

# MARKETING

CLASS XII

Study Material

## UNIT I: PRODUCT

<b>Unit Code:</b>	<b>UNIT TITLE: PRODUCT</b>			
	Duration:			
<b>Location:</b>	<b>SESSION1: MEANING AND IMPORTANCE OF PRODUCT</b>			
Classroom or Retail outlet or Company's premises	<b>Learning Outcome</b>	<b>Knowledge Evaluation</b>	<b>Performance Evaluation</b>	<b>Teaching and Training Method</b>
	1. Meaning, importance of Product in Marketing	1. Meaning of product 2. Components of Product 3. Characteristics Product 4. Importance of Product to a firm 5. Product Levels	1. Explain meaning of Product in marketing 2. To understand the components of Product. 3. Provide Information regarding importance of the Product 4. Elucidate the various levels of product	<b>Interactive Lecture:</b> Introduction of four P's of marketing mix with special focus on Product. Discussion of the various components and importance associated with the product, along with the various product levels. <b>Activity:</b> Enlist the product levels of goods in the consumer products and services.
	<b>SESSION 2: PRODUCT CLASSIFICATION</b>			
	Knowledge of types of consumer goods and industrial goods	1. Discussion of the consumer goods their types and features. 2. Comprehension of types of industrial goods and their features. 3. Understand Product Mix, Product line	1. Detail the classification of consumer goods along with their features.  2. Explain various Types of industrial goods and their features.  3. Comprehend the concept of Product Mix, Product line.	<b>Interactive Lecture:</b> Explanation of the types of consumer and industrial goods.  <b>Activity:</b> Identify and enlist different types of goods- consumer and industrial.

<b>SESSION 3: PRODUCT LIFE CYCLE</b>			
1. Discussion of Product Life Cycle	1. Enumerate different stages of the product life cycle.  A. Introduction Stage B. Growth Stage C. Maturity Stage D. Decline Stage	1. Identify the various stages in a product life cycle  2. Understand the response of marketers in these stages.	<b>Interactive Lecture:</b> Clarification on the product life cycle stages <b>Activity:</b> Prepare a list of products and observe how they have moved through different stages of product life cycle.
<b>SESSION 4: PACKAGING AND LABELLING</b>			
Understanding the role, importance of packaging and labeling	1. Discussion of the packaging concept and its role in marketing. 2. Comprehension of importance and functions of Packing. 3. Understand the essential qualities of good packaging and its types 4. Discussion of concept of Labeling.	1. Detail the concept of packaging along with the various roles it plays in marketing.  2. Explain the importance of packaging and the functions of packaging.  3. Comprehend the important features of good packaging and the types of packaging.  4. Detail the concept of labeling in the current	Detailing the concept of packaing, role, importance, functions and types. In addition understanding the concept of labeling.

			context.	
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*(Note: The location would depend upon the topic under discussion, wherein it will be the classroom for the theoretical interactions and the student will be required to visit field/retail outlet or the marketing department of an organization to observe and comprehend the concepts related to pricing of goods and services.)*

## **SESSION1: MEANING AND IMPORTANCE OF PRODUCT**

The term Product is mostly used as a need-satisfying entity. It represents solution to customers, problems. In the words of Peter Drucker, the product remains mere raw material or at the best an intermediate till it is not bought or consumed. Hence mostly they comprise of both tangible and intangible benefits. It may be anything that can be offered to a market to satisfy a want or need and include physical goods, services, experiences, events, places, properties, organization, information and ideas. In most of the cases products are made up a combination of physical elements and series.

It is observed that consumers buy products or services that they require to fulfill their needs. The products could range from tooth brush, chocolates, cars, movie tickets to life insurance at various stages of our life. The decision to make a purchase is hence dependent not only on the tangible attributes of the product but also on the psychological attributes like brand, package, warranty, image or service to name a few.

According to Philip Kotler, “Product is anything that can be offered to someone to satisfy a need or a want”.

William Stanton, “Product is a complex of tangible and intangible attributes, including packaging, colour, price, prestige and services that satisfy needs and wants of people”.

It is defined as a good or service that most closely meets the requirements of a particular market and yields enough profit to justify its continued existence

### **COMPONENTS OF A PRODUCT**

Products have their own identity or a personality. Most of the users associate meaning with products, they obtain satisfaction by using them. The various features and functions built around them-the brand name, the package and labeling, the quality associated with it, the guarantees, the price, the manufacturer’s name and prestige-all contribute to the personality or the *total product offering*, a marketers armoryfor satisfying the customer. It has been often stated that a customer

never just purchases the generic product but he procures something that exceeds his expectation depending on for whom it is being bought.

The components of the product include core product, associated features, brand name, logo, package and label.

### **The Core Product**

It is the basic element of the product. For example if we take Dove Soap, the fragrance of the soap, the moisturizing ability, the pristine white colour, the brand name, the price, the positioning as luxury soap all have gone into the marketing of product personality. The core component is the soap, the generic constituent, as in the case of any other bathing soap, the only difference being the other components are superimposed on this basic component to develop the total personality of Dove.

It is observed that the total product personality is dependent on basic constituent of the product. If the product is substandard the other elements associated like features, package, label, differentiation, positioning, branding will not be of any use. Hence focus on the core product is essential.

### **The Associated Features**

The Product includes several associated features besides the core ingredient. In the example of Dove soap the fragrance of the soap, the moisturizing ability, the pristine white colour etc are its associated features. The total product personality is mostly enhanced through the associated features. Further, these also aid in distinguishing the product from its competitors.

### **The Brand Name**

A brand is defined as a name, term, symbol, design or a combination of them which is intended to identify the goods and services of one seller and to differentiate them from those of competitors. A trade mark is a brand with legal protection, thus ensuring its exclusive use by one seller. In the current age consumers do not just pick products but they pick brands. The

brand image is developed through advertising and other promotional measures to remain etched in the consumers' minds.

### **The Logo**

It is the brand mark/symbol and an essential aspect of the product, extending its support to the brand effectively. Symbols and pictures ensure product/brand identification and recall with their importance being enhanced in rural markets where brands are mostly recognized by their picture in the logo.

### **The Package**

It is another important component of the total product personality, particularly in packaged consumer products. The package performs three essential roles:

- Ensures protection to the product
- Provides information about the product
- Increases aesthetics and sales appeal.

Conventionally packaging was used to protect the product from damage en route and to facilitate handling at various points of distribution. Later on it also became a major tool in the promotion of the product. Currently packaging contributes to the total sales appeal of the product.

### **The Label**

It is the part and parcel of a package. It provides written information about the product helping the buyer to understand the nature of the product, its distinctive features, its composition, its performance.

The components discussed above make a preliminary impact on the consumer. The other 'P' i.e Price, Place and Promotion also play an important role in shaping the total product personality.

## **CHARACTERISTICS PRODUCT:**

1. Product is one of the core elements of marketing mix.

2. Various people view it differently as consumers; organizations and society have different needs and expectations.
3. The product includes both good and service.
4. A marketer can realize their goals by manufacturing, selling, improving and modifying the product.
5. It includes both tangible and non-tangible features and benefits offered.
6. It is vehicle or medium to offer benefits and satisfaction to consumers.
7. The important lies in services rendered by the product and not ownership of product. People buy services and not the physical object.
8. Product includes total offers, including main qualities, features and services.

