheets)

# A. Consumer Goods

## Consumer goods:

- Goods meant for personal consumption by the households or ultimate consumers are called consumer goods. This includes items like toiletries, groceries, clothes etc. Based on consumers' buying behaviour the consumer goods can be further classified as :
- (i) Convenience Goods;
- (ii) Shopping Goods;
- (iii) Specialty Goods; and
- (iv) Unsought Goods

# A. Consumer Goods

## (i) Convenience Goods

- Those products customers buy often and without much thought or planning are classified as convenience goods.
- Consumers typically make a choice once on their brand preference for these products and repeat that choice over many purchases.

**Examples** - Soap, Toothpaste, soft drinks, biscuits, milk, and deodorants, etc.

**CHARACTERISTICS -**

1.Products **purchased** at **convenient locations** , with **least efforts and time** .
2.These are products that appeal to a very large market segment. They are generally **consumed regularly** and **purchased frequently.**
3. DEMAND - Regular and continuous , as the products are **essential products** .
4.PRICING- Price per item tends to be relatively **:Low-** Because of the high purchase volume by consumers . **Standardized** -As most of the consumer products are branded .

From the marketer's perspective the low price of convenience products means that profit per unit sold is very low. In order to make high profits marketers must sell in large volume. Consequently, marketers attempt to distribute these products in mass through as many retail outlets as possible.

# A. Consumer Goods

## ii) Shopping Goods:

Consumer goods in which buying decisions are detailed considerations of price, quality , suitability and value for products are classified as shopping goods.

**Examples** - Laptop , Clothing, Furniture , Shoes , Television and Mobile etc .

**CHARACTERISTICS -**

1. Durable in nature-survive many uses .

2. Profit margin is high.

3. High unit Price - So consumers compare the products of different companies before making selection .

4. Purchases of shopping products are generally pre- planned and there is a little degree of impulse buying in these products .

5. Retailers generally play an important role in the sale of shopping products as lot of persuasive effort is needed to convince the buyers to purchase them.

# A. Consumer Goods

## (iii) Specialty Goods:

Consumer goods which have certain special features because of which customers make special efforts to purchase.

**Examples** - Collection of artwork or antiques, designer clothing, high specification laptop, sports car, rare ornaments, etc. The **brand image** in the market is the **USP of these products** like Ferrari, Gucci, etc.

**CHARACTERISTICS -**

1. Tend to promote very strong brand identities, often resulting in strong brand loyalty among consumers.

2. DEMAND- Limited as relatively small number of people buy. It is relatively inelastic demand i.e , even if the price is increased , the demand does not come down .

3. PRICE - Products are generally costly .

4. These products are available for sale at few places as the number of customers is small to take extra efforts in the purchase of these products.

5. An aggressive promotion is required .

6. After sales services are very important for many of many of the specialty products.

# A. Consumer Goods

## (iv) Unsought Goods

- The products classified as unsought goods are those that consumers don't put much thought into and generally don't have compelling impulse to buy.
- These kinds of products can be ranking from old, outdated goods to the new innovative prototype.
- Consumers don't remember these products at the top of their heads, and they are very infrequently bought from the market.
- The unique property of this good is that the benefits are not instantly derived from the product.

**Examples** Helmets, Books, Fire Extinguisher and Life Insurance etc

Consumers essentially buy unsought goods when they have to, almost as an inconvenience rather than the newest, latest, greatest product they can't wait to purchase.

Marketing unsought goods will likely be most effective with lots of advertising and salespeople promoting the idea of unresolved needed .

| | Convenience | Shopping | Specialty | Unsought |
|---|---|---|---|---|
| Customer Buying Behaviour | Frequent purchase, little planning, little comparison or shopping effort, low customer involvement | Less frequent purchase, much planning & shopping effort, comparison of brands on price, quality and style | Strong brand preference & loyalty, special purchase effort, little comparison of brands, low price sensitivity | Little product awareness, knowledge (or, if aware, little or even negative interest) |
| Price | Low price | Higher price | High price | Varies |
| Distribution | Widespread distribution, convenient locations | Selective distribution in fewer outlets | Exclusive distribution in only one or few outlets per market area | Varies |
| Promotion | Mass promotion by producer | Advertising & personal selling by producer & resellers | Carefully targeted promotion by producer & resellers | Aggressive advertising & personal selling by producers and resellers |
| Examples | Toothpaste, magazine, detergent | Appliances, TVs, furniture, clothing | Luxury goods like Rolex watches | Life insurance, blood donations |

# A. Industrial (Business)Goods

Industrial goods are those purchased by organizations for use either in other products or in their operations. The main objective of industrial products is to use the products in business operation and earn profit.

Following are the types of Industrial products

**1. Material & Parts**

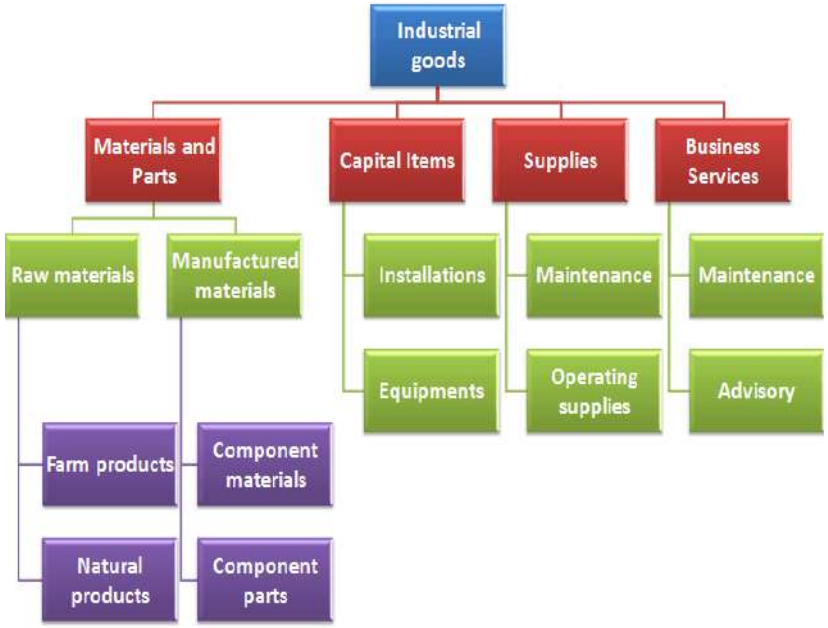
- Raw Materials
- Manufacturing Materials and Parts

**2. Capital Items**

- Installation
- Accessory Equipment

**3. Supplies and**

**4. Business Services**



# A. Industrial (Business)Goods

Following are the types of Industrial products

1. **Material & Parts**

**Raw Materials**

- Raw materials are those business products that organizations buy for the purpose of manufacturing other goods. In other word, raw materials are those industrial goods that will be used in the making of other products. Included in this category are natural resources such as forest products, minerals, water, oceanic products, and agricultural products and livestock. In most instances, raw materials lose their individual identities when used in the final product.

**Example**

- Natural products like coal, petroleum, iron, fish etc.
- Farm products like cotton, vegetables, wheat, livestock etc.

**Manufacturing Materials and Parts**

- Manufacturing materials are the parts of those business goods, which are complete in all respect and might have gone all the manufacturing process but ultimate consumer cannot use them until when they combine with another finish product. They become the part of finish goods.
- They complete in another manufacturing unit but can be ultimately use when they become the part of finish good.
- These are again of two types –

a. **component materials** like glass, iron, plastic, yarn, cement, and wires. Component materials usually are processed further.

**For example,** the pulp is made into paper

b. **component parts** such as electric bulb, steering, small motors, tires, casting and battery. Component parts enter into the finished product wholly. Unlike raw materials, parts usually have been processed before being used in the finished product. Although they may not be visible, parts are left intact and assembled into the total product.

**For example**, amplifiers are fixed in CD players.

# A. Industrial (Business)Goods

Following are the types of Industrial products

**2. Capital Items** To make any manufacturing business or large scale industry possible, capital items are used. Capital items generally fall under the Assets column of the balance sheet. These are items necessary for the functioning of the organization, and very useful to be invested in for the long term. Due to their very nature, these capital items have a residual value to the company. And hence a company which has large capital, has to ensure that it has large revenue, otherwise Capital (which is a fixed cost) will bring the company down. **There are two types of capital items**

**a. Installation**

- An organization's major expensive, long-lived equipments (fixed Assets) is called installation.
- Large installations such as factories, warehouses and other buildings are capital items which require long time installation and are used for an even longer time.

**Example**

- Large Generator used in a Dam, Large printing press, Long live Asset (depreciable Asset) such as machinery.

**b. Equipments**

- The equipments are those industrial products, which are bought by the organization or individual to support the real business operations, they may be revenue nature, or capital nature.
- Equipments are both **– heavy machineries** as well as a **utility** to the organization using them. All these are equipments which are assets. They have a short span of life when compared to installations, but as compared to the life span of normal operating supplies (paper, pen) they have a longer life span.
- This equipment includes industrial products used to facilitate the production process or middleman sales.
- It does not become part of the finished product but aids in the overall production or selling effort.

**Example**

- Equipments in case of factories will be caterpillars, trucks, cranes and what not. Equipment in case of industrial services will be computers, hardware and design equipment, printers, copiers etc. Also Typewriter, Table, Chairs, Computer etc
- Accessory equipment would include tools, shelving, and many other products that tend to have a lower cost and shorter life than major equipment.

# A. Industrial (Business)Goods

Following are the types of Industrial products

**3. Supplies**

- Any short term goods or material which is necessary for the day to day operations or a company or businesses is termed as **supplies.** A simple example is A4 sized paper. Can you imagine the amount of paper it takes to make an educational institute like DIMR work? An office might need 1000's of papers a day for print outs.
- They never become part of the finished goods but they are used to facilitate the business operation.
- Supplies can be treated as convenience products of the industrial market as they are purchased with minimal effort.

Supplies are divided in 2 formats

- **a) Maintenance and repair supplies –** Paints are a form of maintenance supplies and Asian paints is the leader in that. Cleaning services are another form of maintenance, Examples are brooms for cleaning the factory floor, stationary, and lubricating oil.
- **b) Operating supplies –** Pen and paper, notepads, lubricants for automobiles are part of the operating supplies needed on a day to day basis. Kangaro is an excellent brand which comes to mind when it comes to staplers and staple pins.

# A. Industrial (Business)Goods

Following are the types of Industrial products

**4. Business Services**

- **Business services** are generally third party services given to businesses and they are in form right now because businesses do not want to spend the time or the energy on getting regular things running. Hence they either use Business advisory services or business maintenance services.
- These services are generally provided through contracts by small producers and manufacturers of the original equipment.

**These include:**

- **a) Business advisory services –** Any business out there requires a Chartered accountant. This accountant can be hired or it can be a firm which handles the business. Similarly legal, consulting, distribution,advertising, marketing are all business agencies within themselves which provide services to industries. These advisory services are on the rise because of the growing economy of developing nations.
- **b) Maintenance and repair services –** There is a difference between repair goods and repair services. Where paint is a repair good, a repair service is window cleaning or printer and copier repairing, something which is best left to the professionals. And there are many professionals out there who pick industrial contracts for an annual year towards repair and maintenance of day to day products and equipments within an organization.

# Difference in Marketing Mix for Consumer & Industrial Goods

The **marketing mix for industrial products** is quite **different** from that for **consumer products** due to the features of selling "**business to business**":

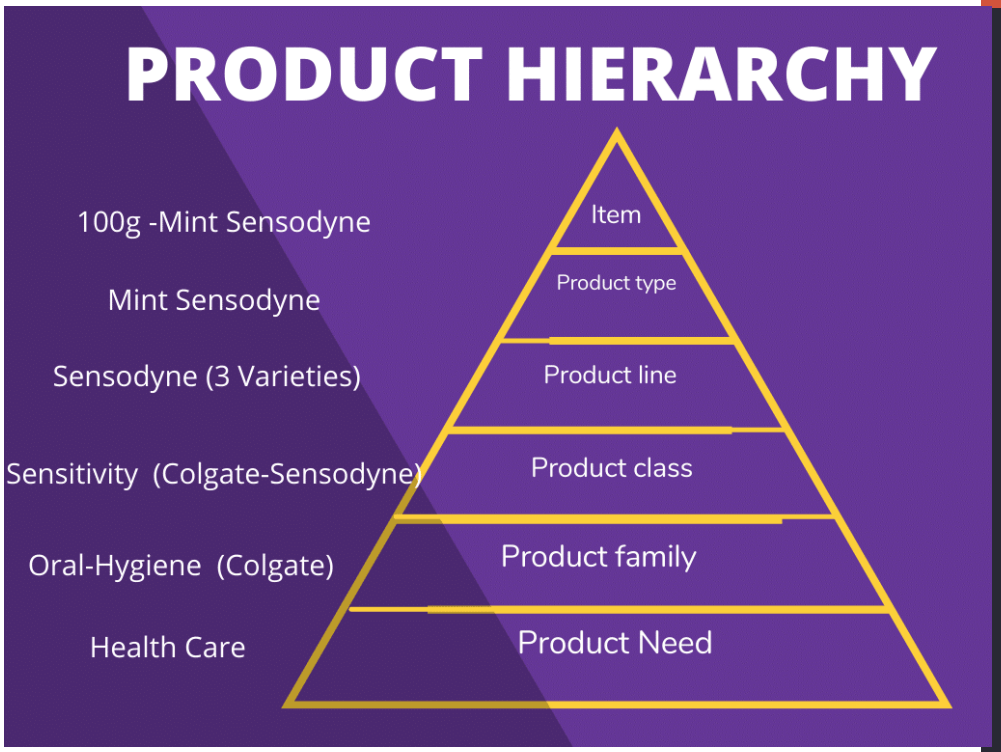
- **Specialist buyers and sellers:** buyers are businesses – will have specialist requirements and more experience. Often dealing with professional “buyers”
- **Buyer-seller relationship:** strong emphasis on customer relationship management and repeat business
- **Transaction value**: purchase value often substantial in a single transaction (e.g. bulk purchase contract)
- **Quality and Price:** greater emphasis on product quality and price (where there are acceptable alternative products). Price is often negotiated by the buyer
- **Support:** greater requirement for after-sales support

## Difference between industrial and consumer products

| Basis | Industrial products | Consumer products |
|---|---|---|
| Meaning | These products are used for further production of other goods. | These products are used for final consumption by the direct consumers. |
| Number of buyer | The buyers of industrial goods are limited. | The buyers of consumer goods are many in number. |
| Buying decision | Decisions of buyers are influenced by technical specification and goodwill. | Decisions of buyers are influenced by advertising and various sales promotional schemes. |
| Nature of demand | These products have derived demand. | These products have direct demand. |

# PRODUCT HIERARCHY

**Product hierarchy** is the classification of a product into its essential components. It is inevitable that a product is related or connected to another. The hierarchy of the products stretches from basic fundamental needs to specific items that satiate the particular needs. Product hierarchy is better understood by viewing the business as a whole as opposed to looking at a specific product. Product hierarchy is usually mentioned in the same sentence with product classification and therefore can be viewed as a way of product classification.



# PRODUCT HIERARCHY

1. **PRODUCT NEED**

- Firstly, the product hierarchy example is product need which symbolizes the reason for which a product exists.

***For product hierarchy example***: People need products for their health care. Now here is the basic product need that Colgate satisfies.

2. **PRODUCT FAMILY :**

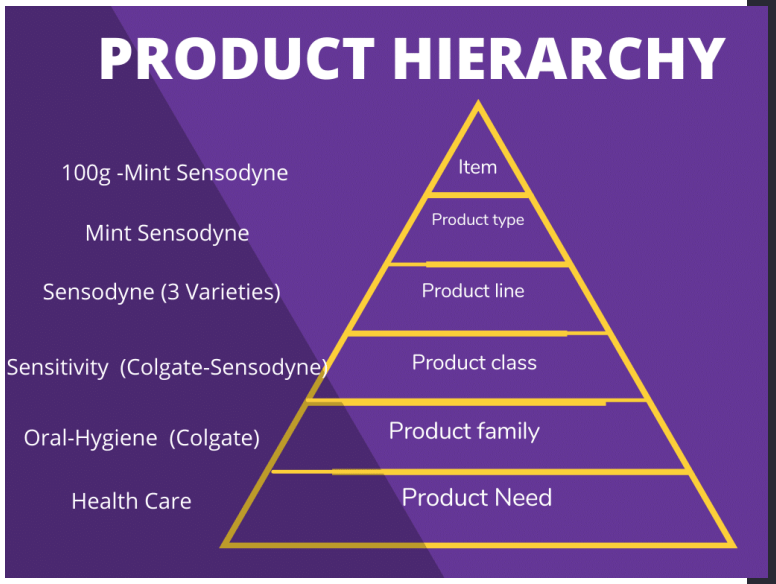
- Secondly, the product family is from the point of view of the business market and is company-specific. So this level refers to the basic need that the company's product satisfies. All the product family that can satisfy a core need with reasonable effectiveness

***For product hierarchy example*:** In oral hygiene of Colgate there can be a variety of options like toothpaste, toothbrushes, floss, and mouthwash.

3. **PRODUCT CLASS :**

- A group of products within the product family recognized as having a certain functional coherence. It describes the group under the specific product family having a unique function also called the product subcategory.

***For product hierarchy example*:** Colgate with its whitening category or sensitivity factor (Sensodyne) is called product class.



# PRODUCT HIERARCHY

**4. PRODUCT LINE**

- This area deals with various products that fall under the umbrella of one product class that are closely associated due to the same function performed by them marketed to the same channels, sold to the same customers, or have similar price ranges.

***For product hierarchy example:*** Colgate Sensodyne has three varieties which are termed as product line as they perform the same function of dealing with sensitive areas in our teeth. So the product line here is 3.

**5. PRODUCT TYPE**

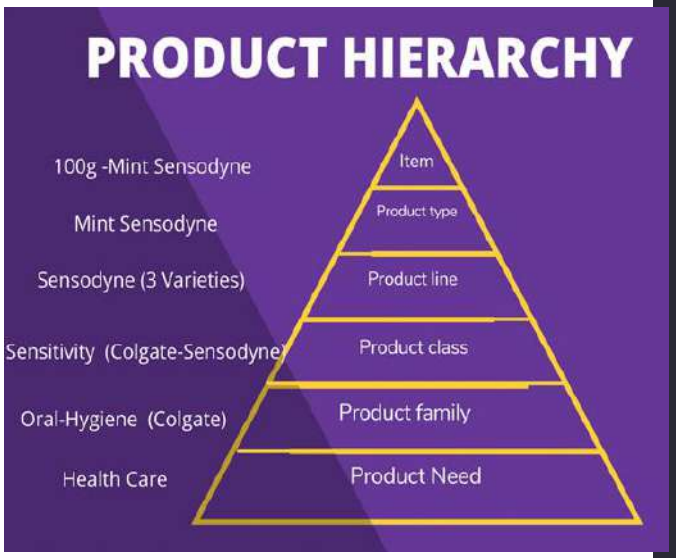
- This level now describes the items which are present in a specific product line that shares one specific function.

***For product hierarchy example****:* Colgate Sensodyne has three flavours namely normal whitening, mint, and Ayurveda. So the individual products are referred to as product types.

**6. ITEM / PRODUCT VARIANT / STOCK KEEPING UNIT**

- Finally or the last destination in the product hierarchy example is an item or commonly known as SKU. This category differentiates the product type with a specific price, appearance, size, or other attributes.

***For product hierarchy example*****:** Colgate Sensodyne mint variant is available in 30 grams, 60 grams, and 100 grams as well with different cost structures. So a 100-gram product is termed as ITEM.



# What Is Product Mix?

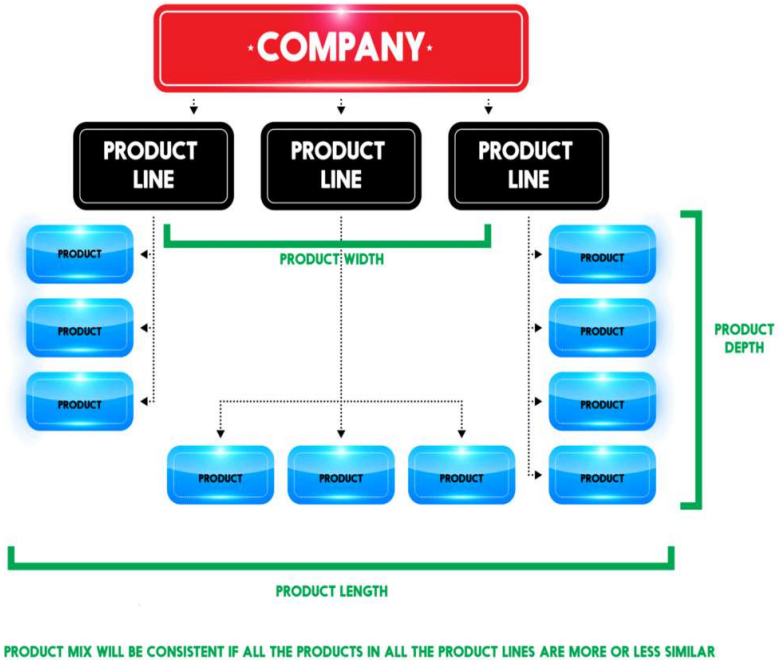
- **Product mix**, also known as **product assortment**, refers to the total number of product lines that a company offers to its customers. The product lines may range from one to many and the company may have many products under the same product line as well. All of these product lines when grouped together form the product mix of the company.
- The product mix is a **subset** of the **marketing mix** and is an important part of the business model of a company. The product mix has the following dimensions or components:

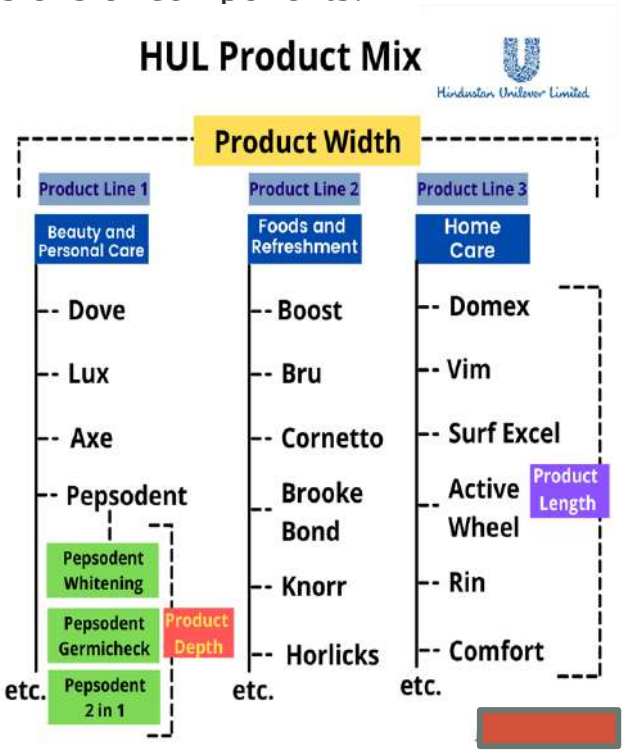
a. **Width**

b. **Length**

c. **Depth**

d. **Consistency**



# Dimensions of a Product Mix

- **Width**

The width of the mix refers to the number of product lines the company has to offer.

**For example** – if a company produces only soft drinks and juices, this means its mix is two products wide. Coca-Cola deals in juices, soft drinks, and mineral water, and hence the product mix of Coca-Cola is three products wide.