## **IMPORTANCE OF PRODUCT**

Product therefore, is the core of all marketing activities. Without a product, marketing cannot be expected. Product is a tool in the hands of the marketers which gives life to all marketing programmes. So, the responsibility of the marketers to know its product well is pertinent. The importance of the product can be judged from the following facts:

- 1) Product is the focal point and all the marketing activities revolve around it. Marketing activities like selling, purchasing, advertising, distribution, sales promotion are all meaningless unless there is product. It is a basic tool by which profitability of the firm is measured.
- 2) It is the starting point of planning. No marketing programme will commence if product does not exist because planning for all marketing activities distribution, price, sales promotion, advertising, etc. is done on the basis of the nature, quality and the demand of the product. Product policies thus decide the other policies.
- 3) Product is an end. The main purpose of all marketing activities is to satisfy the customers. Thus product is an end (satisfaction of customers) and the producer, therefore, must insist on the quality of the product so that it may satisfy the customers' needs. It has been observed that the life of low quality products in the market is limited.

## **PRODUCT LEVELS**

The marketer has to take into consideration the benefits the product can offer and present it to the customer. Further he takes it to higher levels by introducing several inputs into the basic product

with inputs like advanced features, functions, unique brand name, attractive, convenient packaging, affordable price points, convenient access, meaningful communication and exclusive service from sales people. The product is enriched constantly by the marketer so as to create value, add more customer base and counter competition. According to Levitt, a product offer can be conceived at four levels: the generic product, expected product, augmented product and the potential product. Further it has been explained through a seven level approach:

1. **Core Benefit( Product) :** This is the basic level that represents the heart of the product with a focus on the purpose for which the product is intended. For instance a car is purchased for its convenience, the ease at which one can go or the speed at which one can travel around relatively fast.
2. **Generic Product:** It is the unbranded and undifferentiated commodity. Unbranded pulses, rice, wheat flour are some of the examples of generic product.
3. **Branded Product:** The branded products get an identity through a name. It belongs to a specific company and the marketer separates this product from the rest.
4. **The differentiated product:** All the branded products are supposed to be differentiated products, but in certain cases where the brand name alone has not earned enough distinction the case may be different. Here the marketer tries to differentiated his product from the clutter created by competitor products by highlighting some of the special attributes/features /qualities his brand is endowed with. The difference could be tangible or psychological. For example Knorr's Soups are tasty and healthy soups and can be prepared easily.
5. **The customized product:** When the product is modified to suit to the requirements/specifications of the individual customer, he is being offered a customized product. Earlier it was limited to industrial products but now the consumer goods are customized for the customers and he gets an opportunity to order and get a product/service as he desires and not just choose from mass/standardized product/service available in the outlets. Many companies manufacturing automobiles, computers, paints, shoes and garments have used this strategy to beat competition.
6. **The augmented product:** The augmented product aims to enhance the value of the product/offer through voluntary improvements. These improvements may be neither

suggested by the customer nor expected by him. The manufacturer/marketer adds the feature/benefit on his own. The needs of the customer are identified through market research surveys and the insights thus obtained are used to add new features/functions to the product.

7. **The Potential Product:** The potential product is the 'future' product inclusive of the advancement and refinement that is possible under the existing technological, economic, competitive conditions prevailing in that category. Potential product is only limited by economic and technological resources a firm can spare. Nevertheless today's potential products can be tomorrow's real product.

### **FACTORS INFLUENCING PRODUCT MIX**

1. **Market demand:** The demand of the product determines whether the product should be manufactured or its production discontinued. New products are introduced in the market after the need of the product is identified.

2. **Cost of product:** The Company can develop products which are low in costs and produce those products. Nirma, washing powder, a low priced product was launched to counter Surf which was priced high.

3. **Quantity of production:** The Company can add more items on its product line in case the production of the new product is to be made on large scale.

4. **Advertising and distribution factors:** An organization does not incur any additional efforts to advertise or distribute when the company adds one or more products to its product line.

5. **Use of residuals:** In case the by-products can be developed or utilized; a company should produce such products. Sugar manufacturing companies can also use molasses.

5. **Competitor's action:** In order to meet the competition/market a firm may decide to include or eliminate a product.

- 6.

7. **Full utilization of marketing capacity:** The Company can start to produce another product to utilize the capacity completely if the existing marketing resources are not being utilized.

**8. Goodwill of the company:** When the company has good reputation in the market, new product can be launched without much difficulty.

### **SOME PRODUCT TERMS / PRODUCT DECISIONS**

- **PRODUCT MIX** is the list of all products offered by a company. It is defined as the composite of products offered for sale by a firm or a business. The product mix is three dimensional:
  - **Breadth** is measured by the number or variety of products manufactured by a single manufacturer. E.g.: LG produces a variety of electrical gadgets such as television sets, washing machines, refrigerators etc.
  - **Depth** refers to the assortment of sizes, colors and models offered within each product line. E.g.: LG manufactures different varieties or models of refrigerators and washing machines, etc.
  - **Consistency** refers to the close relationship of various product lines or their end use to production requirements or to distribution channels. E.g: LG produces those goods which fall under the category of electrical appliances.
    - **PRODUCT LINE** is a group of products that are closely related, either because they function in a similar manner or are sold to the same customer groups or are marketed through the same types of outlets, or fall within given price ranges. Many businesses offer a range of product lines which may be unique to a single organization or may be common across the industry. Eg. "Accident, health and medical insurance premiums" and "income from secured consumer loans." within the insurance industry, product lines are indicated by the type of risk coverage, such as auto insurance, commercial insurance, and life insurance
- **PRODUCT POSITIONING** –It refers to the manner in which a product is offered to a particular customer of a particular segment for the aim to meet the customer's needs. E.g.: Wagon R is positioned as a compact car for the smart urban, MTR's Ready to eat foods positioned as a convenient and a ready to eat foods, Coco cola's brand globally is positioned as Taste the feeling
- **PRODUCT REPOSITIONING** –It refers to the manner in which a marketer changes the whole product in order to satisfy a particular segment or customer. Mostly repositioning is done when a product is changed physically.

➤ **PRODUCT DIFFERENTIATION:** Product differentiation is the modification of a product to make it more attractive to the target market. This involves differentiating it from competitors' product as well as own product offerings. Three things that **continuously change** in product differentiation are *PRODUCT QUALITY, PRODUCT DESIGN, and PRODUCT SUPPORT SERVICES*:

➤ **PRODUCT DIVERSIFICATION:**  
Product Diversification refers to the product expansion either in the depth and/or in width. Depth of product-line implies the assortment of colors, sizes, designs, quality, stability, etc. It refers to adding a new product to the existing product line or mix. e.g. - **Godrej** Company used to manufacture cupboards, locks, safes, refrigerators etc. on a large scale but has now diversified into cosmetics, soaps etc

➤ **PRODUCT MODIFICATION:** Product modification may be defined as a deliberate alteration in the physical attributes of a product or its packaging. It is the process by which the existing products are modified to suit the changing demand on account of changes. E.g.: Television manufacturers are bringing out certain modifications in order to suit the changing demand.

➤ **PRODUCT STANDARDIZATION:** Standardization implies a limitation of the number of varieties or the types of uniform quality that can be manufactured so as to reduce the unnecessary varieties. Eg. Ready-made Shirts and Trousers are manufactured in standard sizes

➤ **PRODUCT ELIMINATION:** Products which cannot be improved or modified to suit the market needs need to be replaced by other profit generating products, this process of withdrawal is known as product elimination. Eg. Maruti 800 was replaced in the market for other cars manufactured by Maruti Suzuki.

## **BRANDING**

Branding comprises of decisions that offers an identity for a product in order to differentiate it from competing products. In the current age of increased competition branding helps to position the product to the target audience. The popularity of building branding strategies has increased in the recent years because of increased need for product differentiation. The brand communicates through colors, logos, slogans and tag lines. For example Haier, a Chinese home appliances brand has the slogan of '*Inspired Living*'. Similarly, Infosys has the slogan, '*Powered by Intellect Driven by Values*'. Branding becomes an essential element in marketing

## DEFINITIONS:

**Brand is defined as “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**

**Brand is defined as a "name, term, sign, symbol or a 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”.- Philip Kotler**

The brand name or brand mark becomes a trade mark if it is registered and legal.

**Trademarks are protection provided to a name, word, symbol, or words legally registered for use as representing a company or product.**

Trademarks increase the rights of brand or company by ensuring legal evidence and its ownership. They also enable to seek exclusive rights for using the trade mark in the country.

### Types of brand

Brands can be classified based on ownership, market area and number of products.

#### 1. Ownership

- a) **Manufacturer’s brand:** When the ownership lies with the manufacturer and the producer provides the brand name to the products, it is called manufacturer’s brand. The manufacturer is responsible for its marketing and enhance customer loyalty by building the brand name. Examples include Apple, GE, Intel and McDonald’s.
- b) **Middleman’s brand/ Store brand/Private label:** In certain cases, the manufacturers do not undertake branding by themselves, instead they leave their products to the wholesalers or retail chains for the branding, these brands are named as Middleman’s brands/ Store brand/ Private Labels. Example include Reliance Select a brand of Reliance Retail.

#### 2. Market area

- a) **Local Brand:** When the product is available at the local area and the brand is restricted to local markets or region, it is called local brand.
- b) **National Brand:** When a brand name is owned by the producer or distributor and is distributed all over the nation, it is called a National Brand. The examples include AMUL Parle-G etc.

#### 3. Number of Products

- a) **Family Brand:** When multiple products of the manufacturer are marketed under the similar brand name, it is called a Family brand. Videocon, Nestle, Johnson & Johnson use this strategy. The term umbrella branding is also a substitute for Family brand.

- b) Individual Brand:** When diverse products belonging to same category are manufactured by a company but have different brand names, they are called Individual brands. In most of the cases the new brand names are not generally connected with the names of existing brands of the organization. P& G offers an array of individual brands in each product category, some of them being Whisper(Sanitary Napkins), Ariel & Tide(Detergents), Olay(Personal & Beauty products), Oral-B(Dental hygiene)

## KNOWLEDGE ASSESSMENT 1

### Fill in the blanks

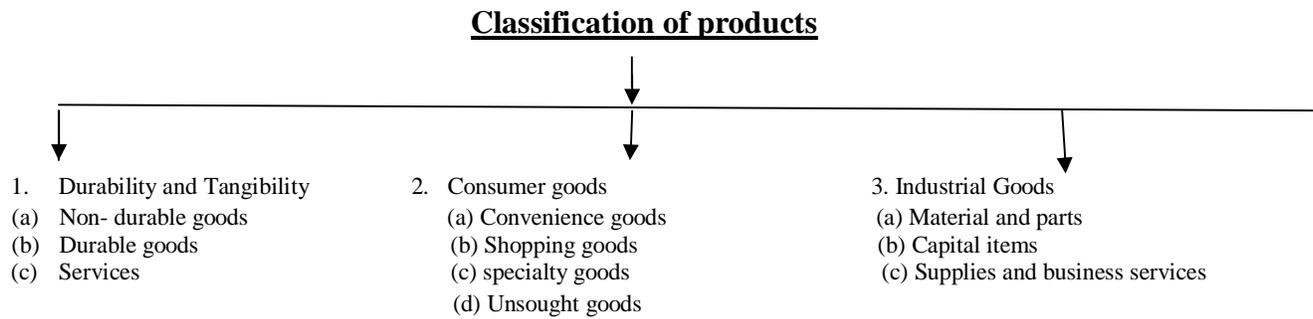
1. Product represents solution to \_\_\_\_\_problems.
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3. Products have their own \_\_\_\_\_ or a \_\_\_\_\_.
4. A \_\_\_\_\_is defined as a name, term, symbol, design or a combination of them which is intended to identify the goods & services of one seller and to differentiate them.
5. Symbols and pictures ensure \_\_\_\_\_ identifications.
6. Product is the \_\_\_\_\_ and all the marketing activities revolve around it.
7. \_\_\_\_\_is the unbranded and undifferentiated commodity.
8. The \_\_\_\_\_ is the modified product to suit to the requirement/ specifications of the individual customer.
9. The \_\_\_\_\_ aims to enhance the value of the product / offer through voluntary improvements.
10. The potential product is the \_\_\_\_\_inclusive of the advancement and refinement that is possible under the existing circumstances.

**Answers:** (1)Customers, (2)Need & want, (3)Identity & personality, (4) Brand, (5)Product/ brand, (6) Focal point, (7) Generic product, (8) customized product, (9) augmented product, (10) future' product