- **Length**

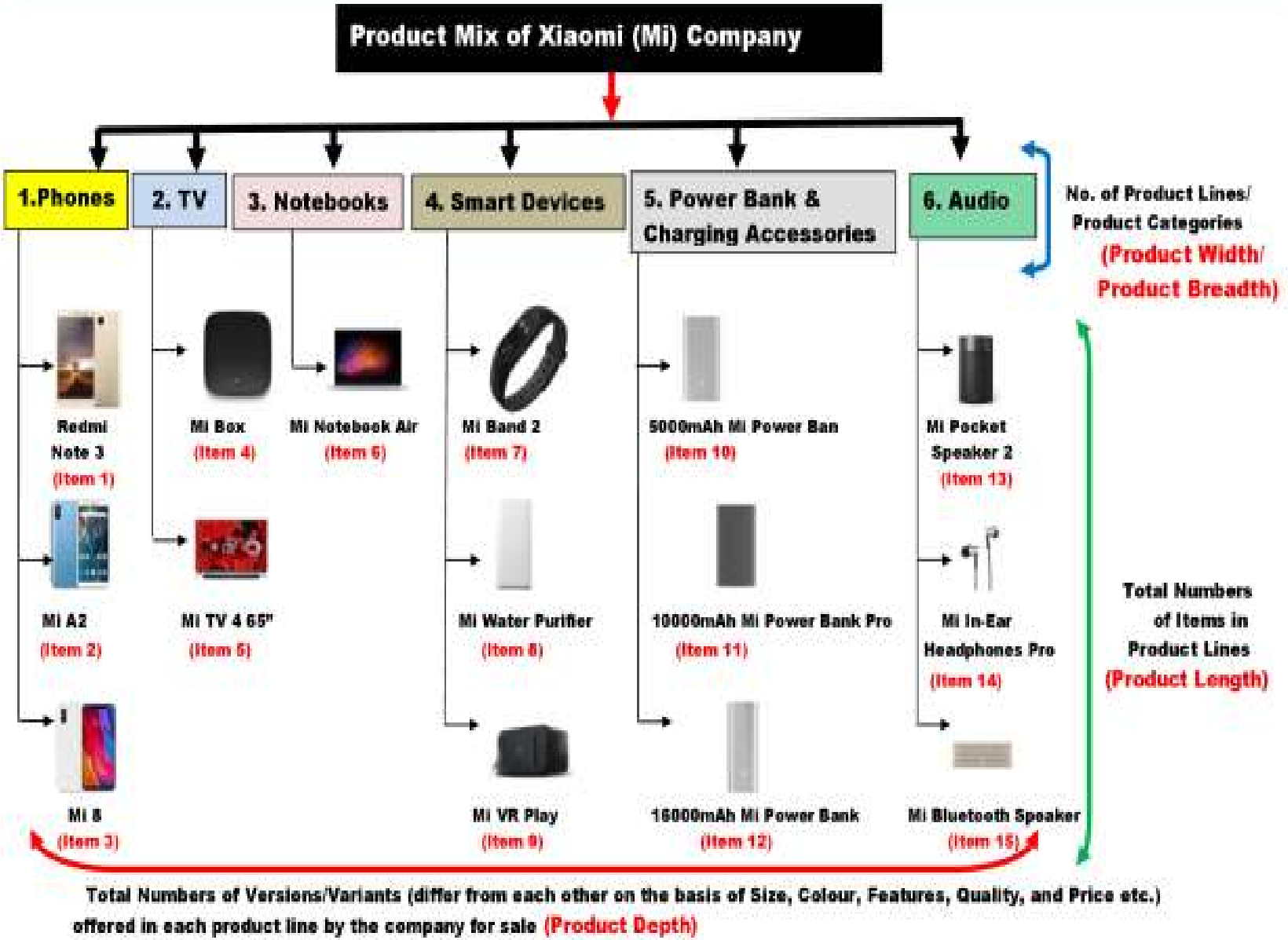
The length of the product mix refers to the total number of products in the mix. That is if a company has 5 product lines and 10 products each under those product lines, the length of the mix will be 50 [5 x 10].

- **Depth**

The depth of the product mix refers to the total number of products within a product line. There can be variations in the products of the same product line. **For example** – Colgate has different variants under the same product line like Colgate advanced, Colgate active salt, etc. Moreover, if it sells in various sizes, that will also count as depth. Suppose Colgate sells toothpaste in three sizes and two flavors; it would mean a depth of six.

- **Consistency**

Product mix consistency refers to how closely products are linked to each other. Less the variation among products, more the consistency. **For example**, a company dealing in just dairy products has more consistency than a company dealing in all types of electronics.


Product Mix of Xiaomi (Mi) Company
1.Phones
2. TV
3. Notebooks
4. Smart Devices
5. Power Bank & Charging Accessories
6. Audio
No. of Product Lines/ Product Categories (Product Width/ Product Breadth)
Redmi Note 3 (Item 1)
Mi A2 (Item 2)
Mi 8 (Item 3)
Mi Box (Item 4)
Mi TV 4 65" (Item 5)
Mi Notebook Air (Item 6)
Mi Band 2 (Item 7)
Mi Water Purifier (Item 8)
Mi VR Play (Item 9)
5000mAh Mi Power Ban (Item 10)
10000mAh Mi Power Bank Pro (Item 11)
16000mAh Mi Power Bank (Item 12)
Mi Pocket Speaker 2 (Item 13)
Mi In-Ear Headphones Pro (Item 14)
Mi Bluetooth Speaker (Item 15)
Total Numbers of Items in Product Lines (Product Length)
Total Numbers of Versions/Variants (differ from each other on the basis of Size, Colour, Features, Quality, and Price etc.) offered in each product line by the company for sale (Product Depth)

# PRODUCT MIX

**PRODUCT MIX** is number of product lines a firm has under its umbrella. All the product lines together constitute a product mix.

For example, Coca-Cola deals in soft-drinks, juices, and more. These are its product lines.

## DIMENSIONS

- **Width** : The number of product lines that a firm has suggested is what is called as the width of a product mix.
- **Length** : The length refers to the products in a product mix.
- **Depth** : It is the total number of variations of a product in a product line. The differences can be in the form of size, flavor, etc.
- **Consistency** : It means the relationship between the products in a product mix with regards to production and distribution channel

## FACTORS AFFECTING PRODUCT MIX

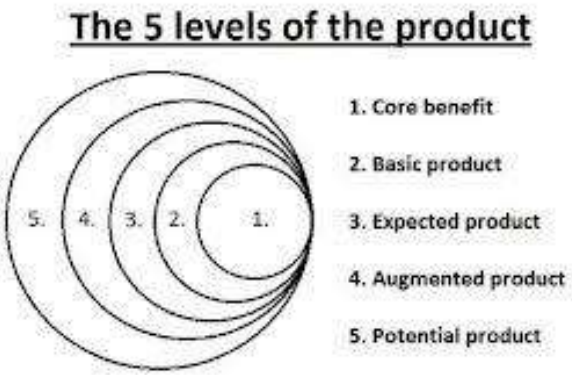
- Age
- Brand Identity
- Area of Operation
- Financial Position

## IMPORTANCE

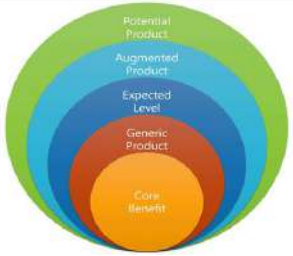
- Helps to study and analyse brand image.
- More product means less risk and lower dependence on one product.

# PRODUCT LEVELS: CUSTOMER VALUE HIERARCHY

- Every product has **five different product levels** associated with it. Each level adds more customer value, and together the five constitute Customer Value Hierarchy.
- It is a system of worth that businesses across the country, both large and small, have turned to as a means of determining customer satisfaction.
- Each product is related to certain other products. The **product hierarchy** stretches from basic needs to particular items that satisfy those needs.
- In planning market offering, the marketer needs to think through **five levels of the product**.



# 5 Levels of Products




Let's example each level of a product;

**1. Core Benefit**

- The first and the basic level is the core product/benefit the customers look at. It is the basic good or service purchased, aside from its packaging or accompanying services. We buy a product first because of its core or fundamental benefit – the problem it solves or the need it satisfies.
- From a bar soap, for example, the core benefit we look at is: it cleans our skin. While the purchaser of a cosmetic item buys beauty, the purchaser of a lottery ticket buys hope, and so on. A core product's benefits range from tangible to intangible.

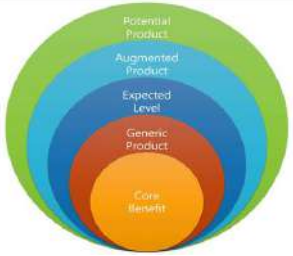
**2. Generic Product or Basic Product**

- The benefits that customers look at must be turned into a basic product by the marketer. A calculator, for example, includes plastic, metal, electronic circuits, and a liquid display crystal.
- The most fundamental level is the basic product, which seeks an answer to the question: What is the buyer really buying? The basic product forms the nucleus of the total product. It constitutes the problem-solving features or basic benefits that consumers seek when they acquire a product.
- A person buying a car acquires mobility, which enables him to move from one place to another. Theodore Levitt has pointed out that buyers "do not buy quarter-inch drills; they buy quarter-inch holes."

**3. Expected Product**

- The next level is the expected level. It includes a set of attributes and conditions that the buyer expects which marketer should provide for purchase to take place. In the case of a calculator, the buyers expect it to be handy, easy to operate, and so on. Hotel guests minimally expect a clean bed, fresh towels, working lamps, and a relative degree of quiet.

# 5 Levels of Products




Let's example each level of a product;

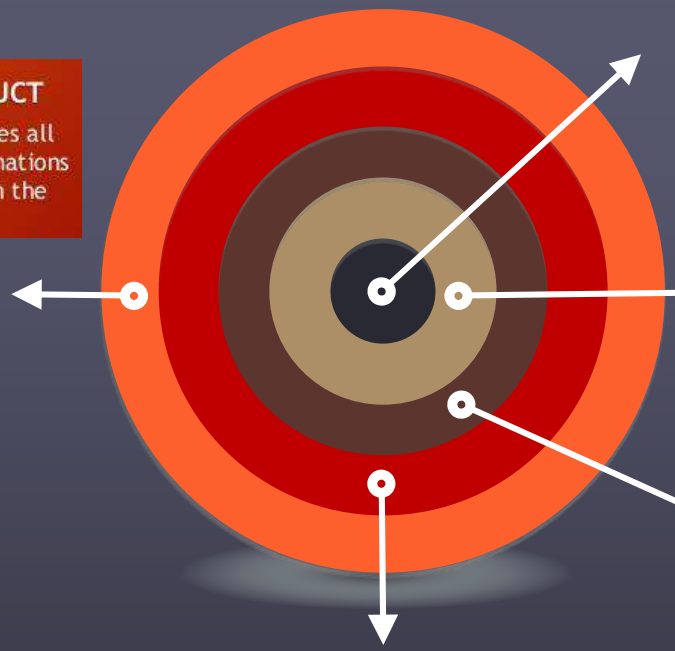
**4. Augmented Product**

- The Fourth Level of a Product is the Augmented Level or the augmented product. The augmented product is what the customer is really buying. It is a good, service, or an idea enhanced by its accompanying benefits.
- It is a combination of what the seller intends, and the buyer perceives. An augmented product gives customers more than they expect. People do not buy products; they buy the expectations of benefits. The marketing view demands the active recognition of this and acts accordingly.
- Modern-day marketers compete with each other through the augmented product. A marketer deciding to augment his product should be well aware of the total consumption system of buyers.
- Understanding the total consumption system means identifying the tasks customers perform through the use of the product. Identifying this will give him leads on which he can augment his product.
- In formulating the product augmentation policy, the marketer should take note of a number of things. Since augmentation requires the company substantial costs, it should know whether customers will be willing to take this load.
- After getting the augmented benefits for sometimes, customers start thinking those as rights, i.e., they consider those benefits as expected, not augmented. The company should, therefore, look for additional benefits to offer.
- The company should also note that soon after it offers augmented products at a premium price, some competitors may start offering the basic or expected product at a much lower price.
- This will obviously pull a significant number of customers, thus causing the firm a fall in sales. The company should therefore remain ever alert so that augmentation yields the desired result.

**5. Potential Product**

- The last level of a product is the potential product. It encompasses all the augmentations and transformations that the product might ultimately undergo in the future'. Here is where companies search for new ways to satisfy customers and distinguish their offering

## FIVE PRODUCT LEVELS



Core benefit of the product

**1. CORE BENEFIT**

The core benefit is the fundamental need or wants that the customer satisfies when they buy the product.

Generic product

**2. GENERIC PRODUCT**

The generic product is a basic version of the product made up of only those features necessary for it to function.

Expected product

**3. EXPECTED PRODCUCT**

The expected product is the set of features that the customers expect when they buy the product.

Augmented product

**4. AUGMENTED PRODUCT**

The augmented product refers to any product variations, extra features, or services that help differentiate the product from its competitors.

Potential product

**5. POTENTIAL PRODUCT**

The potential product includes all augmentations and transformations the product might undergo in the future.

# What is New Product Development ?

The goods and services that vary considerably in terms of their attributes or intended usage in contrast with the goods manufactured previously by the same firm are termed as "'new products". It is a difficult task to define a new product. The concept of a new product is highly multi dimensional, which has capabilities of satisfying the wants of desirous and interested stockholders. It also provides strategic competitive advantage to significant number of interested consumers. This also leads to significant opportunity for a firm to create value in the competitive market. There are various perspectives from which a new product could be defined.

**Definition of New Product Development**

- ***According to Musselman and Jackson :***

"A product is said to be a new product when it serves an entirely new function or makes a major improvement in a present function."

- ***According to Kotler :***

"New product mean original products, improved products, modified products and new brands which are developed by the firm through its own research and development efforts and includes those products which the consumers see as new. A new product is thus perceived differently by different people. It is a need satisfying concept with benefit for buyers bundle of need satisfying features, for marketers, a way to add value for intermediaries, an opportunity to design, for R&D and to assemble and process for production department.

After product planning, the next step is product development. The process of identifying the probability of producing a product is called product development. Under this process, the feasibility and profitability of producing a new product is assessed before making a final decision.

# Need for New Product Development


The organisations which are aiming at advanced levels of growth have to consider the following points :

- **Need for New Product Development**

**1) Meeting Changes in Consumer Demand :**

- Change is a universal phenomenon in today's time of science and technology. For example, a quick change in the food habits, comfort preferences, tastes, customs and traditions, needs and expectations, etc. can be seen. The organisations need to keep an eye on these changes taking place in their surroundings.

- Customers always give preference to the products which are better in terms of quality, fashion, price, etc. An organisation has to proactively respond to such vibrant demands, which in turn results in innovations in products and services. By doing this, the organisations can keep themselves updated and can strengthen their relationship with the customers.

**2) Making New Profits** :

- Manufacturing new products is important for earning profits; since existing products have less scope for enhancing profit levels, while new products have vast scope for it. On reaching the maturity stage of PLC, the gains acquired from the existing products start decreasing and diminishes gradually till the product reaches the decline stage. Hence, it becomes quite necessary for the organisations to come up with the new and innovative products that can replace the old product which is on the verge of declining. Such new products play an important role in growth of the organisation and sometimes they are the only source for the organisation to find new prospects of profit.

**3) Handling the Environmental Threats** :

- There are various environmental threats faced by a business organisation. One way to handle these threats is to find out a new product which is capable enough to combat against it. These threats spring from various environmental factors, like socio-economic, technological, political, and demand and supply, etc. Moreover, the biggest threat that is always present in such environment is competition in the market and products.

- Hence, it becomes vital to fight these risk factors by introducing new products. More prospects of growth and development are opened through it, which further ensures endurance and feasibility for the organisation.. I also distributes the risk factor among the old and new products.

# Need for New Product Development

The organisations which are aiming at advanced levels of growth have to consider the following points :

**Need for New Product Development**

**4) Other Necessities** :

- The other strategic needs for new product development are as follows :
- New products can provide the organisation a source for gaining competitive edge.
- They can ensure long-term financial return on the investments made. They also help in optimum utilization of the available resources.
- New products make best use of research and development.
- They can provide new opportunities for making changes in the strategic plans of the company.
- New products can bring most out of the marketing practices and brand equity.
- It enhances the corporate image of the organisation/brand.

# Failure of New Products

Every organisation has to significantly devote time, money, skills and energy to innovate and develop a new product. Irrespective of the efforts put by the organisation, the new product may experience failures.

A product failure crucially affects the organisation in terms of time, money, brand image and motivation level of employees. Therefore, it is very important to determine the reason behind the failure of a product. Some of the reasons are as follows :

**1) Over-estimation of Market Size :**

- A product will not be able to perform in the market, if the market size is over-estimated. This may lead to less revenue generation than the desired level, even if the quality of the product is good.

**2) Under-estimation of Market Competition :**

- When a marketer fails to estimate the actual competition level and competitors' strengths, then the product may have to deal with severe competition in the market. This often leads to failure of new products.

**3) Inadequate Market Research :**

- If a marketer is unable to study the market and makes erroneous predictions about the customers needs and wants, then this may fail to satisfy the potential customers.

**4) Lack of Uniqueness :**

- If a product is incompetent in comparison with the competitor's product, then customers have no reason to purchase a new product.

**5) Poor Product Design :**

- A poorly designed product may cause inconvenience to customers in using the product. This is one of the major reasons of customers to dislike about a product.

# Failure of New Products

**6) Lack of Superiority :**

- It is essential for a product to prove itself superior in contrast to other similar products available in the market. Sale of new products cannot be made on the basis of superfluous claims made by the marketers. Hence, leading to the failure of new products.

**7) Incorrect STP Approach :**

- A product may fail to capture the market, when a marketer incorrectly segments the market, targets the target audience and positions the new product.

**8) Technical Issues :**

- While using a new product, if a customer faces any technical issues, then he may discontinue purchasing the same product again.

**9) High Production Costs :**

- When the price of a product is high compared to the other products in the market, then this may lead to product failure. This occurs, when the actual production cost exceeds the expected production cost.

**10) Wrong Entry Timing :**

- If a new product enters the market at the wrong time by making hasty decisions or by entering late in the market, then also the product may fail to establish its position in the market.

**11) Ineffective Promotion :**

- Ineffective utilization of promotional tools lead to new product failure. The customers remain unaware of the product's attributes and functions, due to which customers do not purchase the product.

# Booz, Allen, and Hamilton Classification Scheme for New Products

New Products are classified into two categories based upon its origin.

- a) New Products emerging due to technological innovation.
- b) New Products emerging due to market modifications.

**Booz, Allen and Hamilton** have identified six categories of new product in the terms of their newness to the company and to the market place.

- i. **New to the world** – New products that create an entirely new product.
- ii. **New product lines** – New Product that allows a company to enter an established market for the first time.
- iii. **Additions to the existing product lines** – New products that supplement a company's established product line.
- iv. **Improvements in revision to existing product** – New products that provide improved performance or greater perceived value and replace existing product.
- v. **Repositioning** – Existing products that are targeted to new markets or market segmentation.
- vi. **Costs reductions** – New product that provides similar performance at lower costs.

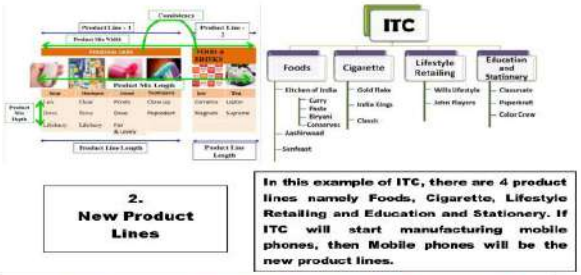
# Booz, Allen, and Hamilton Classification Scheme for New Products

**1) New-to-the-World :**

- As the name suggests, it is that category of product which is launched in the market for the first time. They may also be called as really new products. Since these products are new, their prospective customers are needed to be provided with appropriate knowledge about its working and the benefits it can provide. Once the product reaches the hands of customer, it starts attracting buyers. Thus, it can be said that the firms involved in its production will get the first mover advantage as no such product was present in market before its launch.


**2) New-to-the-Firm :**

- This category involves such products which are new to the company but not for the market, i.e., they are already present in the market under the name of some other companies. This means that if the firm wants to produce such product, it actually wants to introduce a new product line. Hence, new-to-the-firm products can also be known as new product-lines for the firms.




**3) Addition to Existing Product-Lines :**

- This category can involve both new-to-the-firm and new-to-the-world products. Usually, big firms keep on adding new products to the previous product-lines. This is done for several reasons, the absolute one being "earning profits'.

# Booz, Allen, and Hamilton Classification Scheme for New Products

**4) Improved and Revised :**

- Those firms which believe in delivering 'nothing but the best'; keeps on revising their products for delivering flawless services to the consumers. These products are known as improved and revised". Generally. this category is found in organisations producing beauty products and electronic goods.


**4. Improvements and Revisions of Existing Product**

These are the new products that replace existing products by providing improved performance or greater apparent value with modifications in its specifications.

In this example of operating system of Microsoft, MS DOS was replaced with Window 98, Window 98 with Window 2000 and so on.

**5) Re-Positioning :**

- It has been found that the products which are already being used can serve some other purposes as well. After realizing this fact, the organisation may want to offer their products to the customers with new added features or usage value which is known as repositioning the product in the market.


**5. Repositioning**

Existing products can be targeted to new markets or market segments

In this example, Cadbury Company is targeting both kids and adults with Gems.

**6) Reduction in Cost :**

- Manufacturing an entirely new product can prove to be an expensive affair. Yet, on close scrutiny the organizations can discover that similar product can be produced with lower expense, which would also help in bringing down the prices. Briefly, the cheaper version of an expensive product can be called cost reduction or reduction in cost.

| Idea 4G, 3G BIG Internet Packs | | | |
|---|---|---|---|
| Price (in Rs.) | Earlier (in GB) | Now (in GB) | % Savings |
| 349 | 1.5 | 2 | 33% |
| 449 | 2 | 3 | 50% |
| **649** | **3** | **5** | **67%** |
| 749 | 4 | 6 | 50% |
| 849 | 5 | 7 | 40% |
| 990 | 6.5 | 10 | 54% |

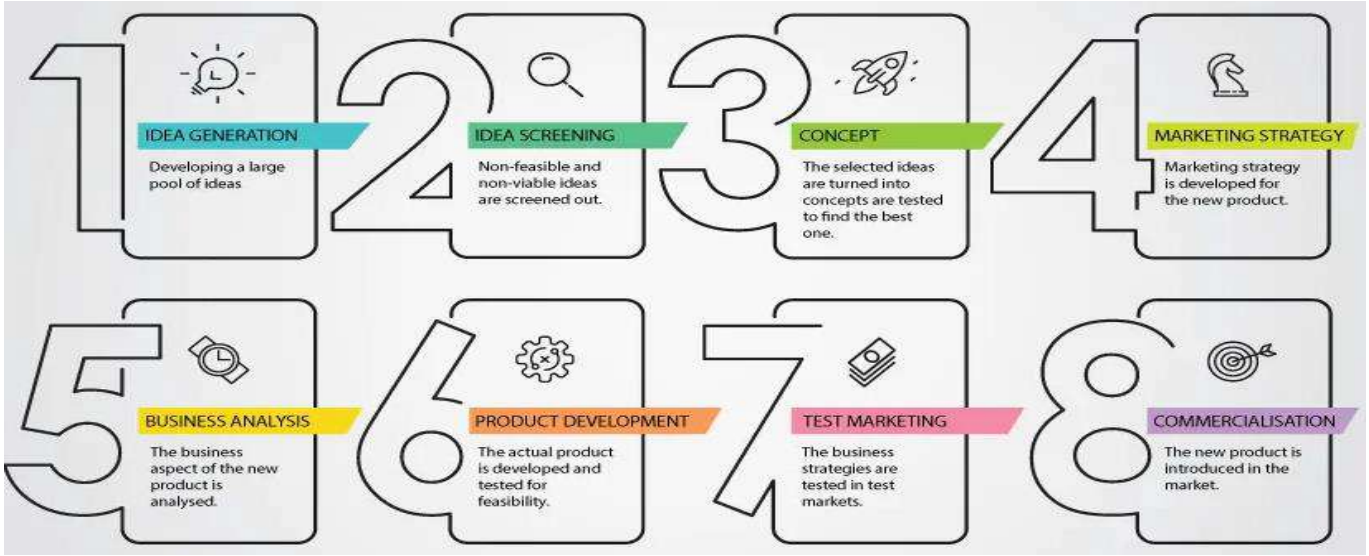

**6. Cost Reduction**

New products may be developed or existing products price will be reduced that provide similar performance at lower cost.

In this example, Idea reduced the cost of its Internet packs due to Reliance Jio's offers.

# PROCESS : NEW PRODUCT DEVELOPMENT

- The NPD process consists of a series of activities that firms employ in the complex process of delivering new products to the market. Every new product will pass through a series of stages from ideation through design, manufacturing and market introduction.
- Development of new products is not a luxury but a necessity. Firms need a perpetual supply of new products to make up for the ones that decline and fade out. The failure to launch new products and improve the existing ones makes a firm vulnerable to decline. It for this reason, firms establish a department dedicated to developing new products.



# STAGES OF PRODUCT DEVELOPMENT PROCESS

It is important to understand that there is no one generic product development process and that each rendition of such a process will vary depending on the depth and detail that each explanation covers. It explains 8 stages of the product development process and these are listed below.

1. **Idea Generation:** The **first stage** in the product development process is idea generation. In this stage, the company comes up with many different and unique ideas based on both internal and external sources. **Internal idea sources** more often than not refer to the **in-house research and development teams of the company** and **external sources** refer to **competitor innovations, the customer wants, distributors and suppliers,** and so on. The company thereby focuses on coming up with as many feasible ideas as possible.

2. **Idea Screening:** The next stage involves the screening of this often-large set of ideas. The primary objective of this stage is to **focus on ideas** that are **in line** with the **company's customer value and financial goals**. The stage focuses on the **filtering out of ideas** that are **poor or are not feasible** and **retaining** those that have **good potential.** This is to ensure that the company does not face losses by moving ahead with fickle ideas that do not promise adequate returns.

# STAGES OF PRODUCT DEVELOPMENT PROCESS

**3. Concept Development and Testing:** The third of the product development process steps is concept development and testing. In this stage, good product ideas must be developed into detailed product concepts that are conveyed in consumer-oriented terms. The concept must be made in order to protect the product in terms of how it is perceived by consumers and how it will potentially be received in the market and by which set of potential customers. This concept must then be tested by presenting it to the target consumers and their response must be taken into account.

**4. Development of Marketing Strategy:** The new product development process in marketing is covered in stage four. In this step, the company tries to come up with strategies to introduce a promising product into the market. The company must therefore come up with the price, and potential revenue figures as well as advertising and distributing channels in this step.

**5. Business Analysis:** The product concept is put through a vigorous business analysis or test in order to ascertain projected sales and revenue and also assess risk and whether the production of the product is financially feasible. The company's objectives are considered and if these are satisfied, the product is moved on to the next step.

**6. Product Development:** This is the step that comes after the management of a company declares a product concept to be in line with the goals of the company and issues green light for development. The research and development wing of the company then works on the product concept for many months and even years in some cases, to come up with a working and functional prototype of the product concept.

# STAGES OF PRODUCT DEVELOPMENT PROCESS

**7. Test Marketing:** This is the penultimate stage of the new product development process and involves the testing of the product and its suggested marketing program in realistic market settings. This stage provides an insight into how the product will be introduced into the market, advertised, produced, packaged, distributed, and eventually sold to the customers, and therefore any optimizations if required can be made by the company. The **Consumer goods market testing explains all the goods that are used by consumers directly, this test is conducted to know the consumer behavior towards the product. The companies aim customers to go through this entire flow**:

- **Trial —> Repeat —>Adoption —-> Purchase**

To attain all these stages following types of tests are conducted:

**Sales-wave Research**

- This test is conducted to determine the potential of the product to be consumed/accepted every time it is offered to the customer. The samples are often distributed for free to analyze the willingness of consumers to accept the product. One major example is a free trial of new lipsticks, perfumes offered to the existing customers, and feedback.

**Simulated** Market test

- This test is conducted to ascertain the preference of the customer and their product selection. A group of people are invited to the stores and are given some discount offers to motivate them to shop in the store. The **New Product** is placed with the old ones or the competitors and customers are observed closely, to know if the new product was picked up over other alternatives.
- The products are also distributed for free to acquire more customers for the test and they are inquired about the product later on. The **example** is in departmental stores where new products are placed and consumers' behavior is tracked.

**Controlled** Market test

- In this test new products are introduced to the chain stores and the presentation of the product is controlled by the brand- their presentation, sales, pitch, introduction, etc. It is not distributed for free to make people try the product for the price they will get in the future. In cafes, you are pitched by the waiter for their new recipes and they even ask you to share the feedback multiple times.

**Test Markets**

- Every brand has its market, they know the demographics and geographics of their customers. A test market is a set of particularly selected areas or segments of the audience used for a launch (product launch on a small scale), this small test market is representative of the entire market size of the company.
- For **example,** many tech companies launch their new features in particularly selected areas on the basis of sales, customer loyalty, etc.

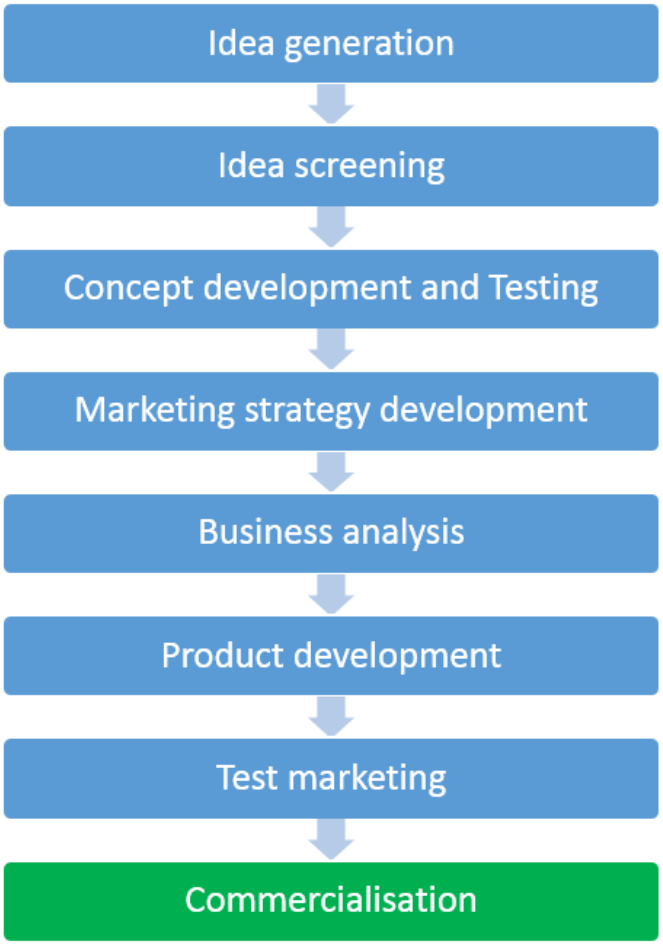
# STAGES OF PRODUCT DEVELOPMENT PROCESS

**7. Test Marketing:**

**How to do test marketing?**
It has 5 major practical steps:

# STAGES OF PRODUCT DEVELOPMENT PROCESS

**8. Commercialization:** The final step of the product development process is that of commercialization. Based on the information gathered during the test marketing process, the business management may either decide to go ahead with the launch of the product or put it on the backburner. In case the go-ahead is given, the product is finally introduced into the market and this process is called commercialization. Also other factors the company will have to take under consideration in commercialization are **timing** i.e. market entry time, **geographical strategy** where to launch the product single locality, region, several regions, etc., **target market prospects** i.e. within the rollout markets, the company must target its distribution and promotion to the best prospect groups. And finally the **introductory market strategy** wherein the company must target its distribution and promotion to the best prospect groups. This stage often leads to massive costs in terms of initial infrastructural investments as well as sales promotions and advertisements.



| STAGES | ACTIVITIES |
|---|---|
| **Idea generation** | The systematic search for new ideas |
| **Idea Screening** | Screening new product ideas in order to spot good ideas and drop poor ones |
| **Concept Development &Testing** | A product idea, product concept, and product image are developed and then tested |
| **Marketing strategy** | Designing initial marketing strategy for A new product based on the product concept |
| **Business analysis** | a review of the sales, costs, and profits projections for a new product to find out (whether these factors satisfy the company's objectives. |
| **Product development** | A strategy for company growth by offering modified or new products to current market segments |
| **Test marketing** | the product and marketing program are tested in more realistic market settings |
| **Commercialisation** | introducing a new product into the market |


## Branding definition

"Branding is endowing products and services with the power of a brand" (Kotler & Keller, 2015)

Branding is a type of marketing practice where a company creates a name or a symbol or even a design that can be easily identifiable, about the belonging of the company. The brand acts as a true representation of the individuality of the business, and the way the business wants to flourish, this can be perceived from the brand of that particular company.

# Features of Branding

**The features of Branding are as follows**

**Competitiveness**

- For a brand to truly be successful the needs are required to be focused as being competitive in today's world is very important. A company has an entire team who is working behind a brand, to make that a hit. A successful brand goes beyond consumer expectations to give a competitive edge cutting to the industry.

**Distinctiveness**

- To create an identity of the brand, the creation needs to be highly distinctive from the other. The world's most popular brands, like Apple, Starbucks, or the BMW cars have successfully created this impact in the minds of the customers. Take for instance the Apple product which is renowned for its technical approach to design and technology gets appreciation for the innovation in its products. Starbucks promises services across the globe. Hence, we see that brands have a distinctive approach always.

**Consistency**

- Being consistent is always the catch. It is highly important for the company to remain consistent with the devotion it does to create the brand. They should maintain the flow of efforts. Consistency will help the customers be familiar with the brand.

**Leadership**

- The greatest brands in the world are always supported by the leaders who have the power to inspire and continually aspire for their greatness. This works the same for a sports team, and hence also for a large corporation or a small business, the most successful business ought to have an influential leader backing them.

# Functions of Branding

The functions of Branding are achieved by a consistent effort. There is a whole team backing up the process of Branding and making efforts to keep a continued effect on the minds of the customers. Branding is totally a mind's game hence, it is the mind that will help the branding to achieve its function effectively. The features of branding are the actual function of branding as well, as the concept of branding is only dedicated as an overall process.

The functions done by branding are as follows –

- Differentiation.
- Authenticity.
- Value Setting and Centering.
- Unification.

# Brand

Brand definition

- “A brand is a name, term, design, symbol, or any other feature that identifies one seller’s good or service as distinct from those of other sellers” (American Marketing Association).

# What is a brand?

- According to AMA (American Marketing Association)
- A brand is " name, term, sign, symbol, or design or a combination of them intended to identify the goods and services of one seller or group of sellers and to differentiate them from those of competition"
- **2 tricky words: identify and differentiate**

# PRODUCT Vs. BRAND

| PRODUCT | BRAND |
|---|---|
| • A product is an item which is ready for sale in the market. | • A brand distinguishes a product from other products in the market. |
| • A product is the need of consumers. | • A brand is the want of consumers. |
| • A product can be easily copied by other companies. | • A brand has a distinguished identity that cannot be copied. |
| • **A product is a bundle of functional attributes.** | • A brand is a personality. |
| • Product is created by company. | • Brand is created by consumer. |
| • **A product offers solutions.** | • A brand offers value. |
| • **A product can be replaced.** | • **A brand cannot be replaced.** |
| • A product can be outdated after some time. | • **Brand remains forever.** |
| • A product is an objective concept. | • A Brand is a subjective concept. |
| • A product may be tangible or intangible in nature. | • A brand is intangible |
| • A Product is selling in the market to generate profits. | • Brand create public image of the company in the market. |
| • Brand is a face of a company. | • Product is an offer of the company. |
| • A Product is physical. | • A brand is emotional. |
| • Product is associated with brand. | • Brand is associated with mind. |
| • A Product is a commodity. | • A brand is composed of a name, trademark, logo, and other visual elements such as images, colors, and icons. Laptop is a product and Apple is a brand. |
| • Product has a life-cycle. | • Brands can be timeless and possess infinite life. |
| • Products are a means to fulfill that promise and expectations made by the company. | • A brand is basically an experience that comes with the promises made by the company and the consumer's expectations. |
| • **Products are instantly meaningful.** | • Brands become meaningful over time. |
| **Definition:** A Product is a composition of tangible and intangible attributes, including packaging, color, price, prestige, and services that satisfy needs and wants of people. | **Definition:** A brand is a name, term, sign, symbol, or design or a combination of them, intended to identify the goods and services of one seller or group of sellers and to differentiate them from those of the competitor. |
| **Example:** | **Example:** |
| • Search engine | • Google |
| • Beverage | • Pepsi |
| • Bike | • Hero Motors |
| • Mobile phone | • Nokia |
| • Burger | • McD |
| • Car | • Mercedes |
| • Watch | • Rolex |
| • Petroleum Jelly | • Vaseline |
| • Sportswear | • Nike |
| • Lipstick | • L'Oreal |
| • Laptop | • Apple |
| • Coffee | • Starbucks |
| • Chocolate | • Dairy Milk |
| • Antivirus | • McAfee |
| • Photocopy | • Xerox |
| • University | • Harvard University |
| • Culture | • Indian Culture |
| • Water Bottle | • Kinley |
| • Political Leader | • Narendra Modi |



# Brand Equity

- **Brand Equity** is the **value and strength** of the **Brand** that decides its **worth**.
- It can also be defined as the differential impact of brand knowledge on consumers response to the Brand Marketing.
- **Brand Equity exists as a function of consumer choice in the market place**.
- The concept of Brand Equity comes into existence when consumer makes a choice of a product or a service.
- It occurs when the consumer is familiar with the brand and holds some favourable positive strong and distinctive brand associations in the memory.
- This is the impact a brand can impose over the purchasing decision of a customer.it is a set of brand assets and liabilities which can either add or subtract from the brand value.

## Brand Equity

**Brand equity** is a phrase which describes the value of having a well-known brand name.

Simply put brand equity = value of the brand

# END OF UNIT I

# UNIT 2 PRICE

# What Is a Price?

**Price** - Exchange value of a good or service

**Price** is the only element in the marketing mix that produces revenue; all other elements represent costs.

So **Cost =FACT**;

**Price (cost+Margin)**

**= POLICY**

# Pricing Puzzle

**Minimize** **Optimize** **Maximize**

Costs + Margins = ~~PRICE~~ VALUE

- Production costs
- Indirect costs
- Advertising costs
- Distribution costs
- Manufacturer's margin
- Distributor's margin
- Seller's margin

✓ Product performance
  - Usefulness & Quality

✓ Image / Aspirations
  - Brand Equity

✓ Availability
  - Distribution Strategy

✓ Service
  - Before/During & After sales

# VALUE

Value is a ratio between what customer gets and what he gives

**Value = Benefits/Costs**

How to increase its Value?

- Raise benefits
- Reduce costs
- Raise benefits and reduce costs
- Raise benefits by more than the rise of costs
- Lower benefits by less than the reduction of costs

# Synonyms for Price

- Rent
- Tuition
- Fee
- Fare
- Rate
- Toll
- Premium
- Honorarium
- Wage


- Special assessment
- Bribe
- Dues
- Salary
- Interest
- Donation
- Commission
- Tax

# Common Pricing Mistakes

- Determine costs and take traditional industry margins
- Failure to revise price to capitalize on market changes
- Setting price independently of the rest of the marketing mix
- Failure to vary price by product item, market segment, distribution channels, and purchase occasion

# Pricing Puzzle

## 4 P's

- PRODUCT
- PRICE
- PLACE
- PROMOTION

## 4 C's

- CUSTOMER VALUE
- COST
- CONVENIENCE
- COMMUNICATION

Seller's Dilemma

# Pricing Puzzle

## 4 P's

- PRODUCT
- PRICE
- PLACE
- PROMOTION

## 4 C's

- CUSTOMER VALUE
- COST
- CONVENIENCE
- COMMUNICATION

" Tomorrow's winner companies will be those who offer distinct products at comparatively low market prices "

# Key = Differentiation

The key to drive value is to offer relevant and distinctive product differentiation

- Physical Differences
  - Features, performance, durability, conformance, design, etc…
- Availability Differences
  - Distribution channels ; Stores, mail-order, internet, etc…
- Service Differences
  - Delivery, installation, training, consulting, maintenance, etc…
- Price Differences
  - Price positioning (Very high / High / Medium / Low / Very Low)
- Image Differences
  - Symbols, atmosphere, events, media, etc…

# Key = Differentiation

## Differentiation : Examples

- Physical Differences
  - Levi's Engineered Jeans (Ergonomic construction, durability, style)
- Availability Differences
  - Dell Computer's customized production, Volkswagen "e.lupo"
- Service Differences
  - Acıbadem Hospital – Mother Care Division, Nissan "5-year Warranty"
- Image Differences
  - Audi vs Mercedes, DuPont (Innovation Leader)

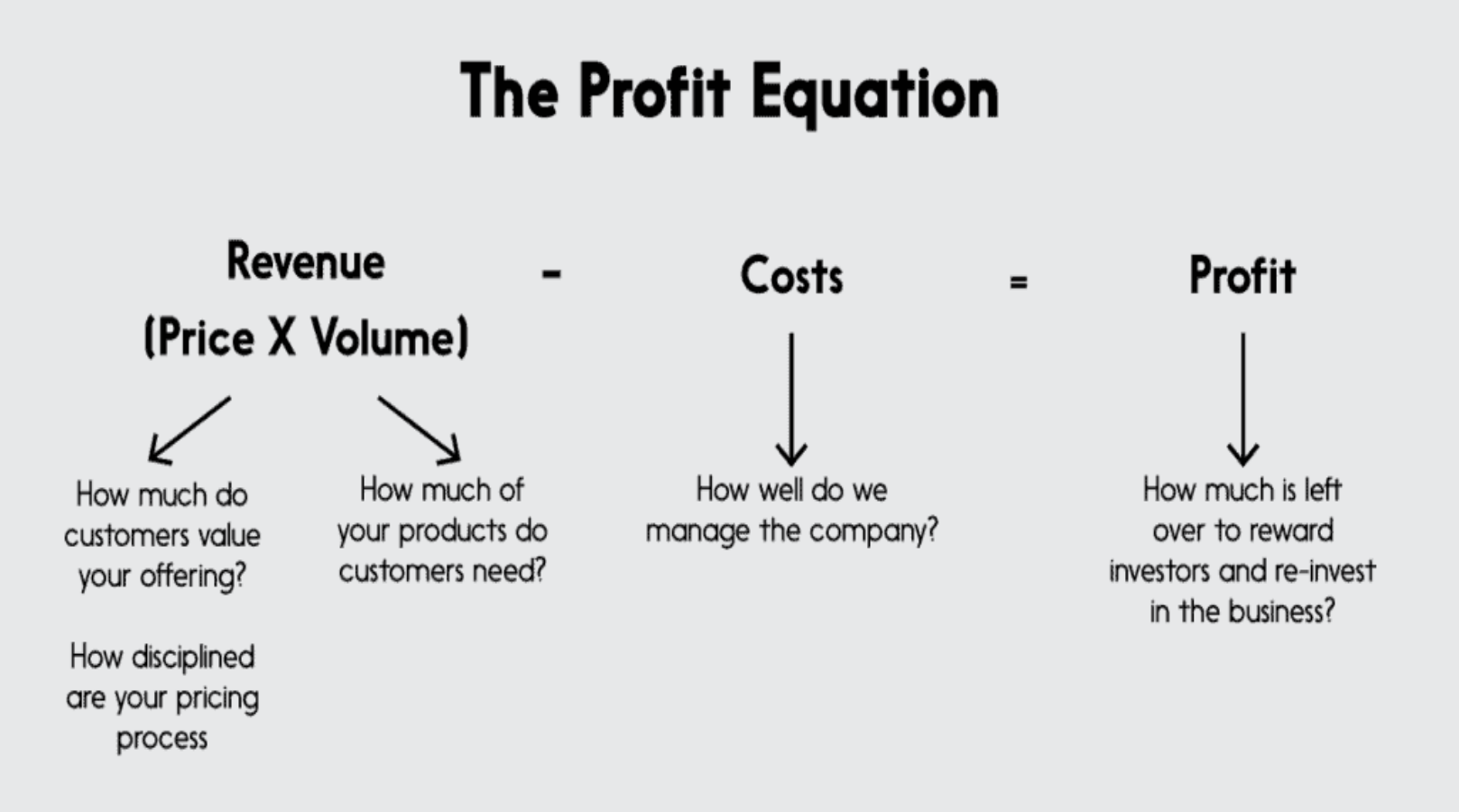
# Key = Differentiation

## Differentiating commodities…

- Perdue Chicken (USA)
  - Guaranteed tenderness (30 % market-share, 10 % premium pricing)
- Flora Drinking Water (Turkey – Sabancı Holding)
  - Service, packaging, attributes, operation
- Starbuck's Coffee (USA)
  - Atmosphere, standard service

*Everything can be* **differentiated !...**

- **Price mix** is the combination of different 'price-related variables' determined by a producer to fix the price of the product or service he offers. These variables include the cost of making the product, the factors that influence the pricing decisions, the various pricing strategy, the pricing objectives, etc.



- **PRICE MIX** is the value of the product determined by the producers. **Price mix** includes the decisions as to: **Price** level to be adopted; discount to be offered; and, terms of credit to be allowed to customers.

- **Price** —The amount of money charged for a product or service, or the sum of the values that consumers exchange for the benefits of having or using the product or service.

- **PRICE MIX** is the value of the product determined by the producers. Price mix includes the decisions as to: Price level to be adopted; discount to be offered; and, terms of credit to be allowed to customers.

Your **pricing strategy** should reflect your product's positioning in the market and the resulting price should cover the cost per item and the profit margin. The amount should not project your business as timid or greedy.

- Low pricing hinders your business' growth while high pricing kicks you out of the competition.

- There are a number of pricing strategies that you can follow. Some strategies may call for complex computation methods and others are intuitive decisions. Select a **pricing strategy** that's based on the product itself, competitive environment, customer demand, and other products that you offer.

# Importance of Pricing in Marketing Mix

- Most of the time marketers give more importance to activities like market research, product management, promotion and distribution. These are considered important aspects of marketing mix.
- But **pricing** is also a very **important element** in the **4 P's** of marketing mix.
- This is the only element that **generates revenue** and supports other activities like product distribution, promotion and advertisement.

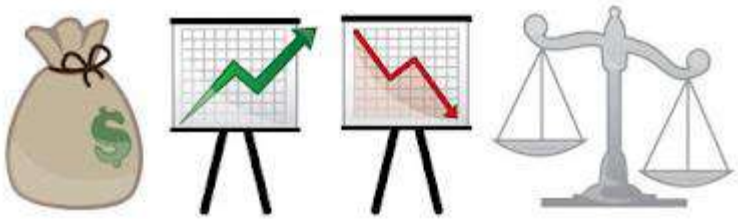
- **Pricing is Flexible.** Pricing is the only single variable that is flexible and can be changed within no time. On the other hand, the remaining elements of marketing mix like distribution channels, promotional campaigns and can increase the cost.

# Importance of Pricing in Marketing Mix

- **Set** the **right Price**. When setting the price keep in mind the strategic objective of the organization.

**For example**, if a marketer set too high or too low in both pricing decisions it can affect the sale growth.

**Positioning.** When setting a price, it conveys a message to your potential customers about your product and service and creates a perceived value of marketing mix. This perceived value can affect the consumer decision-making process. **High pricing** means **high-quality products and services**. **Low pricing products and services** indicate that you are a **low-cost provider.**



# Factors Affecting Pricing Strategies

let us discuss what factors to consider when companies setting prices.

- **Internal Factors Affect Pricing Decisions**

Those internal factors affect the pricing consist

- **Cost.** It is the base for the price that can be charged for products and services. When setting the prices, a company should cover both fixed and variable costs.
- **Marketing mix strategy.** price is important marketing mix tool that helps to achieve the marketing objectives. Price decisions coordination product, placement and **promotion decisions** must be coordinated
- **Marketing Objectives** of your company like your target market and positioning strategies
- **Product Life Cycle.** Different stages of product life cycle affect the pricing decisions
- **Image of the Firm.** Another factor affects the pricing decision is the image and goodwill of the company.

# Factors Affecting Pricing Strategies

**External Factors Affect PricingDecision**

- **Competition.** When setting the product price, the company must understand the level of competition in the market.
- **Consumers.** When fixing the price keep in mind the consumer purchasing power and price sensitivity.
- **Economic Conditions**. The economic factors include interest rate, inflation and economic boom and recession.
- **Government** Controlled Economy is another factor to be considered.

# Steps in Setting the Price

# Steps in Setting the Price


**STEP 1 Selecting the pricing objective**

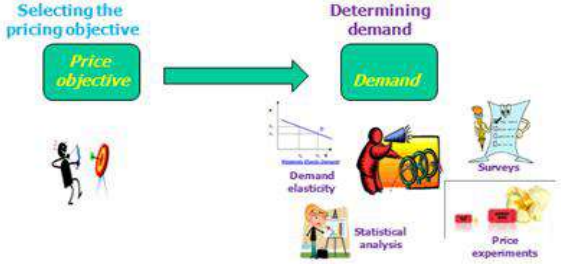
The company first decides where it wants to position its market offering. The clearer a firm's objectives, the easier it is to set price.

Five major objectives are:

- **Survival:** Companies pursue survival, as their major objective if they are plagued with overcapacity intense competition, or changing consumer wants. As long as prices cover variable costs and some fixed costs, the company stays in business. Survival is a short-run objective: in the long run, the firm must learn how to add value or face extinction.
- **Maximum current profit :** Many companies try to set a price that will maximize current profits. They estimate the demand and costs associated with alternative prices and choose the price that produces maximum current profit, cash flow or rate of return on investment. This strategy assumes that the firm has knowledge of its demand and cost functions; in reality these are difficult to estimate.
- **Maximum market share:** Some companies want to maximize their market share. They believe that a higher sales volume will lead to lower unit costs and higher long-run profit. They set the lowest price, assuming the market is price sensitive. The following conditions favor setting a low price. The market is highly price sensitive, and a low price stimulates market growth. Production and distribution costs fall with accumulated production experience; A low price discourages actual and potential competition
- **Maximum market skimming:** is where a company sets a high price to capture those customers who are willing to pay more for a product. It is skimming the cream off the top of the market, and it works well with an innovative or new technology product. Companies unveiling a new technology favor setting high prices to "skim" the market. Sony is a frequent practitioner of market skimming pricing.
- **Product-quality leadership :** is where a company aims to provide the best quality product in the market, and therefore charges more than its competitors. These companies are usually market leaders.

**Pricing objectives must fit in with the overall marketing objectives. They must fully integrate with and support all the other elements of the marketing mix.**

# Steps in Setting the Price




**STEP 2 Determining the demand**

- Following the identification of objectives , the firm needs to determine demand. Each price will lead to a different level of demand and therefore have a different impact on a company's marketing objectives. In the normal case, demand and price are inversely related: the higher the price, the lower the demand .In the case of prestige goods, the demand curve sometimes slopes upward. **E.g**. Perfume Company raised its price and sold more perfume rather than less! Some consumers take the higher price to signify a better product. However if the price is too high, the level of demand may fall.
- Do you agree that generally speaking customers are most price-sensitive to products that cost a lot or are bought frequently? They are less price-sensitive to low cost items or items they buy infrequently. They are also less price-sensitive when price is only a small part of the total cost of obtaining, operating and servicing the product over its lifetime. A seller can charge a higher price than competitors and still get the business if the company can convince the customer that it offers the lowest total cost of ownership (TCO).