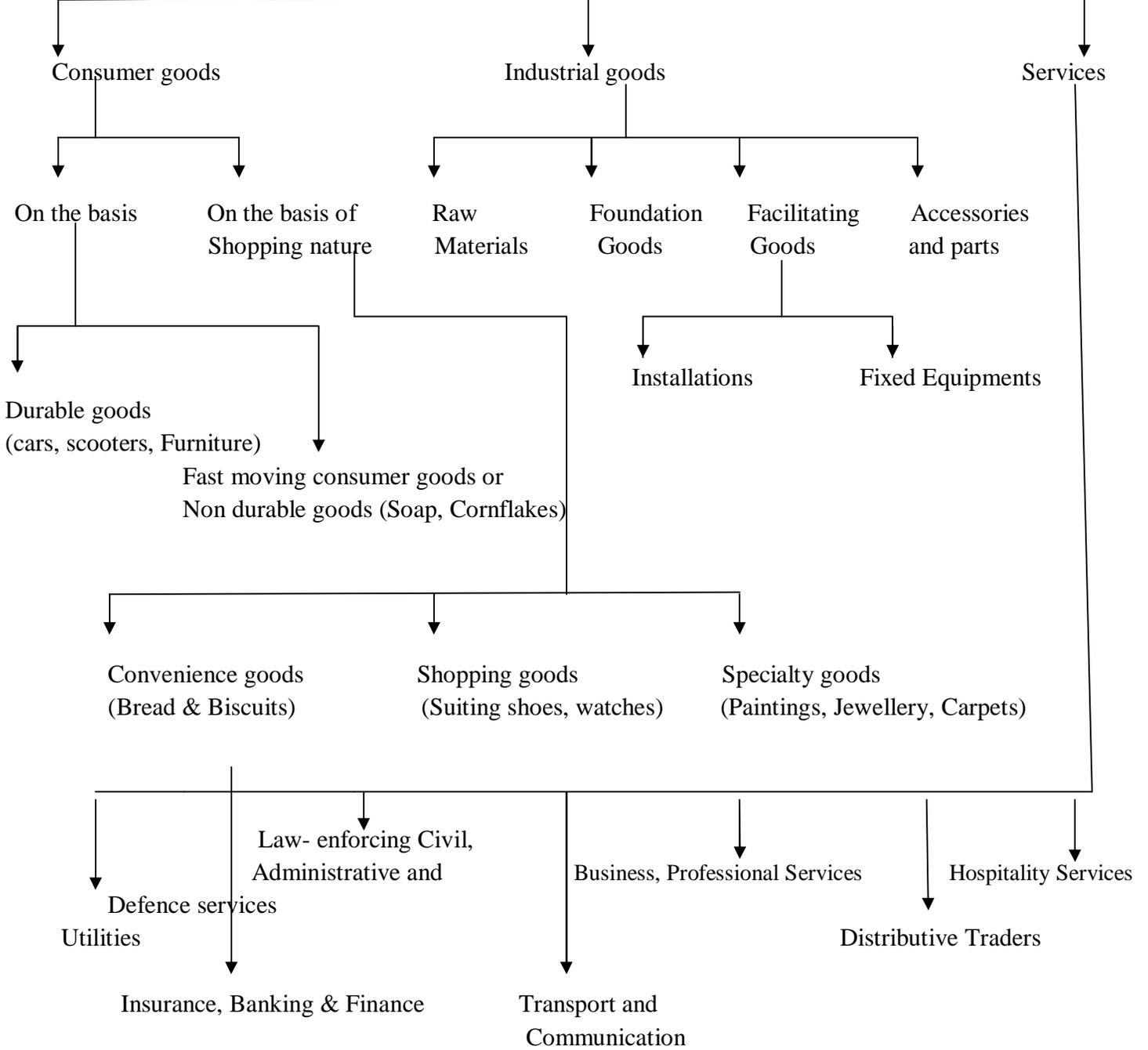
## SESSION 2 PRODUCT CLASSIFICATION

The product nature is found to have significant impact on the method of product positioning. Product classification assists the marketers to put the products before the consumer better. They can be segmented, targeted and positioned better.It can be undertaken on the basis of three essential characteristics namely durability, tangibility and user type. Durability implies the average life of the product available for consumption, tangibility means the physical attributes of

the product and user type provides information regarding consumer products and industrial products. The following figures show a typical product classification:



## Detailed classification of goods and services



### **Classification on the basis of Durability and Tangibility**

Products can be classified on the basis of durability and tangibility. On the basis of durability they can be classified as non durable products. On the basis of tangibility, they can be classified as physical products and services

- **Non durable goods:** Non durable goods are tangible goods normally consumed in either one or a couple of uses. These are purchased regularly and also consumed frequently. Smooth distribution and easy availability at all possible locations makes these products succeed in the market. The marketer has to advertise heavily to increase the purchase and build brand preference. Most of the fast moving consumer goods category products belong to this class. Examples include food items and toiletries.
- **Durable goods:** Durable goods are tangible goods that can normally be used for many years. These products need more personal selling, after sales service, are often supported by guarantee and warranty programs. Examples include LCD TVs, mobile phones, washing machines and microwaves.
- **Services:** On the basis of tangibility, products can be also be classified as physical products and services. Services are intangible, inseparable and inconsistent products. Service essentials include quality control, credibility of the supplier and adaptability to changing consumption behavior. Examples include hospitality service, airlines services, insurance and banking services.

### **Classification of consumer goods**

Consumer products can be divided on the basis of the time and effort the buyer is willing to take out for the purchase of the product. They can be divided into two parts:

#### **(i) Convenience Products:**

They are goods that a customer purchases frequently, with minimum effort and time to make a buying decision. Example being soft drinks, soaps, bread, milk etc. These can be further classified into three categories:

- (a) **Staple Goods:** The products which are purchased on a regular basis. The decision to buy the product is programmed once the customer puts the item on his list of regular purchases. Example bread, milk, eggs
- (b) **Impulse Goods:** The consumer purchases these without any planning or search efforts. The desire to buy impulse is a result of the shopping trip. This is why

impulse products are located where they can be easily noticed. Example chocolates, magazines.

- (c) **Emergency Goods:** They are purchased to fulfill urgent need. The consumer ends up paying more. Examples of consumer shopping for tooth brushes or shaving blades at tourist destinations.

**Main Features:**

- i. They are easily available and require minimum time and effort.
- ii. They are obtainable at low prices.
- iii. There is a continuous and regular demand for such products.
- iv. Both demand and competition for these products is high.
- v. Products are easily substitutable.
- vi. Heavy advertising and sales promotion schemes help in marketing of these products.

**MARKETING STRATEGY OF CONVENIENCE GOODS:**

- (a) **Price:** These products are usually low priced and widely available.
- (b) **Promotion:** Mass promotion is done by the producer.
- (c) **Place:** These products are widely distributed and at convenient locations. Made available through vending machines in schools, offices etc., also kept in check-out stands etc.,

**(ii) Shopping Products:**

These are the goods where the customer while selecting the product for purchase makes due comparisons on the bases of quality, price, style and suitability. Shopping products can be homogenous or heterogeneous.

1. **Homogeneous Products:** They are products which are alike, with the sellers engaging on price war. Manufacturers end up distinguishing based on design, services offered or other freebies.

2. **Heterogeneous Shopping Products:** They are products that are considered to unlike or non-standardized. The consumers always shop for a best quality buy. Price becomes secondary in case the focus is on style or quality.

**Main Features:**

- i. They are durable in nature.
- ii. They have high unit price and profit margin.
- iii. The customer spends adequate time and compares products before making the final purchase.
- iv. Purchase of such products is planned prior.
- v. Important role played by the retailer in the sale of shopping goods

**MARKETING STRATEGY OF SHOPPING GOODS:**

- (a) **Price:** These goods are available at moderate prices. The seller must apprise the buyer with the price.
- (b) **Promotion:** Heavy advertising and personal selling by both producers and resellers.
- (c) **Place:** As consumers will spend time to shop for these goods, stores that specialize in them are located near similar stores in active shopping areas.
- (d) **Products:** Furniture, clothes, used cars, etc...

### **(iii) Specialty Products:**

These are goods with unique characteristic or brand identification for which a sufficient number of buyers are willing to make a special purchasing effort. Consumers have strong conviction towards the brand, style, or type. For example Cars, High end Watches, Diamond jewellery etc.

#### **Main Features:**

- i. The demand for such products is relatively infrequent.
- ii. Products are high priced.
- iii. Sale of such products is limited to few places.
- iv. Aggressive promotion is required for such products.
- v. After sales service is required for these products.

#### **MARKETING STRATEGY OF SPECIALTY GOODS:**

(a) **Price:** They are usually marked at high prices. As demand for these goods are low and Supply is also low

(b) **Promotion:** Targeted promotion by both producer and reseller. High level of advertising

(c) **Place:** Exclusive selling in only one or few selected outlets per market. Exclusively sold and are exclusively distributed. Consistency of image between the product and the store is also a factor in selecting outlets.

(d) **Product:** Jewelry, Rolex watches, fine crystals, etc.

### **(iv) Unsought Products**

These are products that are available in the market but the potential buyers do not know about their existence or there do not want to purchase them. There are two types of such products:

**Regularly Unsought Products:** The products which exist but the consumers do not want to purchase them as of now, but might eventually purchase them. Example: Life Insurance Products or Doctor's services.

**New Unsought Products:** The marketers task is to inform target consumers of the existence of the product, stimulate demand and persuade them to buy the product. Example: Oral Polio Vaccine was unsought initially, but heavy promotion and persuasion by the government has lead to eradication of polio.

**MARKETING STRATEGY OF UNSOUGHT GOODS:**

- (a) **Price:**It varies from product to product.
- (b) **Promotion:**Personal selling and aggressive advertising by producer and seller.
- (c) **Place:**It depends upon the product.
- (d) **Product:**Life insurance, Red Cross Blood Donations, etc

BASIS OF COMPARISON	TYPE OF CONSUMER PRODUCT			
	CONVENIENCE	SHOPPING	SPECIALTY	UNSOUGHT
Product	Toothpaste, cake mix, hand soap, ATM cash withdrawals	Cameras, TVs, briefcases, airline tickets	Rolls-Royce cars, Rolex watches, heart surgery	Burial insurance, thesaurus
Price	Relatively inexpensive	Fairly expensive	Usually very expensive	Varies
Place (distribution)	Widespread; many outlets	Large number of selective outlets	Very limited	Often limited
Promotion	Price, availability, and awareness stressed	Differentiation from competitors stressed	Uniqueness of brand and status stressed	Awareness is essential
Brand loyalty of consumers	Aware of brand but will accept substitutes	Prefer specific brands but will accept substitutes	Very brand loyal; will not accept substitutes	Will accept substitutes
Purchase behavior of consumers	Frequent purchases; little time and effort spent shopping	Infrequent purchases; needs much comparison shopping time	Infrequent purchases; needs extensive search and decision time	Very infrequent purchases; some comparison shopping

### Industrial Products:

The Products used as inputs to produce consumer products are known as industrial products. They are used for non-personal and business purposes. Examples being raw materials, tools, machinery, lubricants etc.