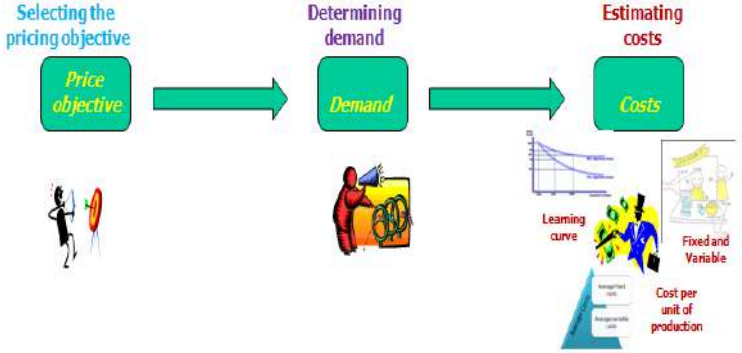
The process of estimating demand therefore leads to

i. Estimating Price sensitivity of market : Affects the demand of a product. If the price of the product rises then the demand falls and vice versa. In this case, the demand may shift to the substitute of the product. A marketer tries to study the price sensitivity of the product for making decisions about the price of the product.

ii. Estimating and analyzing demand curve : Implies a statistical tool that shows a relationship between the demand and price of a product. It helps in knowing the demand and price fluctuations of the product.

iii. Determining price elasticity of demand: refers to a percentage change in the demanded quantity of the product with respect to the percentage change in the price of the product. If the demand of a product changes with the change in price then the demand is said to be elastic. On the other hand, if the demand of a product does not change with the change in price then the demand is said to be inelastic.

# Steps in Setting the Price




**STEP 3 Estimating Costs**

In order to continue working successfully, companies need to manage their costs so that they are left with a good profit margin. Therefore, to achieve this, a company needs to establish a production level at which it will be able to maintain its fixed and variable costs.

In general, the cost per unit decreases as production level increases. That is simply due to the learning curve effect that comes with increased experience. So to ensure you profit with this strategy, you need to allocate the costs and set the price accordingly.

For determination the price of product company should estimate the cost of product.

- **Variable and Fixed Cost :**

Price must cover variable & fixed costs and as production increases costs may decrease. The firm gains experience, obtains raw materials at lower prices, etc., so costs should be estimated at different production levels.

- **Differential Cost in Differential Market :**

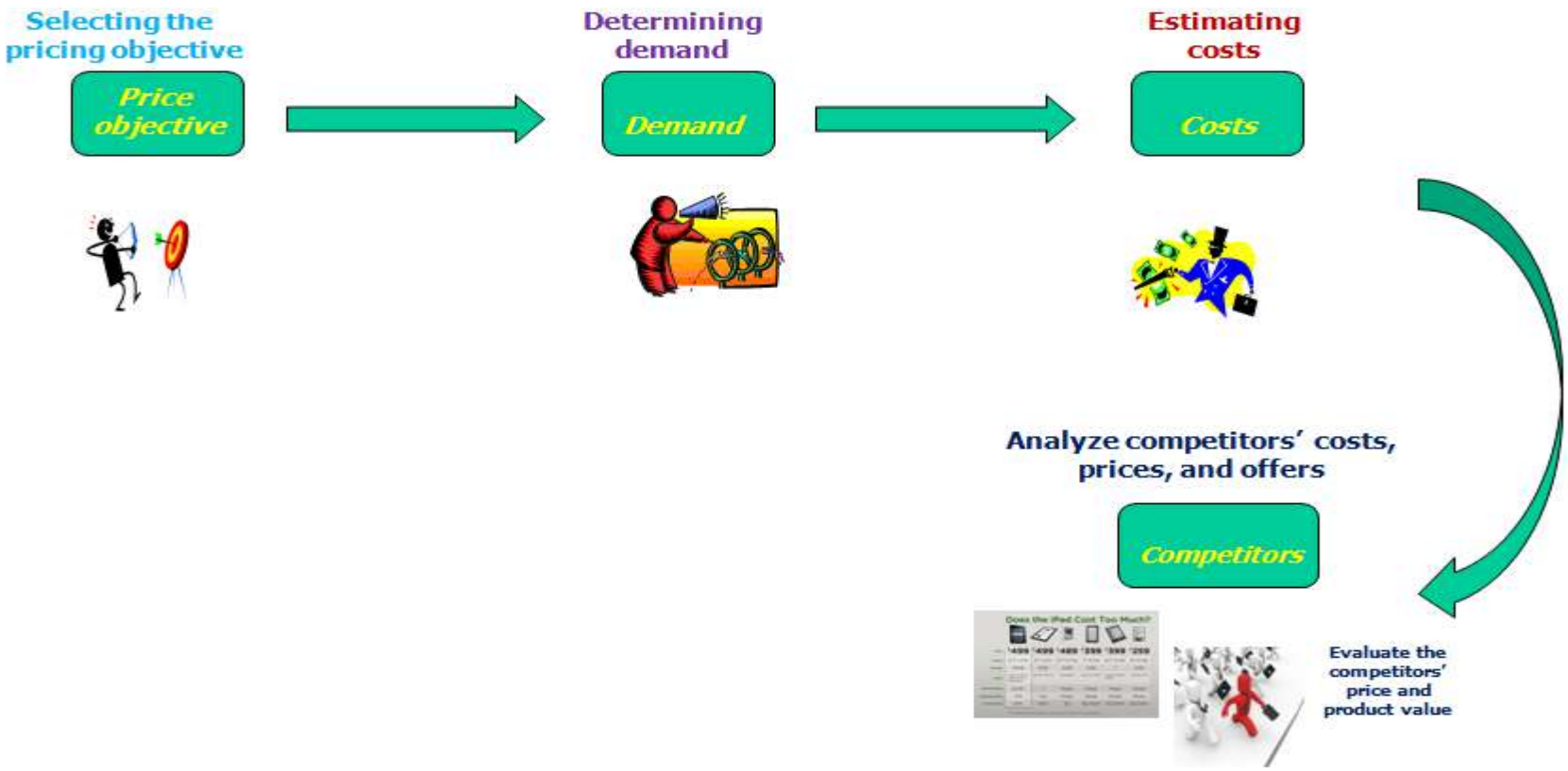
Firms must also analyze activity-based cost accounting (ABC) instead of standard cost accounting. ABC takes into account the costs of serving different retailers as the needs of differ from retailer to retailer.

- **Target Costing :**

Also the firm may attempt Target Costing (TG). TG is when a firm estimates a new product's desired functions & determines the price that it could be sold at. From this price the desired profit margin is calculated. Now the firm knows how much it can spend on production whether it be engineering, design, or sales but the costs now have a target range. The goal is to get the costs into the target range.

# Steps in Setting the Price

## STEP 4 Analysing Competitors' Costs, Prices and offers-



# Steps in Setting the Price

**STEP 4 Analyzing Competitors' Costs, Prices and offers-**

- Every company has to track its competitors carefully. That especially goes for pricing, costs, and promotional offers.
- Companies need to know just how much their competitors' prices can fluctuate in comparison to their own. They also need to be ready to adjust to those fluctuations with their own offers. The firm should benchmark its price against competitors, learn about the quality of competitors offering, & learn about competitor's costs.
- While demand sets a ceiling and costs set a floor to pricing, competitors' prices provide an in between point you must consider in setting prices. Study the price and quality of each competitor's product or service by sending out comparison shoppers to price and compare. Acquire competitors' price lists and buy competitors' products and analyze them. Also ask customers how they perceive the price and quality of each competitor's product or service.
- If your product or service is similar to a major competitor's product or service, then you will have to price close to the competitor or lose sales. If your product or service is inferior, you will not be able to charge as much as the competitor. Be aware that competitors might even change their prices in response to your price.
- Within the range of possible prices determined by market demand and company costs, the firm must take competitors' costs, prices, and possible price reactions into account.

A) The firm should first consider the nearest competitor's price.

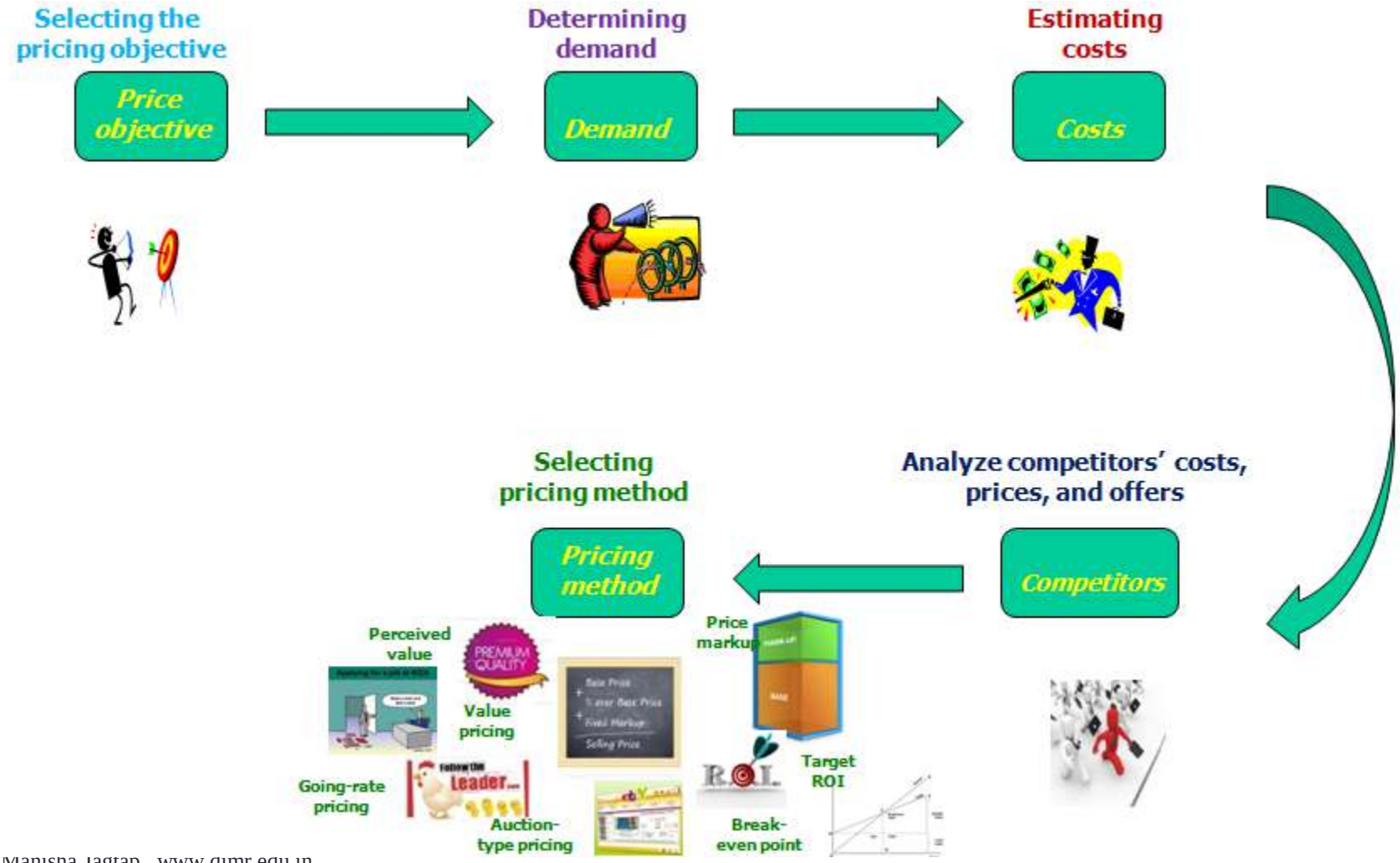
B) The introduction of any price or the change of any existing price can provoke a response from customers, competitors, distributors, suppliers, and even the government.

C) How can a firm anticipate a competitor's reactions?

1)One way is to assume the competitor reacts in the standard way to a price being set or changed

# Steps in Setting the Price

- **STEP 5 Selecting a Pricing Method**



# Steps in Setting the Price

- **STEP 5 Selecting a Pricing Method**

There are several ways to set the price for your products or services.

These are the most popular ones:

- The markup method means that you're setting a price based on your desired profit level.

**For example**, a particular item's fixed and variable costs are $20, and the marketer decides to make a profit of 20%, then the product's price will be $24/= $(20+4).

- Target return means that you're setting a price based on the company's desired ROI.

**For example**, a company has invested $1,000,000/- in its business and expects a sale of 100,000 units, and the per-unit cost is $10/-. The company wants to achieve a 20% rate of return on investment. In this case, its target return price will be $12/-. The formula used to calculate target return pricing is as follows:
**Target Return Price = Unit Cost + { ( Desired Return x Invested Capital ) / Unit Sales }**

- Perceived value is as simple as setting a price based on how much your consumers believe your product or service is worth to them in reality. To build up perceived value in the buyers' minds, marketers use non-price variables such as durability, reliability, service, etc. in their marketing mix. Perceived value is captured to set a price accordingly.

- There are also auction type pricing and group pricing methods, but they are less popular.

Given the **three C**s – **the Customer's demand schedule, the cost function and the competitors' prices** – the firm is now ready to select a price. The Fig 3.3.1 summarizes the three major considerations in price setting. Costs set a floor to the price. Competitors' price and the price of substitutes provide an orienting point.


Figure 3.3.1 The three Cs model for price setting
(Source: Marketing Management, 12e, Kotler and Keller)

Customers' assessment of unique features establishes the price ceiling. Firms select a pricing approach that includes one or more of these three considerations. The pricing approaches are cost-based or buyer-based or competition-based. These approaches were discussed at length in the previous lesson.

# Steps in Setting the Price

- **STEP 6 Selecting the Final Price**

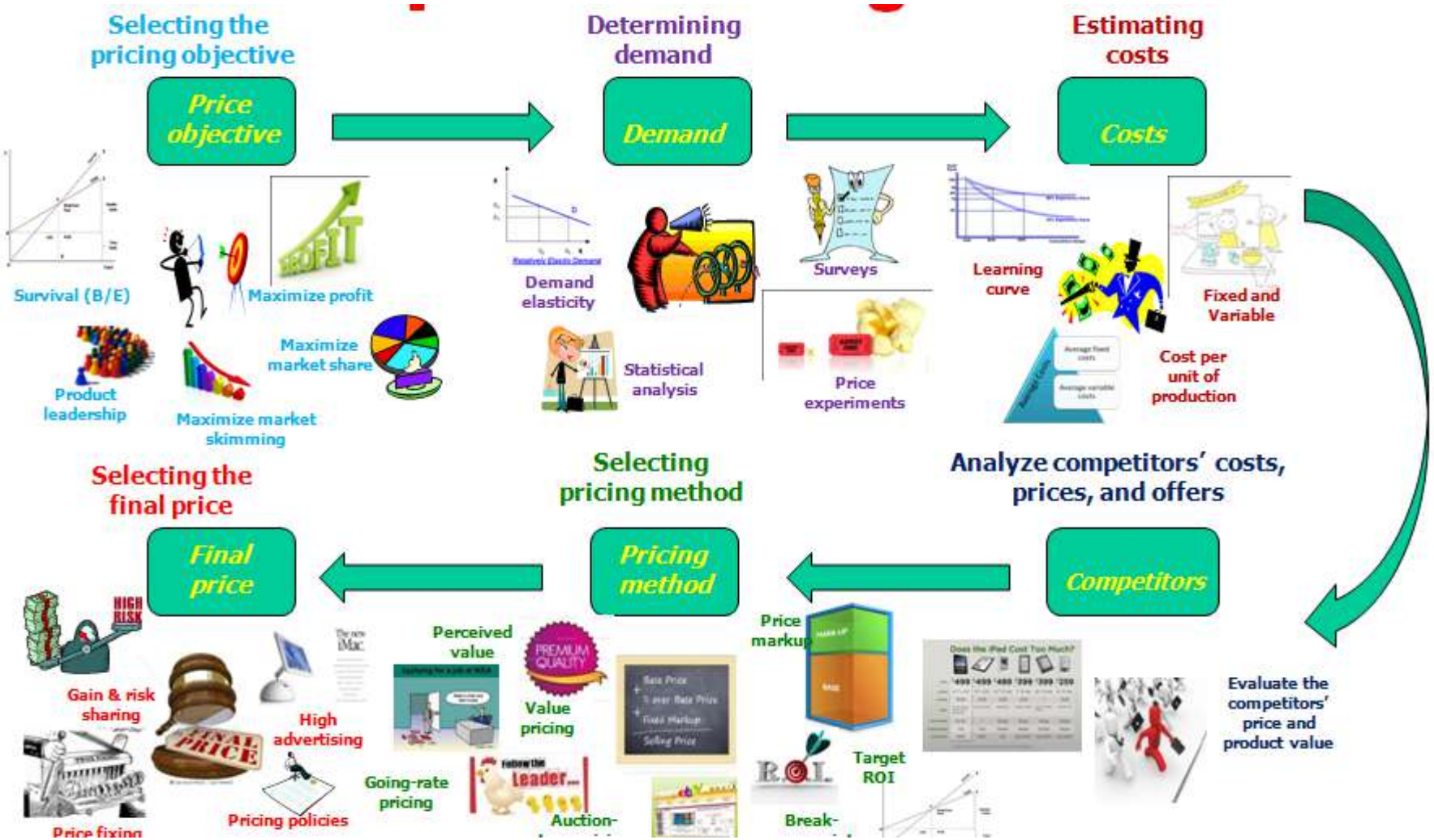
Pricing methods narrow the range from which the company must select its final price. In selecting the final price, management must consider the following a factors: **the psychology of prices**, **the influence of other marketing-mix elements on price** (e.g., the brand's quality and advertising relative to competition), **company pricing policy**, and **impact of price on other parties** (such as distributors, dealers, competitors, suppliers, and government).

In selecting that price, the company must consider additional factors.

- **Impact of other marketing activities**
- **Company pricing policies**
- **Gain-and-risk-sharing pricing**
- **Impact of price on other parties**

# Steps in Setting the Price

- **STEP 6 Selecting the Final Price**



# Price Adaption Strategies

- Adapting the price that can bring the most customers to buy your product can be competitively advantageous.
- Price is not only an element that displays the value of the product; it is more. It can generate interest among customers and is a great way to do promotion.
- As a good marketer, you should understand the changing market's nuances and changing consumer behaviour and come up with pricing strategies that can best suit your customer. Understanding price adaptation strategies can help you do that.
- Prices set by a company do not always remain the same. Over time, the original price established for almost any product will have to be adjusted.
- The marketer will find it necessary to change the product's price several times during the course of its life cycle.
- They are changed or adapted depending on the needs or situations. A company needs to adapt its prices to different situations, i.e., it may charge different prices depending on geographic variation, variations in segments, purchase timing, order levels, delivery frequency, guarantees, service contracts, and some other factors.

Price adaptations are made to pursue a number of goals;

- change of purchase patterns;
- market segmentation;
- market expansion;
- utilization of excess capacity;
- implementation of channel strategy; and,
- to meet the competition.

# Price Adaption Strategies

- The price of a company may be adapted following a number of adaptation strategies. A company may choose one or more of these strategies depending on the policies it decides to pursue.
- Different price-adaptation strategies to be discussed here are;

**1. Geographical pricing**

where the company decides how to price to distant customers.

**2. Price discounts and allowance**

where the company establishes cash discounts, quantity discounts, functional discounts, seasonal discounts, and allowances.

**3. Promotional pricing**

where the company decides on loss-leader pricing, special-event pricing, cash pricing, low-interest financing, and psychological discounting.

**4. Differentiated pricing**

where the company establishes different prices for different customer segments, product forms, brand images, places, and times.

# Price Adaption Strategies


- Different price-adaptation strategies to be discussed here are;

1. **Geographical Pricing (Cash. Counter trade. Barter)**

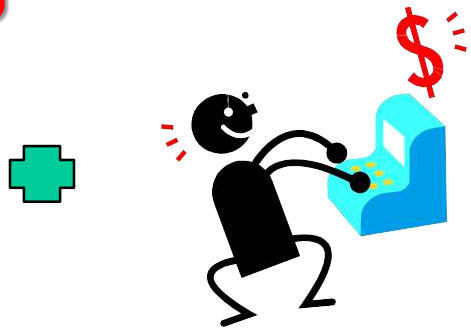
Geographical pricing involves the company in deciding how to price its products to different customers in different locations and countries.

**For example**, should the company charge higher prices to distant customers to cover the higher shipping costs or a lower price to win additional business? Another issue is how to get paid. This issue is critical when buyers lack sufficient hard currency to pay for their purchases. Many buyers want to offer other items in payment, a practice known as counter trade. American companies are often forced to engage in counter trade if they want the business. Counter trade may account for 15 to 25 percent of world trade and takes several forms: barter, compensation deals, buyback agreements, and offset.

Geographical pricing is used for customers in different parts of the country or the world.

- **FOB-origin pricing**: **FOB-origin (free on board) pricing** is a geographical pricing strategy in which goods are placed free on board a carrier; the customer pays the freight from the factory to the destination.
- **Uniform-delivered pricing** is a geographical pricing strategy in which the company charges the same price plus freight to all customers, regardless of their location.
- **Zone pricing** is a strategy in which the company sets up two or more zones where customers within a given zone pay the same price.
- **Basing-point pricing** means that a seller selects a given city as a "basing point" and charges all customers the freight cost from that city to the customer.
- **Freight-absorption pricing** is a strategy in which the seller absorbs all or part of the freight charges in order to get the desired business.

# 1. Geographical pricing

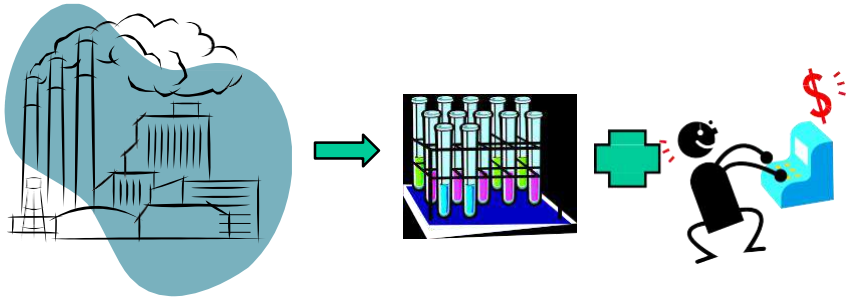


## Barter

*Direct exchange of goods*

## Compensation deal

*Payment in products and cash*



## Buyback arrangement

*Payment in form of products manufactured by the supplied equipment and cash*

## Offset

*Receives payment in cash but agrees to spend some of the money in the products of that country*

# Price Adaption Strategies

- Different price-adaptation strategies to be discussed here are;

## 2. Promotional Pricing

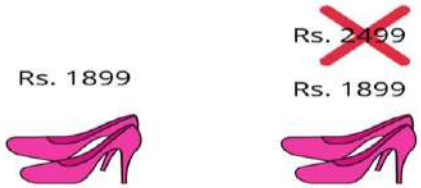
- A promotional price adaptation strategy is the approach of reducing the price of the product on a temporary basis to attract customers to buy your product.

The types of promotional price adaptation strategy are as follows:

- **Loss-leader pricing**: This pricing is mainly adapted to get consumers in the store and increase brand awareness. In this case, the prices of the products might be even lower than the cost of their production, but the strategy is such that the lower price of the product is what bring consumers in the store and they buy in volume.
- **Special Event Pricing**: Remember headlines like "This Diwali Season, get everything at 50% off" or "Enjoy a candlelight dinner with your Valentine under just ₹999". This pricing is changed or adapted based on any special event to bring customer traffic.
- **Special Customer Pricing**: This is based on the type of customers. Generally, loyal customers are said to gain the most benefits. **For example**, a gold card member at Pantaloons might get larger discounts than a green card member.
- **Cash Rebates**: This pricing includes giving refunds to customers who buy from you within a specified time. **For example**, Marketer gives a 20% discount to the customer at the time of purchase of a cell-phone.
- **Low-Interest Financing**: Here, the Marketer does not cut the price of the product, but give low-interest financing. **An example** of this is smartphone companies providing easy EMIs with a low-interest rate.
- **Warranties and Service Contracts**: the Marketer can increase sales by giving extended, low cost or free warranties and service contracts to the customers. Look at the image below for example,


- **Psychological discounting**:

Here the Marketer plays with the customer's mind a little by excessively increasing the price of the product and then giving heavy discounts. The following image will give you an idea of psychological discounting.



# 2. Promotional pricing


*Special-event pricing*


*Low-interest financing*


*Longer payment*


*Cash rebates*


*Warranties and service contracts*

# Price Adaption Strategies

- Different price-adaptation strategies to be discussed here are;

## 3.Price Discounts and allowance

- Most companies will modify their basic price to reward customers for such acts as early payment, volume purchases and off-search buying. These price adjustment – called discounts and allowances can be of various types such as:-

a. **Cash Discounts**: A cash discount is a price reduction to buyers who promptly pay their bills. Such discounts, serve the purpose of reducing the sellers liquidity and reducing credit-collection cost and bad-debts. The discount that you might give to a buyer who pays all bills punctually. Take a look at your monthly electricity bill; you will see the following column in there.

| | | Rs.Ps |
|---|---|---|
| Due Date: | 03-JAN-18 | 980.00 |
| If Paid by this Date: | 26-DEC-17 | 970.00 |
| If paid After this Date: | 03-JAN-18 | 1,000.00 |
| *The above amount is being rounded up | | |

b. **Quantity Discount:** A quantity discount is a price reduction to buyers who buy large volumes. Quantity discounts must not exceed the cost savings to the seller associated with selling large quantities. These savings include reduced expense of selling, inventory and transportation. **For eg**. The marketer may offer a quantity discount to your buyer who buys in large volumes. Remember asking for a discount on 2 kg apples like "Bhaiya 100 rupaiye lelo 2 kg apple lugi (I will give 100rs for 2kg rather than 70rs for 1kg)", quantity discount works like that. Volume purchases reduce the unit cost of manufacturing, marketing and transporting.

c. **Functional discounts:-** functional discounts are offered by the manufacturers to trade channel members if they will perform certain functions such as storing and record keeping. The discounts the marketers give to various members across the distribution channel are called functional discounts. They are also called as trade discounts. In simple terms, functional discounts are those that you give to a distributor or a retailer as incentives to buy from you.

- **Seasonal discounts:-**a seasonal discounts is a price reduction to buyers who buy merchandise or service out of season. Seasonal discounts allow the seller to maintain steadier production during the year. That discounts you might give to your buyers to increase sales in the off-season is called a seasonal discount. **For example**, a "Happy Hour". Restaurants give discounts during lunch hours or tea-time hours when traffic to the restaurant is at the least.

# 3. Price discounts and allowances


## Cash discount

*Discounts given to cash, early or prompt payments*


## Quantity discount

*Discounts given to those who buy large volumes*


## Seasonal discount

*Discounts given to products or services that are out of season*


## Trade discount

*Discounts given by manufacturers to resellers*


## Allowances

*Discounts given to gain reseller participation in special programs*

# Price Adaption Strategies

- Different price-adaptation strategies to be discussed here are;

**4. Differentiated Pricing**

Companies often adjust their basic price to accommodate differences among customers, products, locations, and so on. Lands' End creates men's shirts in many different styles, weights, and levels of quality. In March 2014, a men's white button-down shirt could cost as little as $19.99 or as much as $70.00.

Price discrimination occurs when a company sells a product or service at two or more prices that do not reflect a proportional difference in costs. In first-degree price discrimination, the seller charges a separate price to each customer depending on the intensity of his or her demand.

In second-degree price discrimination, the seller charges less to buyers of larger volumes. With certain services such as cell phone service, however, tiered pricing results in consumers actually paying more with higher levels of usage. With the iPhone, 3 percent of users accounted for 40 percent of the traffic on AT&T's network, resulting in costly network upgrades to AT&T and causing the firm to set higher prices for those users.

In third-degree price discrimination, the seller charges different amounts to different classes of buyers, as in the following cases:

- **Customer-segment pricing.** Different customer groups pay different prices for the same product or service. For example, museums often charge a lower admission fee to students and senior citizens.
- **Product-form pricing**. Different versions of the product are priced differently, but not in proportion to their costs. Evian prices a 2-liter bottle of its mineral water as low as $1 but 5 ounces of the same water in a moisturizer spray for as much as $12.
- **Image pricing.** Some companies price the same product at two different levels based on image differences. A perfume manufacturer can put a scent in one bottle, give it a name and image, and price it at $10 an ounce. The same scent in another bottle with a different name and image can sell for $30 an ounce.
- **Channel pricing**. Coca-Cola carries a different price depending on whether the consumer purchases it from a fine restaurant, a fast-food restaurant, or a vending machine.
- **Location pricing.** The same product is priced differently at different locations even though the cost of offering it at each location is the same. A theater varies its seat prices according to audience preferences for different locations.
- **Time pricing**. Prices vary by season, day, or hour. Restaurants charge less to "early bird" customers, and some hotels charge less on weekends. Retail prices for roses increase by as much as 200 percent in the lead-up to Valentine's Day.76

# Concept of Transfer Pricing

- Transfer pricing is just the demonstration of pricing of merchandise, goods, services, or intangibles when they are given to another division, subsidiary, or related party for utilizing, channelizing, or consumption. It is utilized for depicting the pricing arrangements between organizations that identify with exchanges between comparable business entities, divisions, and parties that incorporate physical as well as intellectual alongside various financing exchanges. Tax administrations and taxpayers involved in multinational business operations consider tax pricing highly significant, as it helps in finding out the costs and income of relating ventures. In this way, Transfer Pricing decides their taxable profits in various tax jurisdictions of different countries.

**Motivations behind Transfer Pricing** The key goals behind having Transfer Pricing are

- Ensuring separate profit for every one of the divisions
- Empowering performance assessment of every division independently
- Not just affecting the reported profits of every division but additionally influencing the allotment of an organization's assets

**Business needs to understand Transfer Pricing**

- With the end goal of effective management accounting and reporting, MNCs have some measure of tact while characterizing how to distribute the profits and expenses to the different divisions and subsidiaries situated in other nations.
- Sometimes a division of an organization may be separated into sections or may be represented as an independent business.
- In all such cases, transfer pricing helps in designating revenue and costs to such divisions, subsidiaries, or parties in the correct way.
- Here, a business needs to understand that the profitability of a division or subsidiary relies upon the prices at which the inter-company transactions take place. When transfer pricing is applied, it could affect investors' or shareholders' wealth, as this impacts the organization's taxable income along with after-tax and free cash flow.
- So, a business dealing with cross-border intercompany exchanges ought to comprehend what is transfer pricing and its working, especially for compliance necessities according to law, and to dispose of the risks associated with non-compliance.

**International Transactions subject to Transfer Pricing**

| Sale of completed or finished products or goods | Purchase of the raw materials | Purchase of the fixed resources or assets | Sale or acquisition or purchase of hardware, machinery and so forth | Sale or purchase of Intangibles |
|---|---|---|---|---|
| Management fees | Royalty fee | Corporate Guarantee fee | Technical Service fees | Software Development S ervices |
| Reimbursement of costs paid/received | IT Enabled administrations | Support administrations | The loan got or paid, etc. | |

# Concept of Dynamic pricing


- Dynamic pricing is a pricing strategy that uses flexible prices instead of fixed ones. Prices vary based on different changes in the market, such as competitor pricing, demand, supply, time, and customers' behavior.
- Dynamic pricing is also referred to as surge pricing, demand pricing, or time-based pricing. This is a pricing strategy in which businesses can set flexible prices based on current market demands. To put it more simply, this is a strategy in which product prices continuously adjust. It may be in a matter of minutes, hours, or days, depending on the type of the market.
- Dynamic pricing in practice is often a responsive or a reactive pricing strategy. This means that the marketer adjust the prices according to various market changes.
- Generally speaking, this means reacting to changes in supply and demand in a timely manner, so the marketer can capitalize on those changes. This is also the main incentive for companies to use dynamic pricing.
- Dynamic pricing strategy is popular among many business models. But the first companies that spring to mind are the airline industry, eCommerce businesses, public transportation, retail, and entertainment. Since each of these industries has different mechanics, they use different types of dynamic pricing models.

**Some popular examples of dynamic pricing**

- **eCommerce:** Many businesses adjust their prices automatically based on competitors, market price, seasons, and internal marketing efforts (new collection, outlet seasons, etc..).
- **Events:** dynamic pricing helps the event industry to generate more revenue by using the levers of urgency and scarcity. Cheaper early bird or more expensive last chance tickets are great examples.
- **BnB and hotel Industry:** here prices are correlated with seasons and certain times of the year such as holidays, special days, or events.
- **Ride-hailing services:** Snowy, rainy, rush-hour, or during the storm, riding services use dynamic pricing (surge pricing) to benefit from the environmental conditions.
- **Airline pricing:** regulars can organize their flights 5 months in advance. But business people often need to reserve flights at the last minute. Therefore ticket prices change in a matter of minutes with time-based pricing strategies.
- **Google ads:** the price of ads (keywords) is determined by the market's current supply and demand rate. Say you want to target the keyword "gift ideas" in the Christmas season, you can pay a lot more than a typical day.

# Pricing in online marketing

## Freemium Pricing

- Freemium pricing is a combination of two terms; **premium** and **free**. However, it's a pricing strategy that offers basic services for free, and advanced features for the premium price. This strategy attracts the attention of customers by offering some services for free. If the customers like the basic services, then they have to a certain price to enjoy the additional services.
- For businesses and companies that offer free and paid services permanently, the freemium tag doesn't apply to them. It's only applicable to those businesses that limited trial services for free.
- The reason companies use the freemium pricing method is to convince customers and lure them with a free option, and they could upgrade it to the paid version anytime whenever they want.

According to one Harvard Business Review article, most companies with a freemium model have a 2% – 5% conversion rate from free users to paying customers. To find out if this conversion rate is enough for your business, consider the following:

- Customer acquisition cost
- Business expenses
- Customer lifetime value

# Pricing in online marketing

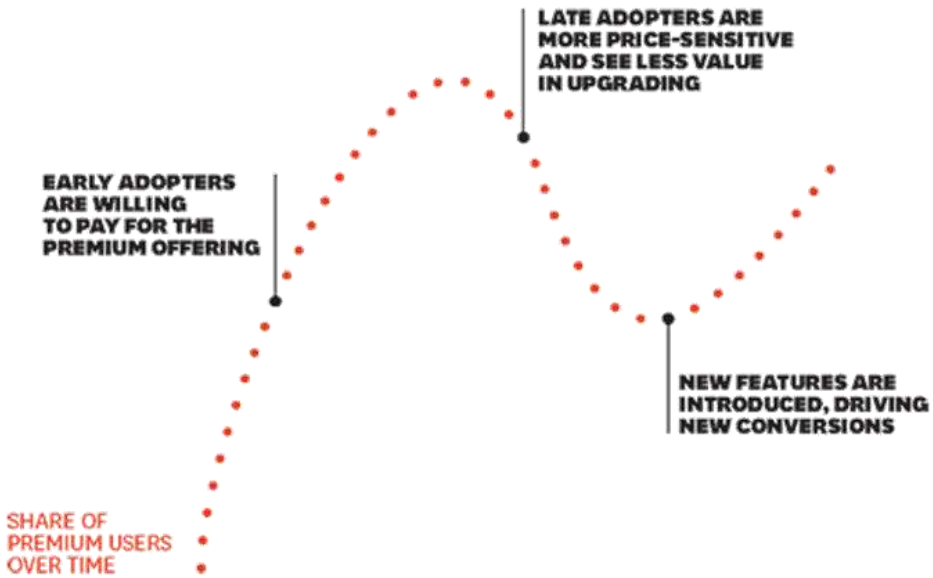
## Freemium Pricing

**Some of the main examples of freemium pricing are as follows;**

- **Spotify** is one of the best-known companies with a highly successful freemium model; the online music streaming service boasts an impressive 381 million users, and about 172 million of those users are paid subscribers.
- **Online magazines and newspapers** like Harvard Business Review offer a limited number of free articles, if the user wants unlimited access, then he has to pay for it.
- **Skype**, the firm that allows you to make video or voice calls over the internet. There's no cost to set up a Skype account, the software can be downloaded for free, and there's no charge for their basic service—calling from a computer (or a cell phone or tablet) to another computer. But for more advanced services, such as placing a call to a landline or a mobile phone, you do have to pay, albeit a small amount compared to conventional phone company charges.
- One of the earliest to do so—is King, the developer of the highly popular internet game **Candy Crush Saga**. The addictive activity, available on the **king.com site**, on Facebook, and on apps, is free to play. It allows users an allotted number of lives within a certain timeframe, but charges for extra lives if someone wants to play more during that window. Users also can pay for "boosters" or extra moves to help win the levels and advance through the game more easily.
- **Dropbox and LinkedIn** are a study in contrasts. The former has attracted 200 million users with a simple proposition: Everyone who enters a username and a password gets two gigabytes of cloud-based storage free. If people run out of space, they can pay $9.99 a month (or, alternatively, $99 a year) for 100 GB of storage. The free version is adequate for basic documents, but anyone who wants to back up photos or other media quickly hits the limit, and the reasons to upgrade are obvious.
- Byju’s follows a Freemium Pricing. It earns through the subscription amount paid by students. BYJU's also earns by selling products. BYJU's also provide a number of premium academic content for free.

# Pricing in online marketing

## Freemium Pricing




| | Dropbox | LinkedIn | NYTimes.com | Spotify |
|---|---|---|---|---|
| WHAT IT IS | A cloud storage and file-sharing service | A social media site for professional networking | A digital, enhanced version of the print newspaper | A music streaming and downloading service |
| WHAT'S FREE | 2 GB of storage, with up to 16 GB more for referring friends | Creating a profile, making connections, basic communication | 10 articles a month | Unlimited music, interspersed with ads |
| WHAT'S PREMIUM | 100 GB of storage for $9.99 a month | Advanced searches and communication, starting at $19.95 a month | Full access, starting at $3.75 a week | Downloads and ad-free streaming for $9.99 a month |
| HOW MANY USE IT | More than 200 million users (free and premium) | 277 million users (free and premium) at the end of 2013 | 53.8 million visitors in December 2013; 760,000 subscribers | 24 million users, of whom 6 million are subscribers |

# Price Change

- In a dynamic business world, price administration cannot end with the setting of an initial price. Changing marketplace conditions often require the organization to cut or increase prices to stop making changes.
- Companies often face situations where they may need to reduce or increase their prices even after developing pricing strategies and structures.

## Initiating Pricing Changes

**Price cuts occur due to:**

Excess capacity

Increased market share

**Price increases occur due to:**

Cost inflation

Increased demand

Lack of supply


# Initiating to Price Change

After goods have been produce, price is determined on the basis of its cost and taking reasonable profit. The price so determined may also need changes. Due to external and internal environmental effects, prices may need changes. Two main strategies can be adopted in leadership pricing as follows:

**1. Initiating price cut**

- Tradition holds that any competitor can lead prices down, but only dominant competitors can lead prices up. Prices may be cut temporarily either to introduce a new product or to sell excess inventory.
- If a company's market share is declining, the marketing executive can decide to cut the price to revive sales.
- A small competitor may institute price cuts to gain market share; however, a large competitor will follow price reductions only if a greater amount of profit will be lost by not doing so.
- Price reduction or cut occasionally occurs even in oligopoly. The reason is that no mechanism can control all of the companies operating in the marketplace.
- In the product's growth stage, the marketing executive may cut the price on an incremental basis because competition becomes greater, and the supply of competing items grows.
- The executive may also wish to tap a larger share of the target market – those who can not pay the higher price.
- To successfully compete during the maturity stage, the marketing executive will significantly cut the price since competition peaks. The target market becomes an extremely price-sensitive group at this stage.
- Price cut may also be initiated to achieve more widespread distribution of the product or special promotional efforts or move out excess inventory.
- A company, then, cuts price under several circumstances of which excess plant capacity, declining market share, and drive to dominate the market through lower costs are important.

# Initiating to Price Change

**2. Initiating price increase**

- The changing marketplace conditions often require the organization to increase prices. It is noted that only **dominant competitors** can **lead prices up.** This rule of thumb holds some of the time.
- Only companies with relatively **large market shares** are likely to be successful in leading price increases.
- One of the most frequent causes of initiating price increases is a **change** (rise) in the **cost of producing or selling the item**.
- The impetus for a price change, thus, first comes from **increased costs**. Price increases may also be initiated, anticipating increased future labor costs, basic supplies, and many fixed expenses.
- The decision to initiate price increases is also influenced by the general **sensitivity of demand to price and competitors' possible reactions**. A move to a higher level of price may reflect product superiority for a firm with a highly differentiated product. Of course, such upward moves are easier to sustain when non-price promotional efforts have created a strong selective demand for the product. With the increase in costs, a marketing executive may decide to increase prices rather than maintain it.
- **Over demand** is another variable that may motivate the marketing executive to initiate a price increase. There may be a situation when a firm may not meet all who desire the product.
- To **discourage a certain segment of buyers** to cope with the over demand situation, the firm may initiate the price increase.

Many circumstances may lead a firm to increase its price, of which cost inflation, general sensitivity of demand to price, and over demand are notable.

# Initiating to Price Change

A company can also deal with the **two situations (price cut or Price increase)** without raising prices. One of the following **techniques may be adopted** by a company to **face cost inflation** and **over demand without price increase**:

- It may shrink the amount of product.
- Less expensive materials and ingredients may be used.
- It may reduce or remove some of the product features.
- It may also remove or reduce product services such as warranty, free delivery, and free installation.
- Less expensive packaging materials may be used, or larger sized package may be promoted.
- The number of sizes and models may be reduced.
- New economy brands may be developed.

# Reactions To Price Changes

A company's product's price may affect many parties such as customers, competitors, suppliers, distributors, and government.

**The reactions of different parties to a price change in the following sections**:

**Reactions of Customers**

- Customers may react differently to price cuts, such as the item may be abandoned; it is faulty or not selling well; the firm may quit from this business; its quality has been reduced, or price may come down further.
- Customers may equally react to the price increase of an item.
- The price increase, though, normally reduces sales, may carry some positive meaning as well. Customers may consider the item as "**hot**" and may rush to buy it, anticipating that it may not be available in the future, or they may consider the item worth even if the price is raised.
- Customers are normally price-sensitive to costly items or items frequently bought compared to less costly and less frequently bought items.

# Reactions To Price Changes

A company's product's price may affect many parties such as customers, competitors, suppliers, distributors, and government.

**The reactions of different parties to a price change in the following sections**:

**Reactions of Competitors**

- Marketers must have a clear idea of the competitive environment in which they operate to estimate the extent of pricing flexibility available.
- Like the customers, competitors also react to the price change of a company's product. This reaction is inevitable if there are few competitors if buyers are highly informed, and if the product is homogeneous.

**Reactions of Distributors**

- **Distributors** may find it less profitable dealing with a product the price of which is raised, or they may find it less prestigious selling a product whose price is cut.

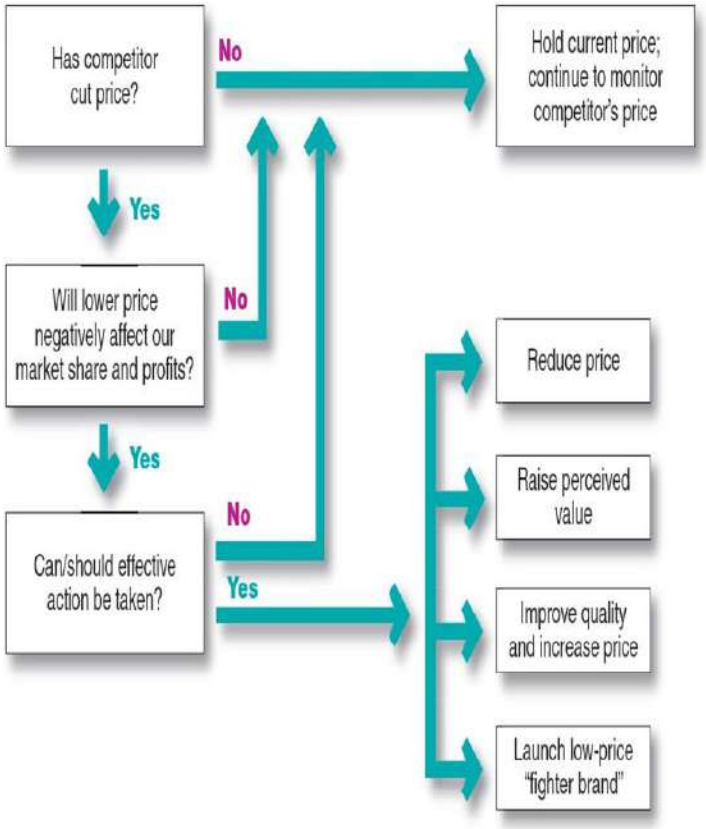
**Reactions of Suppliers**

- The suppliers may ask for a higher price if the product's price is increased.

# Responding to Competitors' Price Changes

Following price changes is usually less risky than leading. If a dominant firm increases its prices, smaller competitors can hold steady and hope to gain market share.

- If they follow the leader's increases, they are likely to hold their current shares at least. They may even improve their profits with little risk.
- What if relative market shares are fairly even among several competitors? In this case, the firm that leads to price increases takes the greatest risk. Customers obviously favor price cuts, but they have to be educated about increases.
- It is, therefore, always safer to follow, but this is not always an option. A firm's survival may hinge on leading with a price increase at the right moment.
- In the case of homogeneous products, a company can either cut its price as soon as the competitors cut their prices, or it may augment the product to compete.
- If the competitors increase the price in a homogeneous product, a company can match its price accordingly if it thinks that price increase will benefit the industry.
- In non-homogeneous products, a company can react to competitors' prices in many ways, such as maintaining price, raising perceived quality, reducing price, increasing the price and improving quality, and launching a low-price fighter line.
- Competitors' pricing actions are sometimes impossible to predict, but they can have devastating effects.
- Marketers face difficult pricing decisions and must make them quickly. What the marketing executive should exactly do depends on the situation.



# Responding to Competitors' Price Changes

## Responding to Price Changes

### Effective Action Responses

- Reduce price to match competition
- Maintain price but raise the perceived value through communications
- Improve quality and increase price
- Launch a lower-price "fighting" brand

# END OF UNIT 2

# UNIT 3 PLACE

**PLACE**

How does the customer act or buy?

....

- Location of purchase
- Ease of transaction
- Access to distribution channels
- Sales force
- Competitor approaches

# But what is Place in Marketing Mix?

The element Place in marketing mix strategy ensures the availability of product to the intended end consumer. We need to ensure **3 specific aspects of availability** –

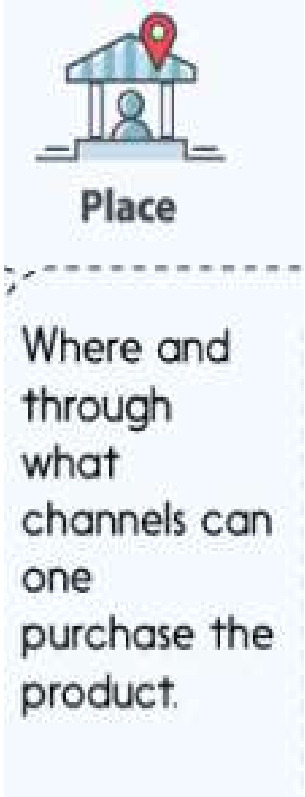
- **The right place** - *Groceries* must be made available at every local supermarket or the next-door kirana store. A *hatchback car* however, will only be available for purchase in company showrooms.
- **The right time** - *Umbrellas* must hit the market before the onset of monsoon season and must be available throughout the season, to be replaced with *wollen caps and mufflers* as winter sets in. Winter wear available in the hot months will attract negligible sales because of seasonality.
- **The right quantity** - You buy only **one** *LED TV set* after browsing through numerous models at different digital stores, all offering appealing features at a broad price range. However, while purchasing *vegetables*, you visit just a handful of roadside stalls, observe only few aspects ensuring freshness of product, and **buy by weight**.

# Place Mix

- Place mix or distribution mix is an arrangement of channels, both physical and non-physical, through which the product is made available to customers for purchase.
- It is the set of decisions a company undertakes to make the product accessible to its target customers conveniently in the most cost-efficient manner.
- Place mix is a process by which the goods are transferred from the place of production to the place of consumption.

There are **2 important decisions** related to place mix:

- **Channels of distribution**
- **Physical distribution**

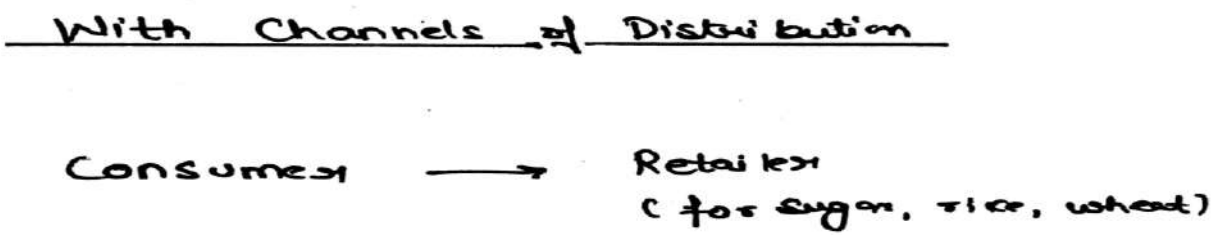


# I. Channels of Distribution

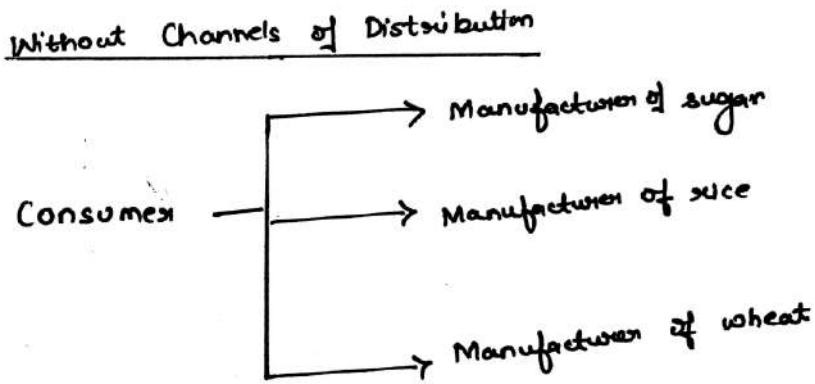
- Channels of distribution refer to the people or middlemen who help in distributing the goods.
- Since goods are produced in one place and customers are scattered all over the country. So, it is very difficult for the producer to distribute goods.
- Channels of distributions are the firms or individuals who help in transferring goods from the place of the manufacturer or the producer to the place of the consumer.