### Feature of Industrial products:

- Limited number of buyer in comparison to consumer goods.
- Length of Channel for distribution is short.
- Demand for the product is concentrated in certain geographical locations and is derived from the demand of consumer goods.
- Product purchase is based on fulfillment of technical considerations.
- Reciprocal buying is involved is a company may purchase the raw material from a company and may sell the finished product to the same company.

- In certain cases the companies may lease out the products rather than purchasing them due to high costs.

## **Types of Industrial Products:**

- (i) **Materials and Parts:** These are goods that are used for manufacturing the product. These are further divided into two types:
  - (a) **Raw Material:** The raw materials could be either agri based products like sugar cane, rubber. Wheat etc or they can natural products like iron ore, crude petroleum etc. Farm products are renewable as they involve agricultural production. The natural products are very often limited and often available in great bulk and low unit value. There are a few but large producers and marketers supplying natural products. Long term supply contracts are a common phenomenon in these categories, as the industry needs an uninterrupted supply of products and services for running their business process.
  - (b) **Manufactured Materials and Parts:** These include component materials like glass, iron, plastic or components like battery, bulbs or steering etc. The component materials are further fabricated from aluminum, pig iron to steel and cloth from yarn. Components enter the final product without being changed or modified. In this case price, quality and services are important factors while making a decision.
- (i) **Capital Items:** They are the goods used in producing the finished goods. They include tools, machines, computers etc. They can be categorized into installations like lifts, mainframe computers etc and equipment's like fax machines, EPBX machines. Installations are major purchase for the organization. Equipment's include hand tools and office equipment's like personal computers, laptops. These equipment's are not everlasting and they need to be refilled at different periods of time.
- (ii) **Supplies and Business Services:** They are goods which are required for developing or managing the finished products. They can be of two kinds namely maintenance and repair items and operating supplies. Maintenance supplies include painting, nailing and operating supplies include writing papers, consumables for computer, lubricants and coal. Business services can be classified as maintenance service like copier repair, window and glass cleaning and business advisory services include consultancy, advertising and legal services.

## KNOWLEDGE ASSESSMENT 2

### Fill in the blanks:

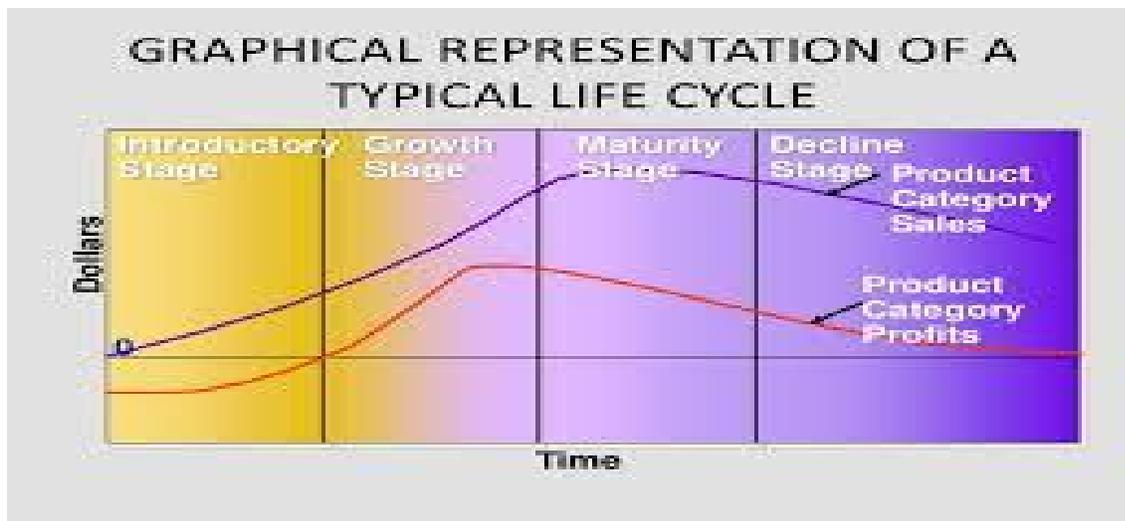
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2. \_\_\_\_\_ are those that the consumer purchases these without any planning or search efforts.
3. \_\_\_\_\_ are products that are considered to unlike or non-standardized.
4. Speciality products are goods with \_\_\_\_\_ or \_\_\_\_\_ for which a sufficient number of buyers are willing to make a special purchasing effort.
5. \_\_\_\_\_ are products that are available in the market but the potential buyers do not know about their existence or there do not want to purchase them.
6. \_\_\_\_\_ are those which exist but the consumers do not want to purchase them as of now, but might eventually purchase them.
7. The products used as inputs to produce consumer products are known as \_\_\_\_\_.
8. \_\_\_\_\_ is involved is a company may purchase the raw material from a company and may sell the finished product to the same company.
9. \_\_\_\_\_ are goods that are used for manufacturing the product.
10. \_\_\_\_\_ are the goods used in producing the finished goods.

### ANSWERS

(1) Convenience Products, frequently, minimum (2) Impulse Goods (3) Heterogeneous shopping products (4) Unique characteristics, brand identification (5) Unsought products (6) Regularly Unsought products (7) Industrial products (8) Reciprocal buying (9) Materials and parts (10) Capital items

## SESSION 3: MANAGING PRODUCT LIFE CYCLE

Each product goes through a life cycle which includes the following stages of growth, maturity and decline. The product life cycle indicates the sales and profit of the product over a period of time. Most of the products follow the 'S' shaped curve with certain products deviating showing a sharp growth followed by a sharp decline, or remain in the maturity phase for a long time, and may not face a decline. Trends and Fashion can be grouped in the first category; products in closed economies or in a monopolistic market represent the second type. In this category one may also have commodities like steel, cement, and food products, where the demand remains inelastic, relative to other manufactured products. In India, cars, refrigerators, and television sets etc did not experience a decline until 1991 as there were operating in the pre-liberalization era with less competition. But things started to change after 1991 with opening up of the markets and increase in competition. In the current scenario the product life cycles are also shortening with high competition and changing demands. As we move through the product life cycle, it is observed that profits are rarely a part of the introduction stage; the growth stage brings profits with an onset in decline in profits being observed in the maturity stages



“The product life cycle (PLC) depicts a products sales history through 4 stages:

- 1) Introduction
- 2) Growth

- 3) Maturity and
- 4) Decline

Adjustment and modifications need to be made in the product's marketing mix as the product moves through its life cycle because of changes in the environment, buyer behavior, and the composition of the market.

The PLC concept can be applied to a product category (soaps), to a particular product form (soap bars, liquid soaps) or to a particular brand (Lux). The life cycle of the product category is the longest and that of the brand is shortest usually.

It is useful most directly to product forms. Product forms like soaps, gel pens and televisions and mobile phones go through a sales history of introduction, growth, maturity and decline. Product categories often tend to stay in the maturity stage for longer duration, while the life cycles of individual brands can be extremely inconsistent depending on the effectiveness of their marketing programs.

**The four stages include:**

**Introduction Stage**

In this stage a new product (from brand or category) is introduced and it is called the introductory stage. Introducing a new product is always a risky proposition, even for a skillful marketer. A new product category requires a long introductory period because primary demand ie demand for the product category must be aroused. Ex. When *“Allout” in 1990 introduced liquid vaporizers as mosquito repellent, it was a pioneer in the product category as till 1990 mosquito coils were prevelant.* This is true for those brands which have achieved acceptance in other markets and require introduction in new markets. This is followed by the selective demand ie a demand for a specific brand within a product category. Ex. Once the product category was tapped competition followed. The other brands within the same product category include *Mortein, Good night* which were competitors for *Allout*.

This phase marks the launch of the product in the market. It is characterized by

- Inducing acceptance and attaining initial distribution.
- High operational costs, arising out of inefficient production levels or bottlenecks, high learning time, unwillingness of the trade to deal in the product, demand of higher margins or extended credit terms. I
- High promotion costs on the expectation of future profits.
- Customers have low awareness and those who are willing to try the product do so in small quantities called trial purchase.
- Competition is limited to few firms, and is from indirect or substitute products.
- Negative profits on account of low sales volume,
- Distribution is limited and promotional expenses are high.

#### **MARKETING STRATEGIES IN INTRODUCTION STAGE**

1. Products are promoted to create awareness and also develop market for the product.
2. The pricing of the product may be low to increase penetration and expand the market share or high priced to recover the development costs.
3. Distribution can be selective till consumers show acceptance of the product.
4. Marketing communication seeks to educate and enhance the product awareness

#### **Growth Stage**

The growth stage is the second stage where the product has been launched successfully with the sales beginning to increase rapidly in this stage, as new customers enter the market and old customers make repeat purchases. This is stage is characterized by

- Reduced costs because of economies of scale.
- Increase in competition with the customer having greater choices in form of different types of product, packaging and prices.
- Market expansion with new customers being added.
- Dominant position created by focusing on increasing selective demand
- Increase in profits.

- Costs incurred on identifying new uses, developing the product, promotion, and distribution.
- The mobile handsets are in the growth stage, with new models being continuously launched. Apple launched its iPhone 7 recently.
- 

### **MARKETING STRATEGIES IN GROWTH STAGE**

There is an increase in competitors who offer similar in the market features. In this stage, the firm seeks to build brand preference and increase market share.

- 1) Product quality is maintained and additional features and support services may be added.
- 2) Pricing may remain same as the firm enjoys increasing demand with little competition.
- 3) Distribution channels are added as demand rises and customers accept the product.
- 4) Promotion is aimed at a broader audience.

### **Maturity Stage**

The third stage is the maturity stage. The products that withstand the heat of competition and customers' approval enter the maturity stage. Rivals copy product features of successful brands and become more alike. The price wars begin along with heavy focus on unique brand features that still exist. Industry sales peak and decline as the size of potential markets begins to shrink and wholesaler and retailer support decreases because of declining profit margins. Middlemen also introduce their own brands, which makes the competition even tougher further lowering profits in industry. During this stage the marketers are focusing effort on extending the lives of their existing brands. Product managers have to play a very important role for carving a niche within a specific market segment through increase in service, image marketing and by creating new value image and strengthening through repositioning. They should also consider modifying the market, product and marketing mix to fight competition and take it closer to the customer so as to register adequate profits to remain in the business. The characteristics of this stage are

- Costs would be decreased as a result of increase in production volumes
- The Sales volumes peak and market saturation is visible.
- Competitors entering the market increase
- There is drop in prices due to entry of competing products
- Advertising spend incurred on brand differentiation

- Product feature diversification is emphasized to maintain or enhance market share.
- The industrial profits decrease during this period.

### **MARKETING STRATEGIES IN MATURITY STAGE**

1. Product managers have to play a vital role for carving a niche within a specific market segment through enhanced service, image marketing and by creating new value image and strengthening through repositioning.
2. They should also consider modifying the market, product and marketing mix to fight competition and take it closer to the customer so as to register adequate profits to remain in the business

### **Decline Stage**

This is the phase where sales decline as the customer's preferences have changed in favour of more efficient and better products. Product forms and brands enter into decline stages while product categories last longer. The number of competing firms also gets reduced and generally the industry has limited product versions available to the customer. Sales and profits decline rapidly and competitors become more cost conscious. Brands with strong loyalty by some customer segments may continue to produce profits. There are hidden costs in terms of management time, sales force attention, frequent stock re-adjustments and advertising changes. For these reasons, companies need to pay attention to their dying products. At times management may decide to maintain its brand without changes in the hope that some competitors will leave the market or it may decide to re-position the product in the hope of moving it back to the growth phase in a new image or eventually prune the product from the line.

### **MARKETING STRATEGIES IN DECLINE STAGE**

1. The product can be maintained by either by adding new features or finding new uses.
2. The costs can be reduced and it can be offered to loyal segment.
3. The product can be discontinued or sold to another firm that is willing to continue the product.

# PRODUCT LIFE CYCLE



Adopted from: Kotler, Marketing Management

LINK - <http://www.thebeckon.com/characteristics-of-the-product-life-cycle/>

Examples: Colgate was the first toothpaste in tube in 1896, it went to capture the market world over and became the highest selling brand in the world in 1999, has diversified into oral care range and still a force to reckon with.



1. The -----indicates the sales and profit of the product over a period of time.
2. Products also follow the ‘-----curve with certain products deviating showing a sharp growth followed by a sharp decline.
3. A new product category requires a long introductory period because -----for the product category must be aroused.
4. -----a demand for a specific brand within a product category.
5. In the -----the profits are negative because the sales volume is low, distribution is limited and promotional expenses are high.
6. The -----is the second stage where the product has been launched successfully

7. In the growth stage the company faces a trade-off between -----and.
8. Products that withstand the heat of competition and customers' approval enter the-----  
-----.
9. In the maturity stage the marketer should also consider entering -----, product and marketing mix to fight competition.
10. -----and brands enter into decline stages while product categories last longer.

Answers:

1. product life cycle, 2. S' shaped, 3. primary demand, 4. Selective demand, 5. introductory stage, 6. growth stage, 7. high market share, high current profit, 8. maturity stage, 9. New market, 10. Product forms

## **SESSION 4: PACKAGING AND LABELLING**

### **INTRODUCTION**

Packaging can be defined as an art, science and technology of preparing goods for transport and sale. Packaging as an industry has two sectors – those who prepare the packaging material and those who convert these materials into packages. New packaging materials are fast replacing the old ones. A good packaging conveys the quality of the product: which is distinct from the value of the product. Attractive packaging is an also an efficient point of purchase (POP), and stimulates publicity for sales. It has been observed that packaging is an important advertising means helping in carrying messages from the marketer to the consumer. Packaging as a function has two separate dimensions – the physical aspects related to the science and technology and the behavioral aspect related to the art of product design associated with buyer behavior.

### **PACKAGING CONCEPT**

In most cases, marketers define packages as the fifth 'P' of marketing. It provides an enhanced value to the product and there are three levels of material for package:

- A. A primary package
- B. A secondary package
- C. The transportation package

Packaging may be 'primary' which refers to the product's immediate container, such as the PET bottle, tetra pack, can or a box: or secondary, which refers to additional layers of protection that are removed once the product is ready such as the tube of shaving cream, which is covered in a card board box or a glass bottle covered in card board box.

The different levels of packaging, type and importance would vary with the nature of product, whether FMCG, durable consumables, industrial and liquid product. It would also differ on the distance over which it has to be transported. It should be regarded as one of the important requirements for a manufactured product. The quality control of a product would be meaningless if the package designed to carry the product from the factory to the ultimate consumer is not adequate.