# Channels of Distribution

- Distribution channels make shopping easy for consumers and distribution becomes simple for a producer. For example, a consumer can get various products at the retailer outlet. Otherwise, he would have to visit different producers which involves a lot of effort.
- With channels of distribution, consumers can get everything that he wants to buy in one place. As shown below:




- Without channels of distribution, the consumer has to visit different manufacturers to get various products. As shown below:



# Functions of distribution channels

**1. Sorting / Grading / Arranging**

- Intermediary get the commodities from various manufacturers, and then they do sorting, that is, they repack them according to the quality, size, or price.
- For example, arranging apples of different size.

**2. Accumulate**

- Intermediary maintain a large stock of commodities, so that, there is a smooth supply of commodities without any delay.

**3. Assortment**

- Intermediary maintain the variety of commodities that they procure from various manufacturers and assemble them in one place so that consumers can fulfill his requirement by visiting one place only.
- For example, Decathlon, where we can get all the sports items.

**4. Packaging**

- Intermediary buy the goods in bulk and then they repack them in small lots.
- For example, the wholesaler buys bags of 100 kg wheat and then repacks it in convenient packs of 5kg or 10 kg.

**5. Promotion**

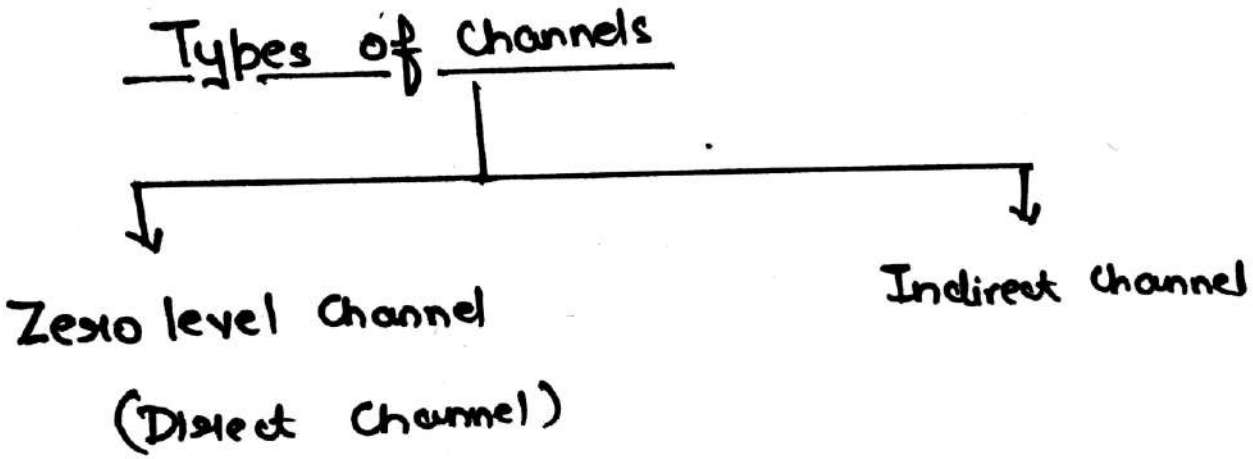
- Intermediary also offer some sales promotional tools to attract customers.
- For example, discounts or offers or deals of the day.

**6. Negotiation**

- Intermediary negotiates with the manufacturer as well as with the customer on price, quality, and the guarantee.

# Types of Channels of Distribution

- The distribution channels can be divided into two categories: direct and indirect. However, direct and indirect distribution channels are most commonly used. In addition, indirect channels are categorized into one-level, two-level and three-level according to the number of intermediaries between manufacturers and customers.



# Types of Channels of Distribution

- **1. Zero Level Channel**

- The most simple and the shortest mode of distribution is direct distribution, wherein the goods are directly available by the manufacturer to the customer, without involving any intermediary. This is a 0 level channel.

- Since the manufacturer has one-to-one interaction with its customers, and it has complete control of the product, its image, and its user experience at all phases. Generally, manufacturers who offer perishable, expensive, and geographically focused goods employ this distribution channel, such as consulting organizations, bakers, and jewelers.

- This distribution channel can take various forms.

0 level Channel

Manufacturer → 0 Customer

The most frequently used are:

**Direct mail**

- It is one of the most common direct distribution strategies. It covers a variety of mails, such as envelope mailers, newspapers, sales letters, catalogues, brochures, postcards, and so on. Under this, direct mails are sent to the consumer's address.

**Online sale**

- It is a part of the global internet network, also referred to as I-marketing, web-marketing, e-marketing or e-commerce. Under this, an enterprise sells its items via the internet and quickly receives its bill. It has emerged as one of the most popular modes of sales and has swept off the requirement for intermediaries.

**Personal selling**

- Personal selling is when the manufacturer and the customer has personal communication regarding the sale product or service.

# Types of Channels of Distribution

**Indirect Channel**

- In this method, intermediaries are involved to ensure that the goods are available in the consumer market. It is the most effective means of distribution and is used to promote apparel, machines, automobiles, furnishings etc.

1 level Channel

Manufacturer → Retailer (1) → Customer

2 level Channel

Manufacturer → Wholesaler (1) → Retailer (2) → Customer

3 level Channel

Manufacturer → Agent (1) → wholesaler (2) → Retailer (3) → Customer

# Types of Channels of Distribution

## Indirect Channel

**One-level channel**

- Here, only one intermediary (retailer) is involved; thus, it's called a one-level channel. So, the manufacturers sell their products to retailers who sell them to customers.
- Manufacturers of shopping goods like toys, apparel or furniture utilize this kind of distribution channel.

1 level channel

Manufacturer → Retailer (1) → Customer

**Two-level channel**

- Here, two intermediaries (wholesalers and retailers) are involved; thus, it is called a two-level channel. The wholesalers usually buy in bulk from the manufacture, divide the items into smaller proportions, and then sell them to the retailers. The retailers then sell the products to their final purchasers.
- This channel is used for consumer goods that have customer demand from a wide range, and the purchase frequency is high.

2 level Channel

Manufacturer → Wholesaler (1) → Retailer (2) → Customer

**Three-level channel**

- Since three intermediaries (agent, wholesaler and retailer) are involved in this channel, it is called a three-level channel. Here, the producer deals with an agent, and then the wholesaler buys from an agent and sells them to retailers who sell it to the end-user.
- The three-level channel is used in international marketing, where marketers deal with local wholesalers in the world market. Due to differences in language and customs, companies hire local agents to deal with local wholesalers and thus sell their products.

3 level Channel

Manufacturer → Agent (1) → wholesaler (2) → Retailer (3) → Customer

# Managing Distribution Channels

## Intensive Distribution

- The technique is normally used to distribute low priced products or impulse purchases, like chips and chocolates. These typically have high sales and are available across most retail chains, and hence these products are found practically everywhere you go, from a local mom-ad-pop store to the supermarket. **For example**, essential supplies or regular products or items like chocolates or mint, are effectively supplied under this distribution method.

## Exclusive Distribution

- It involves limiting distribution to a single outlet. This works for high priced products where a dealer is necessarily included in the distribution channel to drive sales. *Automobile* sales is the best example of exclusive distribution where sale happens only through exclusive dealers and dealing showrooms.

## Selective Distribution

- Common with items of wide variety and price points, such as electronics and home appliances, where consumers tend to shop around, a handful of retail outlets and chains drive the sales through distribution.

# CHANNEL DECISIONS: DISTRIBUTION INTENSITY

- *What type of product fits best?*
- *What type of sales people are required?*
- *What support is required?*
- *What is the total system cost?*

**Intensive Distribution**


This is good for a product that needs to be sold in as many places as possible.

**Exclusive Distribution**

This is good for a product that needs to be sold in a [set of] highly qualified outlet[s].

**Selective Distribution**

This is good for a product that needs to be sold a lot of places but the brand owner needs to control the number and quality of outlets.

# Types of distribution channels

**Wholesalers:**

- Wholesalers are the intermediaries who buy products from the manufacturer in a large volume and then resell them to other small businesses, usually retailers. Some wholesalers have multiple products to be sold to different retailers, while others specialize in only a single product or a category. The pharmaceutical industry commonly has many wholesalers and retailers. They usually buy the drugs in bulk from pharma companies and then supply to individual pharmacies, hospital pharmacies on requirement basis.

**Distributors**

- Distributors are also known as functional wholesalers. Distributors are not the ones who buy any product from the producers, but they are the ones who are involved in increasing or facilitating the transaction between the retailer and the manufacturer.

**Brokers and Marketing Agents**

- **Brokers**, or *agents*, don't purchase or take title to the products they sell. Their role is limited to negotiating sales contracts for producers. They are generally paid a commission for what they sell and are assigned to different geographical territories by the producers with whom they work. Because they have excellent industry contacts, brokers and agents are "go-to" resources for both consumers and companies trying to buy and sell products. Apart from real estate, brokers and agents are also common in the travel industry and are commonly used in international trade. When companies cannot approach the customers directly, and they require a specific human interaction to close the transaction, then they approach agents or brokers. Their deals with companies are usually for a selected and predefined time or for a selected number of products to be sold to the customer.

**Retailers**

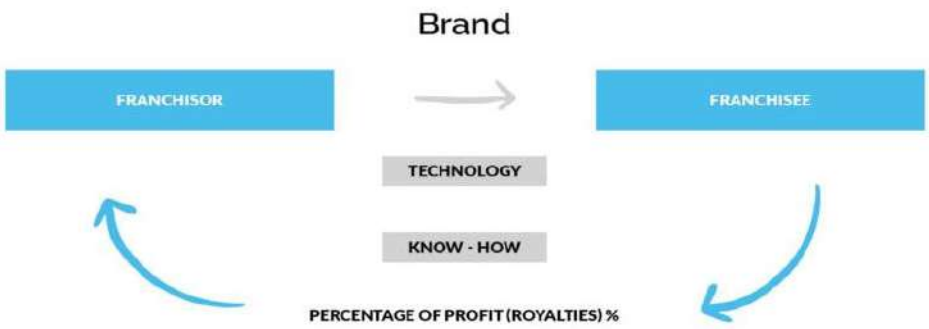
- The retailer is the final link between the customer and the organization. The customer can go directly to the retailer and purchase it from his store. Retailers are in the format of shopping malls, stores, carry out the lights, and also in the form of e-commerce websites. Retailers buy directly from the producer and skip many intermediaries to increase their profit margin.

- Retailers stock the products in bulk and payback in the form of commission. This usually happens in the case of bookstores. Any intermediate party which does not manufacture the product but buys the product from the company and sells it to the customer can be termed as a retailer. The best example is the online e-commerce giant Amazon which sells millions of products to millions of customers by purchasing it directly from the manufacturer.

# Types of distribution channels

**Franchising**

- Franchising is an ancient distribution model. Franchising, or a business franchise model, is a contractual business model or relationship whereby an established brand, known as the 'franchisor,' allows an independent business owner, or franchisee, to use its branding, business model, and other intellectual property. In return, the franchisee agrees to pay an upfront franchise fee, plus ongoing royalties to the franchisor.
- A franchise arrangement legally states that the owner of a business (the franchisor) permits a third party (the franchisee) to operate a business and distribute goods and/or services using their business's name and systems in return for a fee.




# Introduction to Omni Channels

- Omnichannel is a cross-channel strategy for content that aims to improve the customer's experience.
- Omnichannel also aims at developing better relationships with customers through all possible channels and touch points. It comprises both the traditional and digital channels. Also, physical customer experience, online experience, and point-of-sale commerce are also focused upon.
- All the channels must work in unison to create a collective experience. This means that any channel used by the customer such as desktop, mobile, physical store, etc will provide the same seamless experience.

**Some examples of omnichannel marketing include:**

- Sending out SMS messages to the customers intimating about a promotion item or sale while they are in the store. Any other digital medium can also be used to disseminate content.
- A customer receiving an email in case of unfinished cart checkout or abandonment.
- Retargeting the customer with ads for the abandoned cart as he/she might still be interested in it.

# Introduction to Hybrid Distribution Channel or Multi-Channel Distribution System

- Two or more marketing channels set up by a single firm to reach one or more customer segments. In this form of multichannel distribution a variety of direct and indirect approaches are used to deliver the firm's goods to its customers.
- **Of late**, many companies used a single channel to sell to a single market or market segment. Recently, with the proliferation of customer segments and channel possibilities, several companies have adopted multi-channel distribution systems, it is often called hybrid marketing channels.
- **For example**, a manufacturer of a product or service will have a relationship with an intermediary to distribute a product or service, though the manufacturer may also be making the sale directly with the consumer. This example appears in some digital transactions when you purchase from a manufacturer's website but the product is delivered to you by an intermediary.
- **For example,** The producer sells directly to consumer segment 1 using direct mail catalogues and telemarketing, and reaches consumer segment 2 through retailers. It sells indirectly to business segment 1 through distributors and dealers, and to business segment 2 through its own salesforce.

# Factors determining Choice of Channels

**1. Product related factors**

- It includes whether the product is industrial or a consumer product, whether it is perishable or non-perishable.
- Industrial products are usually technical, they are made according to order as they are very expensive and are purchased by few buyers. These types of product require a short channel, that is a direct channel. **For example,** HP laptop.
- Consumer products are usually less expensive. These can be distributed with a long network of channels involving many middlemen.

  **For example**, Lux, Sunsilk.

**2. Company Characteristics**

- A company with no financial problems should prefer indirect or direct sales with financially weak firms. They can have more middlemen. **For example**, Cadbury.
- Companies which have tight control over their distribution, they prefer direct sale.

**3. Competitive factors**

- The type of channel selected by the competitor also affects the selection of the channel.
- For example, if Revlon cosmetic producers have chosen big retail stores for the sale of their products, its competitors may adopt door to door selling policy.

**4. Market factors**

- In the industrial market, direct selling is preferred whereas in the consumer market different distribution channels are adopted.
- If customers are large or are scattered, then more Intermediaries are used for distribution.

**5. Environmental factors**

- Channels of distribution are also affected by the economic conditions and legal restrictions. In a depressed economy, marketers used shorter channels to distribute their goods in an economical way.

# II. Physical Distribution

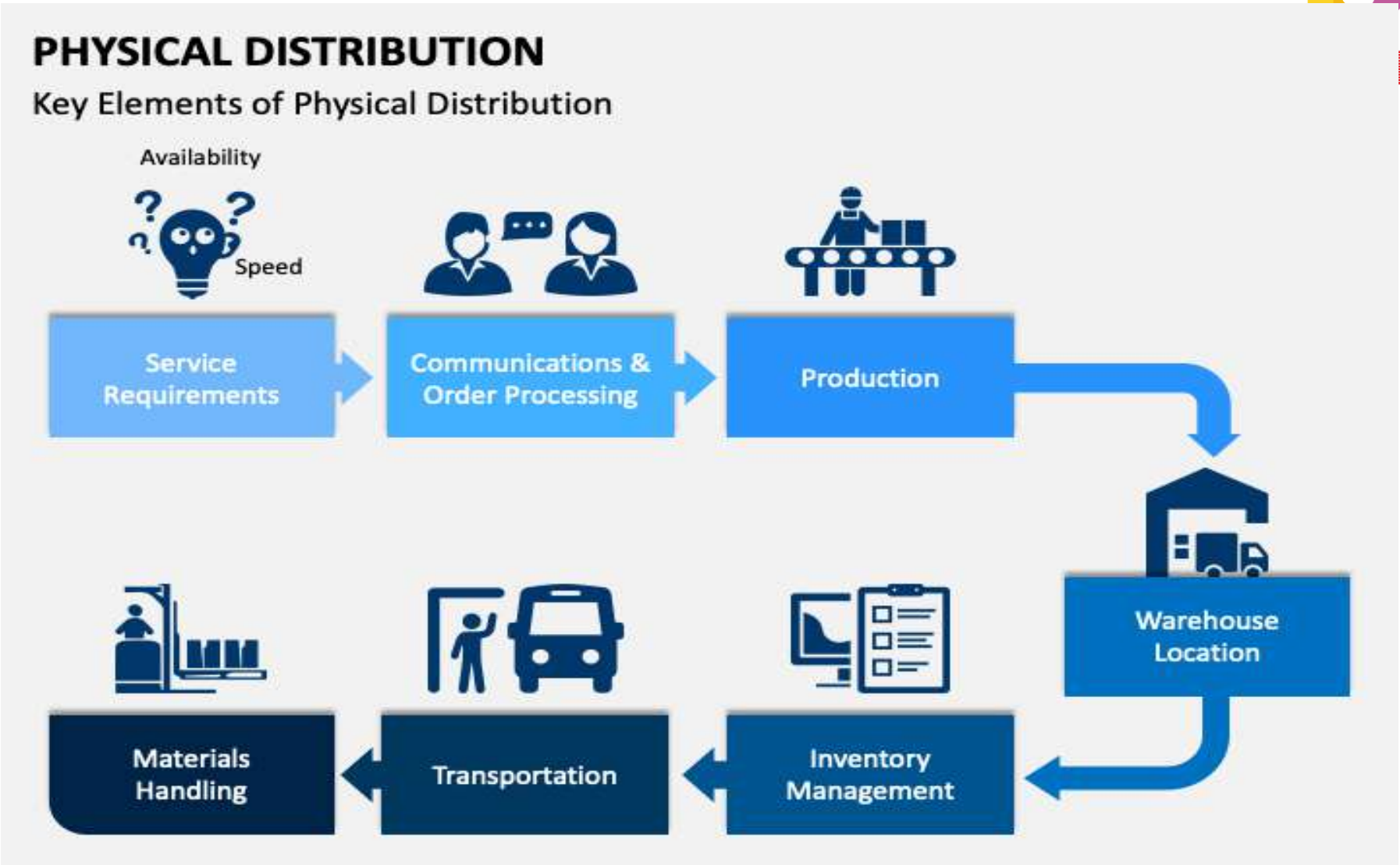
- Physical distribution means delivery of the goods.
- The planning, implementation, and controlling of the physical flow of material or product from one point to another to meet the customer requirements in the market is known as physical distribution.

**Importance of Physical Distribution**

The importance of physical distribution becomes significant when the manufacturers and market are geographically far from each other. The following points highlight the importance of physical distribution –

- Execute physical flow of product from the manufacture to the customers.
- Grant time and place for the product
- Build customer for the product
- Cost reduction
- Fulfill the demand of the product in the market so that business takes place

# II. Physical Distribution



# II. Physical Distribution

## 1. Order Processing

- **Order processing** is the **process** or work-flow associated with the **picking**, **packing** and **delivery** of the packed items to a shipping carrier and is a key element of **order** fulfillment.
- Order processing is the first point or in other words, the starting point of the distribution activity. The functions involved in order processing are receiving order, handling the received order, granting of credit for the item ordered, generating invoice, dispatching of order and collecting the bills. It involves order placement, order transmission by a salesman to the company, delivery of goods, etc.
- Businesses should be making an effort to reduce the order cycle time which is the time between placing an order by the customer and delivery of the goods at the customer's place. Fast order processing gives more satisfaction to the customer, but it involves maintaining sufficient stock.

# II. Physical Distribution

## 2. Transportation

- Transportation is the means of carrying goods and raw materials from the point of production to the point of sale.
- It is one of the major elements of physical distribution because if goods are not made physically available, the sale can not be completed.
- **Transportation** as a component of **physical distribution** is concerned with the movement of goods from the warehouse to customer destination. It includes loading and unloading of goods and their movement from one place to another. In doing so it provides time and place utility.

✓ Transportation

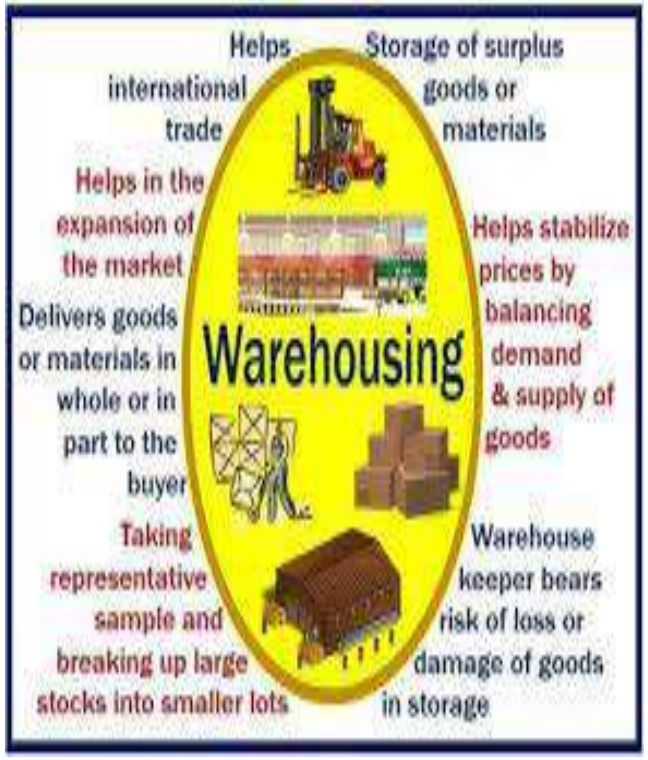
i. Suitability or nature of product
ii. Affordability
iii. Availability
iv. Customers' specifications
v. Competitor's transportation model

# II. Physical Distribution

## 3. Warehousing

- Warehouses act as centers of storage and by providing the functionality it helps businesses meet the demands of customers. Apart from being a source of storage, a warehouse also acts as centers for assembling the goods.
- For products like agricultural products which require long-time storage, warehouses are located near production sites, while the products which are perishable such as fruits, vegetables etc. or the products which are heavy and hard to ship are stored in the warehouses located near the market.
- The commodities produced are not sold immediately. Therefore, every company needs to store finished goods until they are sold in the market.
- Some goods are produced throughout the year but are demanded in a particular season only.
- These are stored during the off-season.

For example, Air conditioners, woolen clothes, heaters, etc.




# II. Physical Distribution

## 4. Inventory Control

- Inventory refers to the maintenance of a stock of the goods. The inventory needs to be maintained so that goods can be supplied whenever demanded. Inventory involves costs, so accordingly optimum level of inventory should be maintained.
- Inventory control refers to the process of efficient control of goods that are stored in the warehouses. Businesses need to maintain adequate levels of inventory in order to ensure uninterrupted fulfillment of orders.
- The level of inventory needs to be optimal, it should not be too less or too more, as less inventory results in out of stock goods, lost business and unhappy customers, while a high level of inventory requires huge investment.

# II. Physical Distribution

**5. Material Handling:**

- Material handling refers to the activities that are associated with the movement of goods from the site of manufacturing till it is loaded to the transport.
- Proper material handling results in minimizing the wastage of goods during transport, reduces unnecessary movement of goods, facilitates quick order processing and efficient goods movement.

# END OF UNIT 3

# UNIT 4
# PROMOTION

## PROMOTION

What is the dialogue between customer and company?

....

- Message
- Method of delivering message
- Timing of delivery
- Communications by customers and influencers
- Competitor promotions

# Marketing Communication.


All types of messages using various instruments by means of which a company communicates with its target groups and stakeholders to promote its products or the company as a whole

## Significance of marketing communication mix

The significance of all of this lies in the potentially powerful images that are created. Marketing communications, in all its different forms, serves to create a sense of

- professionalism
- credibility
- confidence
- reassurance

## Role of Marketing communications

- Position and differentiate the service
- Helps Customers to evaluate Service Offerings
- Promote the Contribution of the Service Personnel
- Add Value through Communication Content
- Facilitate Customer Involvement in Production
- Stimulate or Dampen Demand to match Capacity

# Promotion/ Communication Mix Elements

- The Communications Mix defines **the ways you communicate** with your customers, i.e. the tools/elements you use.