### **ROLE OF PACKAGING**

Packaging is an important element in the formulation of the marketing plan as it aids with promotion & performs the role of passive salesman, in addition to protecting the product. In the absence of salesman, the package should be able to grab the eyeballs of the buyers. Good packaging may lead to improved consumer acceptance.

The product package has an important promotional function, establishing meaningful communication with the consumer. Designing the product package according to changing customer preferences and attitudes will enable the marketers to push the product.

Consumer packaging is also intended to offer better convenience to the consumer and protect the product from pilferage and damage. It has been estimated that unit value realization can increase with good packaging.

### **IMPORTANCE OF PACKAGING**

Initially Packaging was considered a production-related function and activity. While in the current context packaging has completely changed due to competition. New developments in packaging, have forced marketing managers to focus on packaging design. The following aspects highlight significance of packaging in marketing:

- It provides information about the product
- It helps in identifying brand name
- It assists in protecting the product
- It helps in product handling
- It aids in promoting the product
- It helps in offering customer convenience and satisfaction
- It helps increase in the sales of the product.
- It adds to the use of a product.
- It contributes to the safety of a product.

- It helps in storage of the product
- It helps in product differentiation

## PACKAGING DECISIONS

Packaging is an important component of a product as an attractive pack is the most important factor in impulse purchases. The basic functions of a pack are to attract the potential customer's attention, protect the product that is packed and reveal its identity. It is an essential tool for two categories of people – *first*, end-users of a product: and *second*, retailers. The material used may vary from metal to paper to plastic etc. The useful packaging decisions include:

1. **Packaging design:** It is not easy to design a package for various items. For example, all 'Hand wash' come in bottles, but different brands of hand wash differ in their packaging. The high costs of packaging lead to bringing out refill packs too.
2. **Attractive Color:** Colour plays an important role for determining customer acceptance or rejection of a product. The use of right colours in packaging also assists marketers, reap huge advantage. Packaging colour should be attractive so that it may aid in promoting sales.
3. **Packaging the product line.** A company must decide whether to develop a family or similar kind of the packaging of its several products. It involves the use of identical packages for all products or the use of packages with some common feature.

## FUNCTIONS OF PACKAGING

Packaging should perform the following basic functions:

### 1. Protection

The basic function is to protect the products from the vagaries of weather the product can be exposed to, in transit from the manufacturer's plant to the retailer's shelves and issues related to handling the product while on display on the shelves.

The reasons for protection for products through packaging are:

- Control pilferage during transit or storage
- Prevent the absorption of moisture
- Avoid breakage/damage due to rough mechanical or manual handling during transit.
- Protect liquid from evaporation.

### 2. Appeal

The emergences of self-service outlets have forced manufacturers to have attractive packaging. The following characteristics have been identified to help a package perform the self-selling tasks:

- It helps in attracting attention of the customer
- It helps to enhance the product image
- It helps in the product looking and hygienic

### **3. Performance**

This is the third function of a package. It should perform the task for which it is designed. Bottled water has been introduced in 500 ml to 20 litres bottles. The purpose and place of use is the deciding factor in the purchase of various packs. A package must be made to consistent and rigid quality standards as the consumer demands uniformity each time he purchases a product.

### **4. Packaging for convenience**

It provides convenience to distribution channel members, such as wholesalers, retailers and consumers. The convenience will relate to handling and stocking of packages. It helps in the following ways:

- The package must be convenient to stock
- The package must be convenient to display
- The package must not waste shelf-space.
- The package can be easily carried.
- It should be easy to dispose off.

### **5. Cost-effectiveness**

The package finally must be cost-effective. Packaging cost as a percentage of product cost differs from one industry to another. It is essential to understand that while analyzing packaging costs, the other costs like handling, storage, insurance and transit costs are also added.

## **QUALITIES OF GOOD PACKAGING**

- Attractive appearance
- Convenient for storage and display
- Shield against damage or pilferage
- Product description displayed on the package
- Package should be as per the specifications

## Types of Packages

There are four types of packages: (i) A consumer package (ii) a bulk package, (iii) an industrial , and (iv) a dual usage package. They are as discussed.

(1) **A consumer package** is one which holds the required volume of a product for ultimate consumption is economical and can be easily purchased by the consumer. He has the option to purchase the pack size which he considers adequate for the consumption for his family over a length of time and does not involve additional investment during that period.

(2) **A bulk package** is either for the consumer whose consumption is large or is bought to save cost. Example: oil cans etc. The consumer package itself very often requires an outside package in which it is transported and which is sometimes referred to as transit package or an out container.

(3) **An industrial package** can be a bulk package for durable consumer goods. These are the basic package types although many sub-divisions can be listed, e.g., strip package, multiple package, etc., which can all be broadly listed under these basic headings.

(4) **A dual use package** is one which possesses a secondary usefulness after its contents have been consumed. Drinking glasses, boxes of jewellery or cigarettes, plastic containers, refrigerator dishes, bags from flour and feed sacks are the examples.

## LABELLING

LABELLING Labeling is regarded as part of marketing as packaging decisions involve the labeling requirements. It provides the customers with the requisite information about the product. The buyers also have complete information about the quality, features, standards, grade, price quantity etc. This helps them in making better and informed decisions. It is also helpful to the sellers as they can differentiate their products from their competitors. Attractive labeling also assists in encouraging the customers to pick the products off the shelf. In most countries across the globe, labeling is mandatory and they have specifications for labeling. For example in India, all the prepackaged foods sold in the country are required to comply with the Food and Safety Standards (Packaging and Labeling ) Regulations 2011 issued by the Food Safety and Standards Authority of India functioning under the Ministry of Health and Family Welfare. The important ones include information regarding the nutritional values, vegetarian and non-vegetarian symbols, information related to food additives or flavors, name and complete address of the manufacturer, net quantity, lot identification of batch identification, date of manufacture or packing, instructions for use, country of origin for imported products apart from the general labeling requirements. The CE marking or the estimated sign used in European Union weights

and measures accuracy regulations. The Green Dot is the example of environmental symbol. According to the regulations labeling of food items should disclose information about a number of aspects like date of manufacturing, expiry date or optimum storage period for the product which do not have an indefinite storage period, composition, storage conditions, necessary method of use, if necessary, precautions to be taken, contra-indications etc. Labels are part of the printed material on the package. The label is a strong sales tool and an integral part of purchase advertising.

Products may be adequately identified by giving the name of the product and the producer; most require somewhat more extensive descriptions of their nature and use. For example, processed foods, patent drugs, some cosmetics, etc. legally are bound to carry a fairly complete detail about their ingredients. Several products must give instructions for their use, as in the case of commercial plant food. Safety warnings should also be mentioned on labels of all potentially hazardous products or packages. For example “To be used under the direction of a medical practitioner” or keep out of reach of children “or Cigarette smoking is injurious to health”.

Environmental awareness among the consumers has promoted the introduction of ‘eco-label’ awarded on the basis of a product’s environment friendliness.

A good label is one which helps a potential buyer to help him take make decision with relevant and correct information. Apart from the information which must be given, the label should provide:

- i. Picture of the product accurate as to size, colour and appearance.
- ii. Description of ingredients used along with methods of processing.
- iii. Directions for use, including cautions against misuse.
- iv. Brand names
- v. Dates of manufacture and expiry
- vi. Statutory warning, if any.
- vii. Contra-indications and adverse effects, if any.

In all packaging is an important component of marketing and manufacturers are coming with innovative packaging to attract the customer and labeling enables them to comprehend the materials used in the product.