The promotional mix is made up of five elements, shown below:

1. Advertising (TV, radio, press, PPC)
2. Direct marketing
3. Public relations (PR)
4. Personal selling
5. Sales promotion

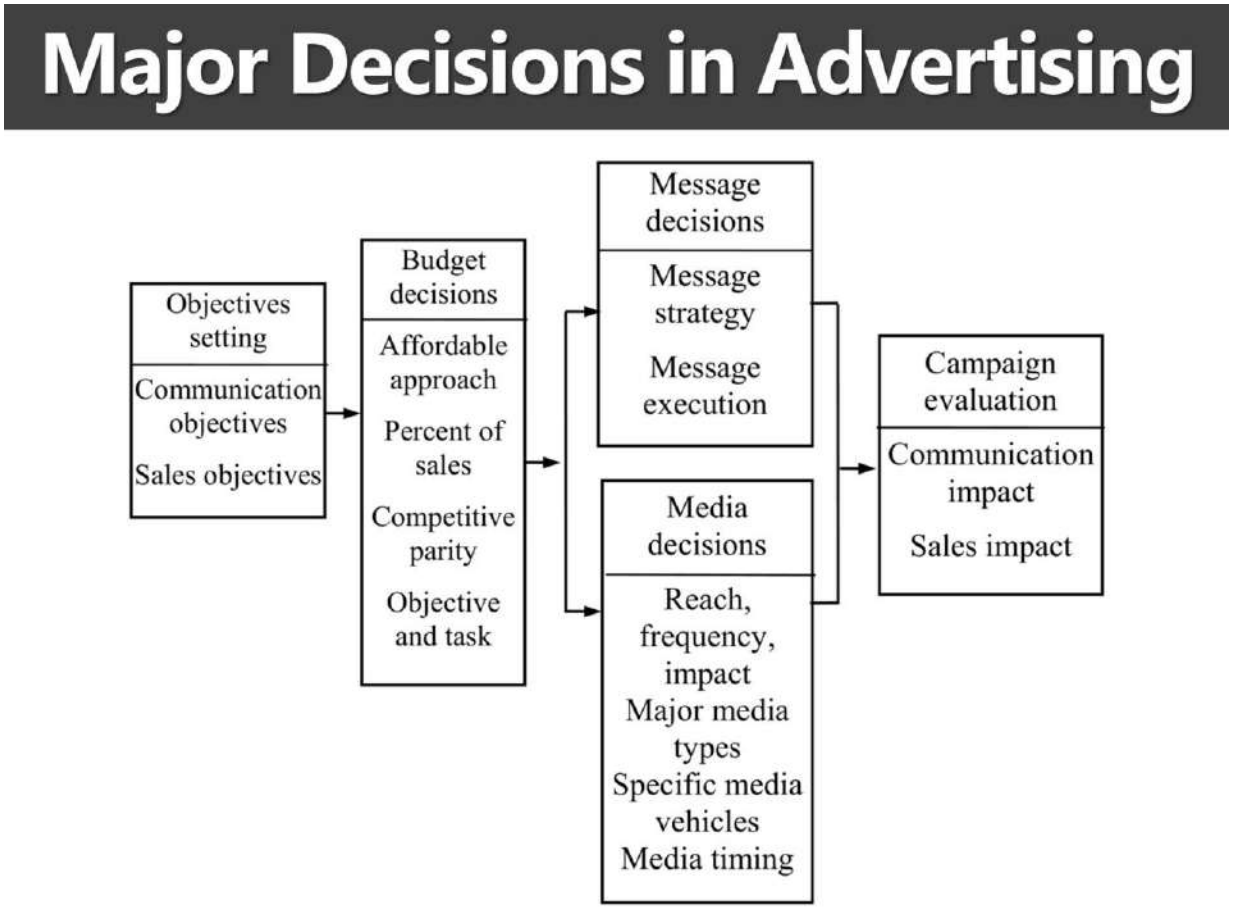
# Promotion/ Communication Mix Elements

1. **Advertising:**

- It is an indirect, paid method used by the firms to inform the customers about their goods and services via television, radio, print media, online websites etc.
- Advertising is one of the most widely used methods of communication mix wherein the complete information about the firm's product and services can be communicated easily with the huge target audience coverage.

# Promotion/ Communication Mix Elements

## 1. Advertising:



# Promotion/ Communication Mix Elements

1. **Advertising:**

Various types of media that are available for a marketer are listed below:

i. Print- Newspapers, periodicals, flyers, leaflets, posters.

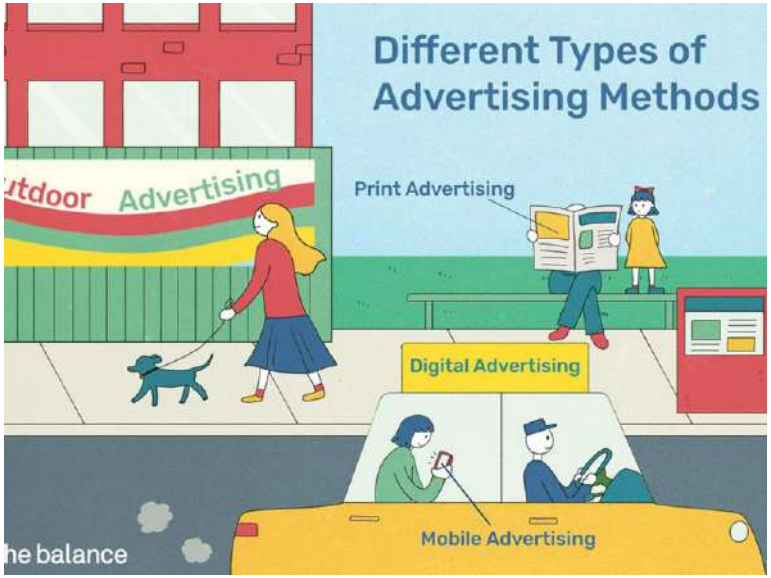
ii. Electronic- Radio, TV channels, cable operators, movie theatres, part of movie/TV episode storyline.

iii. Out of Home (OOH)- Hoardings, shop panels/shutters, auto rickshaw/bus/train panels, mobile display vehicles, bus stops, railway stations, display units at airports, malls, shopping arcades, multiplexes etc.

iv. Shop display windows.

v. Door-to-door canvasing.

vi. Sampling at various locations.



# Promotion/ Communication Mix Elements

## 2. Direct Marketing

- Direct marketing refers to marketing communications which are directly presented to a target market. Typically, direct marketing includes what is known as a **'call to action'** and this is a technique which is designed to stimulate the consumer to make a purchase decision. A call to action might be delivered through targeted emails, or direct postal mail. With the intent of technology, the companies make use of emails, fax, mobile phones, to communicate directly with the prospective customers without involving any third party in between.
- Direct marketing through mass customized print media (i.e. direct mailings) and their digital equivalent is likely to be more cost-effective than personal selling, and can be refined through marketing analytics.
- Direct marketing is also one way of beginning to build a relationship with the consumer through carefully targeted marketing content.
- **An example** of this is the way that Amazon recognizes previous purchases, and then suggests similar items for a consumer.

# Promotion/ Communication Mix Elements

**2. Direct Marketing**

The following methods of direct marketing are most common:

**(a) Mail Order:** In this type, customers are given information about the product and asked to order the product directly.

**(b) Tele-Calling:** Data of prospective customer's contact details is procured from secondary sources and they are called on telephone/mobile to give information about the product and persuaded to purchase the product directly by ordering it with money sent to the marketer.

**(c) Teleshopping:** Various television channels air programs where manufacturers can display and demonstrate their products and convince customers to order their products directly.

**(d) E-Commerce:** With internet becoming common to most of the customers in developed and developing nations, marketing through internet is becoming common. This type of marketing is called as E-commerce, a short form for electronic commerce. Advertisements are posted on the internet and various social networking sites to give information and demonstrations about the product and customers are attracted and persuaded to purchase the product by sending orders directly to the manufacturers.

# Promotion/ Communication Mix Elements

**3. Public Relations**

- Involves communication designed to help improve and promote an organization's image and products.
- PR is often perceived as more neutral and objective than other forms of promotion because much of the information is tailored to sound as if it has been created by an organization independent of the seller.
- This refers to how you handle your relationships and the flow of information with your various "publics" or the people who have a stake in or are affected by your business. This includes the general public, consumers, shareholders, employees, partners, competitors and the government.
- Public relations materials include press releases, publicity, and news conferences. While other techniques such as product placement and sponsorships, especially of events and experiences, tend to generate a lot of PR, the growth of expenditures and importance of sponsorships are so critical for so many companies that it is often considered a separate component in the communication mix.
- The companies perform several social activities with a view to creating their positive brand image in the market. The activities that companies are undertaking such as, constructing the public conveniences, donating some portion of their purchase to the child education, organizing the blood donation camps, planting trees, etc. are some of the common moves of enhancing the Public Relations
- Many companies have internal PR departments or hire PR firms to find and create public relations opportunities for them. As such, PR is part of a company's promotion budget and their integrated marketing communications.

# Promotion/ Communication Mix Elements

### 3. Public Relations



# Promotion/ Communication Mix Elements

## 4. Personal Selling

- It means selling personally. It involves the face-to-face interaction by this the seller directly contact his customer and sell the products. This is the two way communication process. Here, the seller is personally explaining the need of the products to his customers.
- **Definition:**

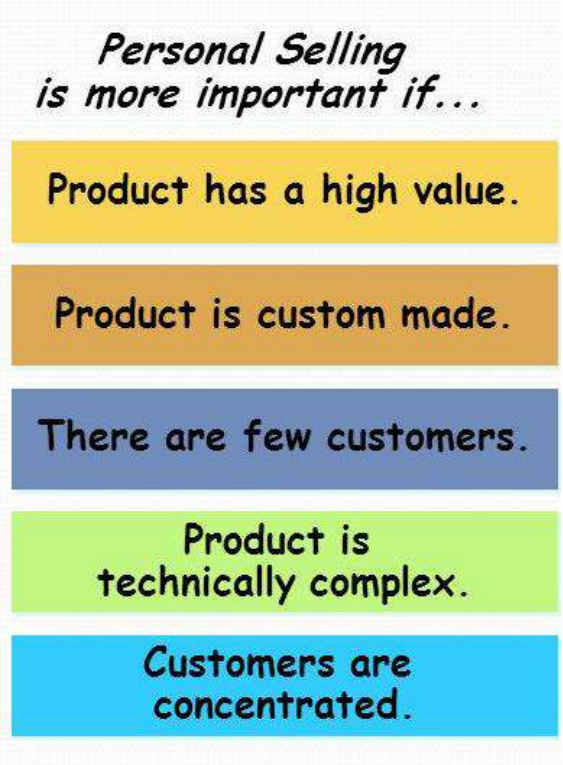
**"Personal selling is an ancient art. Effective sales persons have more than instinct; they are trained in a method of analysis and customer management. Selling today is a profession that involves mastering and applying a whole set of principles". -Phillip Kotler**

- Personal selling involves two-way communication. When it comes to convincing the prospect, closing a sale and transferring the title from seller to buyer, personal selling becomes the strongest tool of promotion.
- During personal interview, the sales person understands the needs and wants of prospect, highlights product benefits and convinces him to buy the product.

# Promotion/ Communication Mix Elements

4. Personal Selling





# Promotion/ Communication Mix Elements

**5 Sales Promotion**

- The sales promotion includes the **several short-term incentives** to persuade the customers to initiate the purchase of the goods and services.
- This promotion technique not only helps in retaining the existing customers but also attract the new ones with the additional benefits.
- They are often developed to get customers and potential customers to take action quickly, make larger purchases, and/or make repeat purchases.
- Rebates, discounts, paybacks, Buy- one –get- one free scheme, coupons, etc. are some of the sales promotion tools.

# Promotion/ Communication Mix Elements

## 5 Sales Promotion

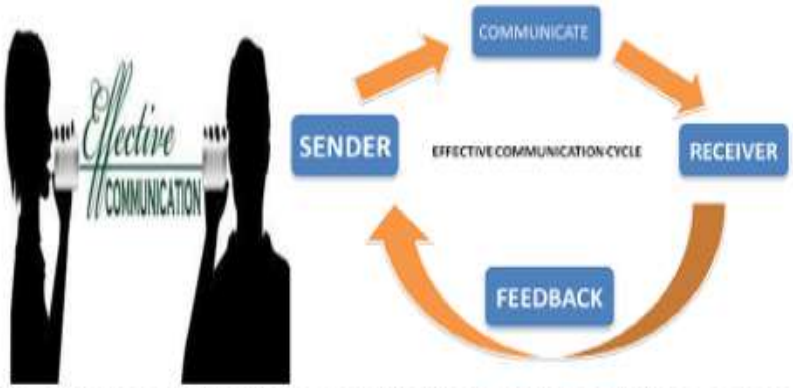
- To encourage existing consumers to purchase more
- To help the company stay competitive
- To raise sales in the off-season
- To raise the stock of the business buyer


# Integrated Marketing Communication

- Integrated marketing communication (IMC) can be defined as the process used to unify marketing communication elements, such as public relations, social media, audience analytics, business development principles, and advertising, into a brand identity that remains consistent across distinct media channels.
- It allows public and private organizations and businesses to deliver an engaging and seamless consumer experience for a product and/or service, and to optimize an organization's image and relationship with stakeholders.
- **Integrated marketing communication refers to integrating all the methods of brand promotion to promote a particular product or service among target customers**.

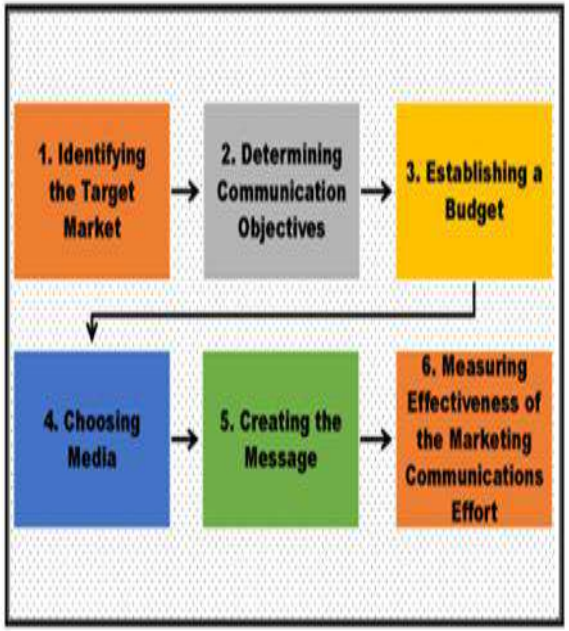
# Steps for Developing effective Communication

The process of sharing information, thoughts, values and feelings between people through speaking, writing or body language is defined as Communication. Effective communication extends the concept to necessitate that transmitted content is received and understood by someone in the way it was planned.




The objectives of effective communication contain generating a common perception, altering behaviors and obtaining information. Marketers want to communicate effectively to stay in touch with customers to convince them to buy their goods and services.

In developing an effective marketing communication program, the following steps have to be followed:



# Steps for Developing effective Communication

**1. Identifying the Target Market:**

The first step in building an effective communication programs is **Identifying Target Market** as it influences decisions regarding what to say, how to say, when to say it and where to say it. A target market is a set of individuals sharing similar needs or characteristics that your company hopes to serve. Identifying a target market helps a company to develop effective marketing communication strategies. So, it is essential to identify the target market of the company and their perceptions and feelings about the company and its products. The better the company understand its customers, the faster their business will grow.

# Steps for Developing effective Communication

**2. Determining Communication Objectives:**

A communication objective is a desired response expected from the target market during a particular time period. Major Communications objectives are as below:


1. Generating awareness
2. Communicating knowledge
3. Projecting an image
4. Influencing attitudes
5. Stirring a want or desire and
6. Carrying out a sale

Communication objectives act as a guide for decisions regarding budgeting, marketing media and serve as a benchmark against which success or failure can be judged.

# Steps for Developing effective Communication

**3. Establishing a Budget:**

A budget is an estimation of the revenue and expenses over a definite period of time in the form of financial document. Budget is the estimated projection of costs required to promote company's goods and services in the market. It includes all promotional tools such as website development, advertising and public relations, as well as the costs of employing marketing staff and utilizing office space. So there is a need for planning for the amount of money required to communicate the market using various communication media as per the company's allocated communication budget.

# Steps for Developing effective Communication

## 4. Choosing Media:


Marketing communications refers to the element of a marketing system that includes the development and delivery of company's messages about its goods and services to targeted customers. There is a need to allocate budget for communicating with target market using various communication media such as Print media (Newspapers, Magazines, Direct mail), Broadcast/Electronic media (Radio, TV), Outdoor display media (Billboards, Signs, Posters), Online media(Online services, Websites) and Social media(Facebook, Google plus,LinkedIn,youtube).

Media for communicating with the target market may be selected as per available budget.

# Steps for Developing effective Communication

**5. Creating the Message:**

Message is the way to reach the target customers in the market. The message must be created in a way that is reliable with the objectives of the campaign and it must watch the target audience's needs and wants. Message must be short, positive, relevant and memorable. There are key five steps to create an effective message:

1. Identify the target market
2. Identify the problems of target market.
3. Designing the solutions to the problems of target market
4. Communicate results with the solutions.
5. Advertise the unique features of the solutions.

# Steps for Developing effective Communication

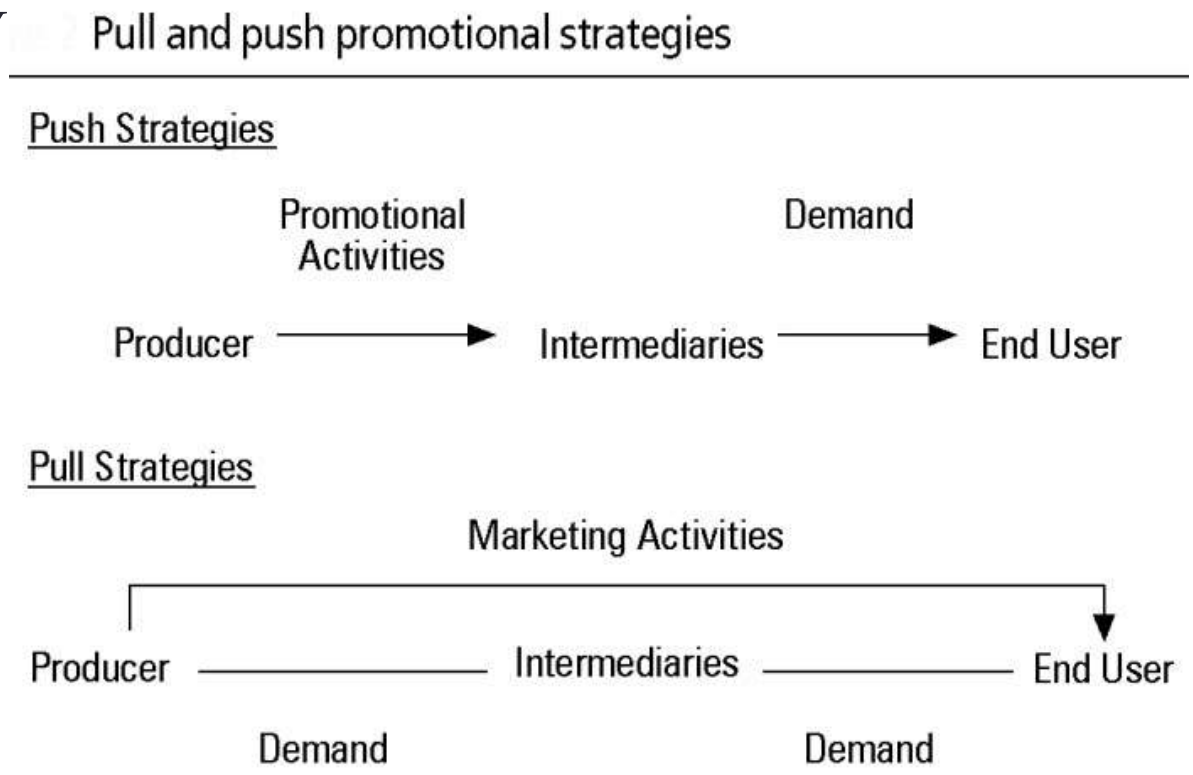
**6. Measuring Effectiveness of the Marketing Communications Effort:**

The effectiveness of the marketing communication efforts must be measured to overcome mistakes in communication programme. The alternate marketing communication strategies must be evaluated to determine the effectiveness of the communication. All the evaluation must be relevant to the communication objectives of the campaign as there is a need to find that the communication objectives have met or not.

# Push and Pull Promotion Strategies

- Promotional strategies to get your product or service to market can be roughly divided into two separate camps.

  1. PUSH STRATEGY
  2. PULL STRATEGY



# Push and Pull Promotion Strategies

**1. PUSH STRATEGY**

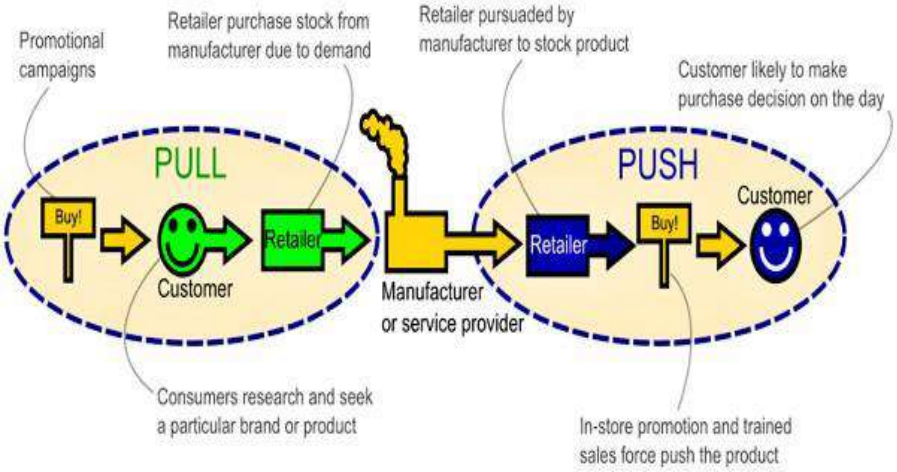
A push promotional strategy involves taking the product directly to the customer via whatever means, ensuring the customer is aware of your brand at the point of purchase.

**"Taking the product to the customer"**

- The term 'push strategy' describes the work a manufacturer of a product needs to perform to get the product to the customer.
- This may involve setting up distribution channels and persuading middle men and retailers to stock your product.
- The push technique can work particularly well for lower value items such as fast moving consumer goods (FMCGs), when customers are standing at the shelf ready to drop an item into their baskets and are ready to make their decision on the spot.
- This term now broadly encompasses most direct promotional techniques such as encouraging retailers to stock your product, designing point of sale materials or even selling face to face.
- New businesses often adopt a push strategy for their products in order to generate exposure and a retail channel. Once your brand has been established, this can be integrated with a pull strategy.

**EXAMPLES OF PUSH TACTICS**

- Trade show promotions to encourage retailer demand
- Direct selling to customers in showrooms or face to face
- Negotiation with retailers to stock your product
- Efficient supply chain allowing retailers an efficient supply
- Packaging design to encourage purchase
- Point of sale displays



# Push and Pull Promotion Strategies

**2. PULL STRATEGY**

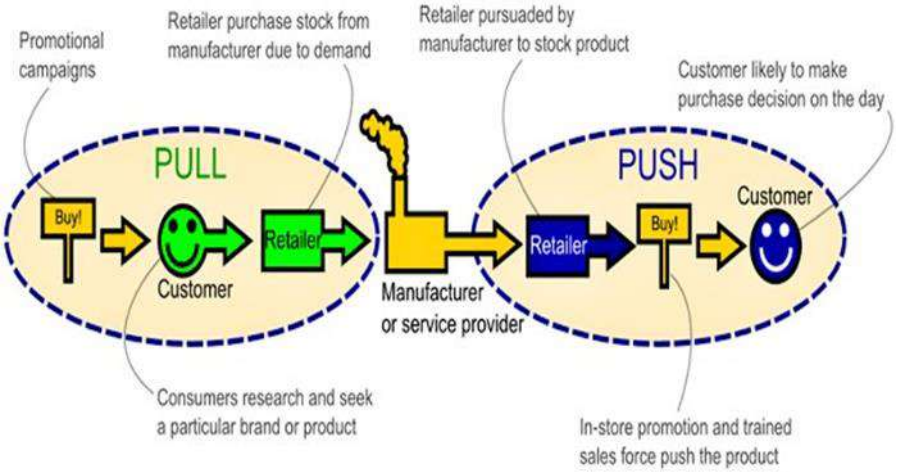
- A pull strategy involves motivating customers to seek out your brand in an active process.

  **"Getting the customer to come to you"**

- PULL STRATEGY EXPLAINED
- 'Pull strategy' refers to the customer actively seeking out your product and retailers placing orders for stock due to direct consumer demand.
- A pull strategy requires a highly visible brand which can be developed through mass media advertising or similar tactics. If customers want a product, the retailers will stock it - supply and demand in its purest form, and this is the basis of a pull strategy. Create the demand, and the supply channels will almost look after themselves.
- A successful strategy will usually have elements of both the push and pull promotional methods. If you are starting a new business and intend to sell a product through retailers, you'll almost certainly need to persuade outlets to purchase and stock your product.
- You'll also need to raise brand awareness and start building valuable word of mouth referrals. If you have designed a product around the customer and have considered all elements of the marketing mix, both of these aspects should be achievable.

**EXAMPLES OF PULL TACTICS**

- Advertising and mass media promotion
- Word of mouth referrals
- Customer relationship management
- Sales promotions and discounts



# END OF UNIT 4

# UNIT 5

# PRODUCT LEVEL PLANNING

# Product Planning

- Product planning is the process of creating a product idea and following through on it until the product is introduced to the market. A small company must also have an exit strategy for its product in case the product does not sell.
- Product planning in marketing includes managing the product throughout its life using marketing strategies such as product improvements, differentiated distribution, price changes and promotions.
- Product planning aims to align the assets of the business and operational factors, to focus on product development, design, and engineering efforts.
- Its purpose of it is to deliver the greatest probability of success in achieving business goals through effective product strategy.
- **Objectives**

➢ It helps in planning the requirements of the resources used in building the product.

➢ With proper planning resources can be utilized in an effective and efficient way.

➢ Helpful in surviving in the market by understanding the current needs.

➢ Departments can be coordinated in a systematic manner.

➢ Analyzing the work environment is easy..

➢ Resourceful in understanding the Customer Requirement.

➢ Estimation can be done to reduce the wastage of resources.

➢ Efficient in reaching new customers.

# The Marketing Planning Process


# What is a marketing plan?

- A marketing plan is a strategic roadmap that businesses use to organize, execute, and track their marketing strategy over a given period. Marketing plans can include different marketing strategies for various marketing teams across the company, all working toward the same business goals.
- A marketing plan *contains* one or more marketing strategies.
- It is the framework from which all of your marketing strategies are created and helps you connect each strategy back to a larger marketing operation and business goal.

# What is a marketing plan?

- The marketing plan details the strategy that a company will use to market its products to customers.
- The plan identifies the target market, the value proposition of the brand or the product, the campaigns to be initiated, and the metrics to be used to assess the effectiveness of marketing initiatives.
- The marketing plan should be adjusted on an ongoing basis based on the findings from the metrics that show which efforts are having an impact and which are not.
- Digital marketing shows results in near real-time, whereas TV ads require rotation to realize any level of market penetration.
- A marketing plan is part of a business plan, which describes all of the important aspects of a business, such as its goals, values, mission statement, budget, and strategies.

# Nature of Marketing Plan/Planning

The following points indicate the nature of marketing planning, in brief:

- **Purposeful**: Marketing planning is goal-oriented in the sense that plans are prepared and implemented to achieve certain objectives.
- **Primary:** Marketing planning is the most basis function of management. Without plans, there is nothing to organize and control.
- **Pervasive:** Marketing planning is the function of each and every manager irrespective of his rank and area of work.
- **Forward Looking:** Marketing planning involves looking ahead and preparing for the future.
- **Intellectual Process:** Marketing Planning is a rational process involving creative thinking and a mental exercise.
- **Continuous:** Marketing planning is an ongoing process. Old plans have to be revised and new ones have to be prepared.
- **Integrated Process:** Each lower level plan serves as a means towards the achievement of higher plans.
- **Choice:** There is no need for planning if there is only one way of doing it. Planning problem arises only when an alternative course of action is discovered

# Contents of a marketing plan

The contents of marketing plan and as follows

- **Executive Summary**
- **Situation Analysis**
- **Marketing Strategies**
- **Financials; and**
- **Controls**

# Contents of a marketing plan

| Section | Purpose |
|---|---|
| Executive summary | Presents a brief overview of the proposed plan for quick management review |
| Situation Analysis | Presents relevant background data on the market, product, competition, and distribution. Identifies the main threats and opportunities that might impact the product |
| Marketing strategy | Presents the broad marketing approach that will be used to achieve the plan's objectives. |
| Financials | A projected profit and loss statement that forecasts the expected financial outcomes from the plan. |
| Controls | Indicates how the progress of the plan will be monitored. |

# Contents of a marketing plan

## Executive Summary

- The executive summary is the opening section of the marketing plan. The marketing plan should open with a brief summary of the main goals and recommendations.
- The executive summary should be only of few pages so that higher management could grasp the plan's major thrust quickly. It presents a summary of the main goals and recommendations to be presented in the plan.
- A table of contents should follow the executive summary. It outlines the rest of the plan and all the supporting rationale and operational detail
- The executive summary helps top management to locate the plan’s major points quickly. A table of contents should follow the executive summary.

# Contents of a marketing plan

## Situation Analysis

- The situation analysis is the first major section of the plan. It describes the target market and the company's position therein.
- This section contains information about the market, product performance, competition, and distribution.
- It contains a market description that defines the market, including major market segments. The market planner estimates market size as a whole and segments for the few preceding years and then reviews customer needs and factors in the marketing environment that may influence customer purchasing.
- This section presents relevant background data on sales, costs, the market, competitors, and the macroenvironment. How do we define the market, how big is it, and how fast is it growing? What are the relevant trends and critical issues? Firms will use all this information to carry out a SWOT analysis.
- A subsection on competition identifies major competitors and evaluates their strategies for product quality, pricing, distribution, and promotion. It also shows the companies and each of its competitors present market share.

# Contents of a marketing plan

## Marketing Strategies

- In this section of the marketing plan, the manager outlines the broad marketing strategy or ”game plan” for attaining the objectives. Marketing strategy is the marketing logic by which the business unit hopes to achieve its marketing objectives.
- It consists of specific strategies for target markets, positioning, the marketing mix, and marketing expenditure levels. The marketing strategy should detail the market segments on which the company will focus.
- These segments differ in their needs and want, responses to marketing, and profitability. The company would be smart to put its effort and energy into those market segments; it can best-serve from a competitive perspective and then develop a marketing strategy for each targeted segment.
- The manager should also outline specific marketing mix elements such as new products, field sales, advertising, sales promotion, prices, and distribution. The manager should explain how each strategy responds to the threats, opportunities, and critical issues spelled out earlier in the plan.
- Marketing strategies should be translated into specific action programs that will indicate what to do and when and by whom it will be done and its cost. The action plan indicates when activities will be started, reviewed, and completed.

# Contents of a Marketing Plan

## Marketing Strategies

Here the marketing manager outlines the marketing activities that will be undertaken to execute the marketing strategy.

- The product or service offering section describes the key attributes and benefits that will appeal to target customers.
- The pricing section specifies the general price range and how it might vary across different types of customers or channels, including any incentive or discount plans.
- The channel section outlines the different forms of distribution, such as direct or indirect.
- The communications section usually offers high-level guidance about the general message and media strategy. Firms will often develop a separate communication plan to provide the detail necessary for agencies and other media partners to effectively design the communication program.

# Contents of a marketing plan

## Financials

- Financial projections include a sales forecast, an expense forecast, and a break-even analysis. On the revenue side is forecasted sales volume by month and product category, and on the expense side the expected costs of marketing, broken down into finer categories. The break-even analysis estimates how many units the firm must sell monthly (or how many years it will take) to offset its monthly fixed costs and average per-unit variable costs.
- Action plans allow the manager to make a supporting marketing budget that is essentially a projected profit-and-loss statement. It shows the forecasted number of units that would be sold and the average net price for revenues.
- On the expense side, it shows the cost of production, physical distribution, and marketing. The difference is the projected profit. Top management will review the budget and either approve or modify it.
- A more complex method of estimating profit is risk analysis. Here we obtain three estimates ( optimistic, pessimistic, and most likely) for each uncertain variable affecting profitability, under an assumed marketing environment and marketing strategy for the planning period. The computer simulates possible outcomes and computes a distribution showing the range of possible rates of returns and their probabilities.
- Once approved, the budget is based on materials buying, production scheduling, personnel planning, and marketing operations. Budgeting can be very difficult, and budgeting methods range from simple ”rules of thumb” to complex computer models.

# Contents of a marketing plan

## Controls

- Control is the last section of the marketing plan. It outlines the control methods that will be used to monitor development. Goals and budgets are set for a specific time period. This allows the management to review the results each period and identify businesses or products that are not meeting their goals.
- The last section outlines the controls for monitoring and adjusting implementation of the plan. Typically, it spells out the goals and budget for each month or quarter so management can review each period's results and take corrective action as needed.
- Persons responsible for managing these businesses and products have to explain these problems and the corrective measures.

# Marketing Evaluating and Controlling

## INTRODUCTION

The evaluation and control section contains *performance standards* against which to measure the marketing plan and company performance.

This section also provides information on what action should be taken if the marketing goals and objectives are not met.


### Evaluation and Control Section

- The evaluation and control section contains performance standards against which to measure the marketing plan and company performance.
- This section also provides information on what actions should be taken if the marketing goals and objectives are not met.


Evaluation and Control Section

# Marketing Control Process

- Marketing control is a systematic and integrated process. A marketer follows the following steps while exercising control over the marketing operation in an organization:

# Marketing Control Process

1. **Determining Marketing Objectives**: The initial step in marketing control is the setting up of the marketing goals, which are in alignment with the organizational objectives.
2. **Establishing Performance Standards**: To streamline the marketing process, benchmarking is essential. Therefore, performance standards are set for carrying out marketing operations.
3. **Comparing Results with Standard Performance**: The actual marketing performance is compared and matched with the set standards and variation is measured.
4. **Analyzing the Deviations**: This difference is then examined to find out the areas which require correction, and if the deviation exceeds the decided range, it should be informed to the top management.
5. **Rectification and Improvement**: After studying the problem area responsible for low performance, necessary steps should be taken to fill in the gap between the actual and expected returns.

Thus, marketing can be seen as a complete function, which needs to be performed successfully through proper control over the related activities, to ascertain the achievement of the set goals and objectives.

# Marketing Control Process

- Marketing control is a systematic and integrated process. A marketer follows the following steps while exercising control over the marketing operation in an organization:

# Types of Marketing Control

Types of marketing control

- Annual-Plan Control
- Profitability Control
- Efficiency Control
- Strategic Control

| Type of Control | Prime Responsibility | Purpose of Control | Approaches |
|---|---|---|---|
| **Annual Plan Control** | Top Management<br>Middle Management | To examine whether the planned results are being achieved | Sales analysis<br>Market-share analysis<br>Sales-to-expense ratio<br>Financial analysis |
| **Profitability Control** | Marketing Controller | To examine where the company is making & losing money | Profitability by: product, territory, customer, segment, trade channel, order size |
| **Efficiency Control** | Line & Staff Management<br>Marketing Controller | To evaluate & improve the spending efficiency and impact of marketing expenditures | Efficiency of: salesforce, advertising, sales promotion, distribution |
| **Strategic Control** | Top Management<br>Marketing Auditor | To examine whether the company is pursuing its best opportunities with respect to markets, products, and channels | Marketing-effectiveness rating instrument<br>Marketing audit<br>Marketing excellence review<br>Company ethical and social responsibility review |

Source: Philip Kotler, Siew Meng Leong, Swee Hoon Ang, Chin Tiong Tan, *Marketing Management: An Asian Perspective*, 1996: 942.

# Types of Marketing Control

## 1. Annual-plan control:

Annual-plan control is a very essential tool to determine effectiveness of marketing efforts undertaken by the organisation. It mainly aims at sales and profitability. Mostly top level and medium level managements are involved in this type of control. It comprises of five tools that are **sales analysis, market share analysis, expense to sales analysis, financial analysis and customer attitude traking(customer satisfaction)**.

# Types of Marketing Control

## 1. Annual-plan control:


Following are the five vital tools used under the annual plan control mechanism:

- **Sales Analysis:**

The first one is the sales analysis, where the manager determines whether the sales target of the organization have been achieved or not. For this purpose, the actual sales are compared with the desired sales and deviation is computed. This method is also used for finding out the efficiency of sales personnel by comparing the individual sales with the target set for each salesperson.

- **Market Share Analysis**

To evaluate the competitiveness, the management needs to find out the market share acquired by the organization. However, it is quite challenging to determine the market share of other organizations which constitute of unorganized firms, due to lack of sufficient data.

- **Marketing Expense to Sales Analysis**

Sometimes the firms spend much on the marketing of products, which diminishes their profit margin or increases the product price. Therefore, a marketing expense to sales ratio is calculated to know the percentage of sales value paid off as a marketing expense.

- **Financial Analysis**

The management needs to handle its finances well. It should examine the reasons and factors which influence the rate of return and financial leverage and return on assets in the organization through financial analysis tools. It also helps to enhance the financial leverage position of the company.

# Types of Marketing Control

## 1. Annual-plan control:

Following are the five vital tools used under the annual plan control mechanism:

- **Customer Attitude Tracking**

Consumer satisfaction has been considered as an essential parameter to analyze the organization's performance. It is a qualitative analysis tool which can be of the following three types:

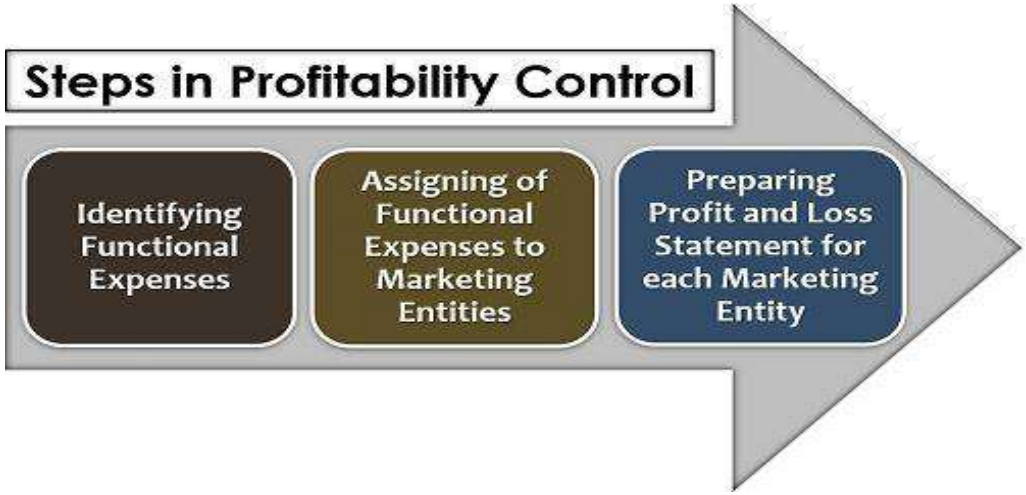
- **Customer Surveys**: The companies get the questionnaires filled or make calls to the past customers for finding out the level of consumer satisfaction. It provides a direction to the sales team and the management.
- **Customer Panels**: The organizations form consumer panels where the customers are hired to review the products, advertisements and other marketing activities. It helps the management to know about the consumer's perception and attitude.
- **Feedback and Suggestion Systems**: Market performance of the products can be analyzed with the help of genuine feedback from the customers, and the same can be improved through their suggestions and input.

# Types of Marketing Control

## 2. Profitability control:

Profitability control demonstrates the relative profit-earning capacity of a company's different products and consumer group. Following is the process of profitability control in an organization:

- The *first step* is to **understand the functional expenses**, i.e., selling, distribution, administrative and advertising expenses incurred while carrying out the marketing function of a territory or marketing channel.
- The *second step* is to **segregate the non-marketing expenses** from the marketing overheads and then to associate these pure marketing expenses to the marketing entities (like apportioning the building rent into marketing function).
- *Lastly*, to **compile everything systematically** and to ascertain the profit or loss incurred on carrying out the particular marketing activity, an individual profit and loss account is prepared for each operation.



# Types of Marketing Control

## 3. Efficiency control:

Efficiency control involves micro-level analysis of the various elements of the marketing mix. For example: sales force, advertising, sales promotion, and distribution.

The three essential mechanisms used under efficiency control are as follows:


- **Sales Force Efficiency Indicators**

The competence of the sales team can be determined by evaluating the various factors. It includes acquisition of new customers, customer turnover, average cost incurred on each sales call, return on time invested on the prospective customers, market share lost to the competitors, average sales made by each person per day, etc.

- **Advertising Efficiency Indicators**

To know the effectiveness of the advertising activities, the marketers analyze the various advertising functions on different grounds. For this purpose, it finds out the brand awareness, cost incurred on each enquiry, media cost to reach per thousand customers, advertising campaign reach, etc.

- **Distribution Efficiency**

The performance of the distribution channels in comparison to the cost incurred on channel partners and distribution of products can be analyzed through the distribution efficiency control. It includes the measurement of the channel member's market reach, cost incurred on operating a particular channel and the contribution of each channel member in selling the brand's products.

# Types of Marketing Control

- **Strategic control:**

Strategic control helps managers to evaluate a company's marketing program from a critical long-term perspective. This represents a detailed and objective analysis of an organization. It also helps to understand organisation's ability to maximize its strengths and market opportunities.


- **Customer Relationship Barometer**

To determine the customer's loyalty towards the brand and its products, the organization uses the relationship barometer. Here, the company studies the customer's perception based on the criteria like organization's core values, system, policies, structure, customer orientation strategy, technology, personnel attitude, knowledge, skills and behaviour.

- **Marketing Audit**

Like accounting audits, marketers carry out marketing audit to get a clear picture of the company's performance while executing the various marketing operations. It is a systematic record which periodically examines the problem areas and provides for the means of rectification, to overcome the weakness by utilizing the organizational strength and grab the current opportunities.

# MARKETING AUDIT

- Many companies have stated their desire to become more customer focused. The first step in turning this vision into reality is to undertake an audit of the current marketing function and process, to assess the effectiveness of the same, and provide recommendations for improvement.
- **Philip Kotler** introduced the concept of the marketing audit in his classic article, **"The Marketing Audit Comes Of Age".**

The issues that are addressed as part of the marketing audit include:

- Present role of marketing defined?
- Co-operation between marketing and other functional areas?
- Right information gathered? Effectively used?
- Right processes in place? (for example: market planning, new product development, etc.)
- Basic marketing concepts understood? Understanding translated into practice?
- The audit methodology consists of in-depth interviews with company executives and managers. In addition, interviews are conducted with other stakeholders; For example, customers, board members.
- Initiatives are recommended that are designed to make the client organization more responsive to the markets and customers it wishes to serve.

# MARKETING AUDIT

**Reasons for Conducting a Marketing Audit**

- As it's human nature if we don't learn from our mistakes done in the past, we continue to make similar mistakes in future also, and to understand such marketing audit is performed which helps us in
- Recognizing the reason for success or failure in the market.
- It teaches us about the future course of actions.

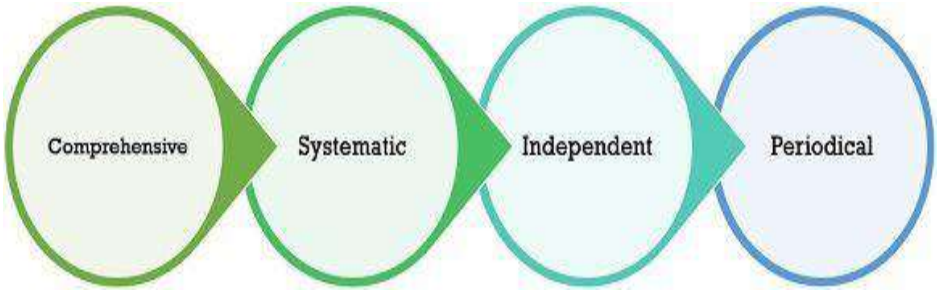

# MARKETING AUDIT

## *Characteristics of* **Marketing Audit**...

1. is a comprehensive study of all markeitng activites of a company.
2. is a systematic process that follows a step-by-step procedure.
3. is a periodic activity and must be conducted regularly.
4. is conducted by an independent person who is not from company.
5. is a critical review of marketing activities of the company.
6. is an evaluation of marketing activities of the company.
7. It finds out marketing opportunities and weaknesses of company.
8. is a preventative and curative marketing medicine.

# How Marketing Audit should be?

## Marketing Audit should be:




- **Comprehensive**

It should be comprehensive, which covers all the areas of marketing from the identification of the need of the customers to the satisfaction of the need of the customers which includes starting from a new product development process. Then product strategies, pricing strategies, so it should convert entire from a vision mission of the company to Salesforce analysis or customer's satisfaction.

- **Systematic**

It should have a well-defined systematic step to follow to teach the desired goals.

- **Independent**

It must be independent and not influenced by the auditor or the people who are in the organization that's why it is recommended that audit should be done by a third party and not from an internal people.

- **Periodical**

It should have some regular periodical frequency like quarter, half-yearly or yearly audit should be done.

# Marketing Audit evaluate Key Areas

Marketing audit evaluates the following **three main (key)** responsible areas:

- **External marketing environment** : Here, the marketing audit mainly focuses on customers and competition in the business.
- **Internal marketing environment** : Here, the marketing audit studies the structure of company's marketing team and its effectiveness.
- **Evaluation of current marketing strategy** : Here, the marketing audit continuously reviews current marketing strategy of a company. It also takes help of lessons learned from its past marketing plans.

# Types of Marketing Audit

# Types of Marketing Audit

**1. Marketing Environment Audit**

- Marketing Environment Audit consists of the external environment of company. It includes natural environment, economic environment, political environment, demographic environment, etc. The marketing audit analyses the marketing consumer, competitors, suppliers, so on. This audit helps the company to make marketing strategies.

**2. Marketing Strategy Audit**

- Marketing Strategy Audit is a critical analysis of marketing objectives and strategies. It finds out whether the company's marketing objectives are clear and proper. It also examines the marketing strategies of the company. This audit is done to find out the utility of the marketing strategies.

**3. Marketing Organization Audit**

- Marketing Organization Audit is a systematic study of the company's organizational resources like manpower, organization, structure, employee training and development, Research and Development facilities, motivation, communication and working relations.

**4. Marketing Systems Audit**

- Marketing Systems Audit finds out the company's ability of collecting and analyzing data. It looks for the company's ability to plan and control the marketing activities. It also studies the company's marketing information system, planning and control system, etc.

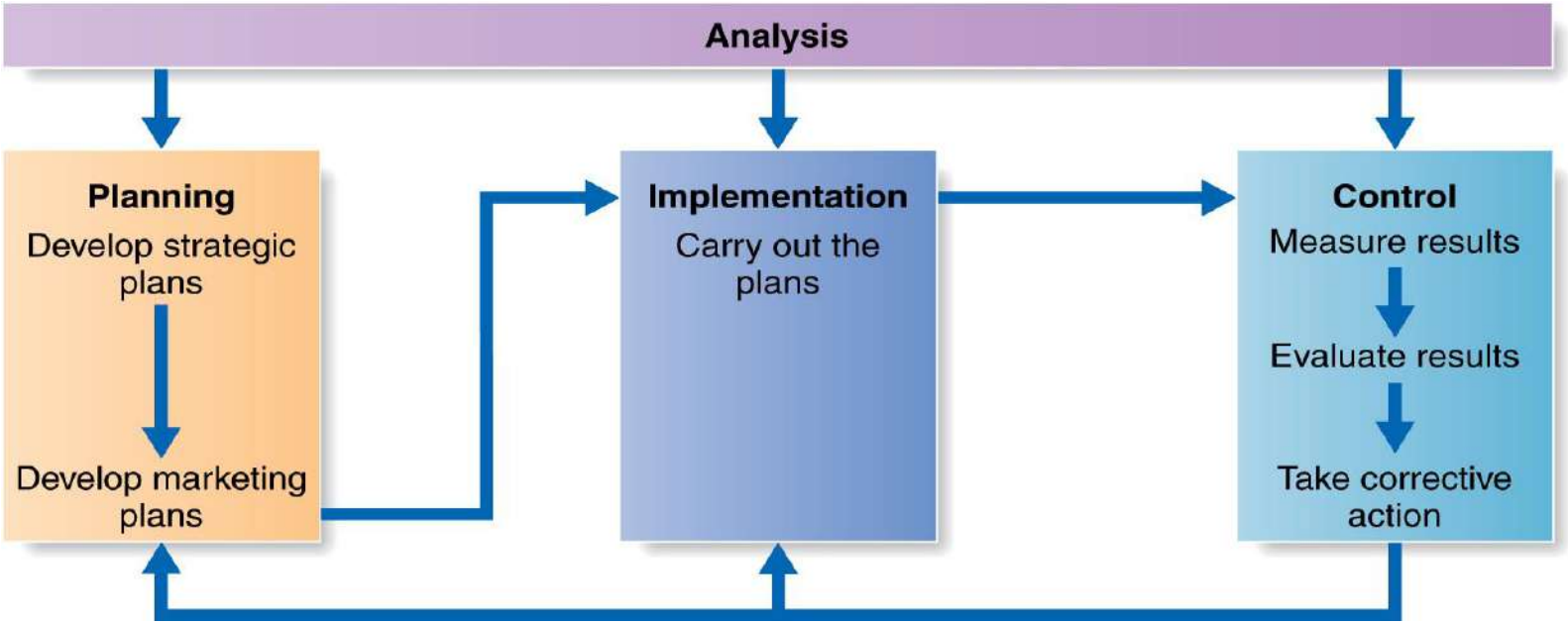
**5. Marketing Productivity Audit**

- Marketing Productivity Audit finds out the profitability of the company's products. It examines the markets. It also examines the measure to improve cost-effectiveness.

**6. Marketing Function Audit**

- Marketing Function Audit is a complete study of marketing functions in relation to the product, price, promotion and place of distribution. So, it is an audit of the marketing mix (4 P's) of the company.

# Managing the Marketing Effort



# END OF UNIT 5