### **Role of Labeling**

- (i) **Provides description of the product and specifies its content:** The label provides detailed information of the products, its ingredients, usage, care to be administered,

- caution, batch number, manufacturing place, helpline number in certain cases, date of manufacturing and expiry etc.
- (ii) **Identifies the product or brand:** Labeling enables to identify the product amongst the multiple brands. SUNFEAST brand of biscuits can be easily identified from the other brands on the basis of their labeling.
  - (iii) **Aids in product grading:** If a company manufactures different qualities of product, labeling aids in finding which pack contains what type of quality. The variants of tea manufactured by Hindustan Unilever Ltd are differentiated by the company through green, red and yellow colored labels.
  - (iv) **Facilitates in the promotion of products:** It also helps in sales promotion. Consumers are to drawn towards buying products on account of their attractive labels.
  - (v) **Helps in providing information required as per the law:** The labels provides statutory warnings as required by the law in case of products like cigarettes, pan masalas. They are required to carry the picture and the warnings too. In the case of hazardous or poisonous products too necessary statutory warnings are to be put on the label.

**William J. Stanton classifies the labels into four:**

- a) **Brand labels:** They are majorly meant to popularize the brand name of the product. Cosmetics manufacturers prefer to use this kind. E.g: Perfumes, Lipsticks etc
- b) **Grade labels:** They emphasize on standards or grades used for product identification.E.g: Fabric, Tea Leaf, etc.
- c) **Descriptive labels:** They are descriptive in nature; state product features and explains the various uses of the products. The consumables items like milk etc have descriptive labels.
- d) **Informative labels:** The main object of these labels is to provide maximum possible information. In case of the medicines, detailed labels are attached which even specify the side effects in using them.

**KNOWLEDGE ASSESSMENT 4**

**Fill in the blanks**

1. \_\_\_\_\_ Packaging can be defined as an art, science and technology of preparing goods for transport and sale.
2. Attractive packaging is also an efficient \_\_\_\_\_.
3. Marketers define packages as the \_\_\_\_\_ of marketing.
4. Packaging may be \_\_\_\_\_ which refers to the product's immediate container.
5. Good packaging may lead to improved \_\_\_\_\_.
6. Consumer packaging is also intended to offer better convenience to the consumer and protect the product from \_\_\_\_\_.
7. \_\_\_\_\_ plays an important role for determining customer acceptance or rejection of a product.
8. A \_\_\_\_\_ is one which holds the required volume of a product for ultimate consumption is economical and can be easily purchased by the consumer.
9. A \_\_\_\_\_ is either for the consumer whose consumption is large or is bought to save cost.
10. Environmental awareness among the consumers has promoted the introduction of \_\_\_\_\_ awarded on the basis of a product's environmental friendliness.

**Answers** – 1. Packaging 2. Point of purchase 3. fifth 'P' 4. Primary 5. consumer acceptance 6. pilferage and damage. 7. Colour 8. consumer package 9. bulk package 10. 'eco- label'

**QUESTIONS**

Q.1. Define a product. What are the various viewpoints to explain the concept of a product?

Q.2. Discuss the core tangible and augmented product for your favorite brand of bathing soap.

Q.3. Distinguish between generic market and product market.

Q.4. Packaging is considered as the 5th P of Marketing Mix. What are its implications on the PLC? Discuss.

Q.5. Discuss the importance of packaging as a tool for product differentiation and market cultivation.

Q.6. "Packaging has been criticized as being expensive, giving no additional value and often deceptive." How would you justify marketers use of packaging?

Q.7. What is packaging concept? Explain various packaging decisions in brief.

Q.8. What are the functions of packaging? Explain various packaging strategies.

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## UNIT II: PRICE

<b>Unit Code:</b>	<b>UNIT TITLE: PRICE</b>			
	Duration:			
<b>Location:</b>	<b>SESSION1: MEANING AND IMPORTANCE OF PRICE</b>			
Classroom or Retail outlet or Company's premises	<b>Learning Outcome</b>	<b>Knowledge Evaluation</b>	<b>Performance Evaluation</b>	<b>Teaching and Training Method</b>
	1. Meaning and importance of Price in Marketing	1.Introduction 2.Meaning of Price and Pricing 3.Importance of pricing to a firm 4.Importance of pricing to a consumer	1.Explicate meaning of price in marketing 2.To comprehend the relationship between price and other three P's of marketing mix 3.Information of significance of pricing for a firm 4.Information of significance of pricing for consumers	<b>Interactive Lecture:</b> <ul style="list-style-type: none"> <li>• Introduction of four P's of marketingmix with special importance of Price.</li> <li>• Discussion of how Price is crucial for a firm as well as for consumers.</li> </ul> <b>Activity:</b> <ul style="list-style-type: none"> <li>• Identify different manufacturing and service organizations and gather information regarding their objectives associated with pricing.</li> </ul>
	<b>SESSION 2: FACTORS AFFECTING PRICING</b>			
Knowledge of various factors affecting pricing of Products and Services	1. Discussion of various internal factors affecting product pricing 2. Discussion of various external factors affecting product pricing	1. Enumerate internal factors affecting product pricing and their significance 2. Explicate various external factors affecting product pricing	<b>Interactive Lecture:</b> <ul style="list-style-type: none"> <li>• Discussion of how internal and external factors influence product or service pricing</li> </ul> <b>Activity:</b> <ul style="list-style-type: none"> <li>• Identify and enlist different internal and external factors affecting product price in different types of firms.</li> </ul>	

SESSION 3: TYPES OF PRICING			
1. Discussion of various types of pricing in marketing	1. Enumerate different types of pricing <ul style="list-style-type: none"> <li>A. Demand-oriented pricing</li> <li>B. Cost-oriented pricing</li> <li>C. Competition-oriented pricing</li> <li>D. Value-based pricing</li> </ul> 2. Explain the basis of different pricing methods	1. Differentiate and assess the basis of different types of pricing in market 2. Classify different pricing methods. 3. Adjudge the rationale behind different types of pricing	<b>Interactive Lecture:</b> <ul style="list-style-type: none"> <li>• Clarification on various types of pricing policies and their market conditions</li> </ul> <b>Activity:</b> <ul style="list-style-type: none"> <li>• Prepare a list of various pricing policies that have been adopted by ten manufacturing and a service firms.</li> </ul>

*(Note: The location would depend upon the topic under discussion, wherein it will be the classroom for the theoretical interactions and the student will be required to visit field/retail outlet or the marketing department of an organization to observe and comprehend the concepts related to pricing of goods and services.)*

## UNIT II: PRICE

### *Learning Objectives*

After reading this unit, the students will be able to:

1. Explain the meaning of price and pricing in marketing.
2. Recognize the relationship between price and other three p's of marketing mix
3. Understand the significance of pricing for a firm.
4. Understand the importance of pricing for consumers.
5. Explain the Internal factors affecting product pricing
6. Explain the external factors affecting product pricing
7. Understand various types of pricing
8. Distinguish different pricing methods adopted by firms

### SESSION 1: MEANING AND IMPORTANCE OF PRICE

Price is one of the most important elements of the marketing mix. This is the only element which generates revenue for an organization and determines its growth. The other three main elements of the marketing mix are Product, Place and Promotion. A firm incurs a certain cost to produce a Product or service. The Place element is concerned with the sale and distribution of the product through various channels, therefore a firm incurs some expense there, like in choosing the sales-methods, payment to salesmen, expense incurred on transporting products to place of selling, etc. The Promotion element, concerned with the advertising and promotion of the firm's product leads to expenditure on different promotion and advertising media like TV & Radio advertising, sample-promotion, etc. All of these are the variable costs for an organization, that is, these costs change with the changes in level of production and sales activity; therefore influence the process of setting the *right price* for the product. 'Right price' denotes the level of price which can cover all these expenditures on the final product and brings some profit to the firm.

#### **Meaning of Price-**

The term price denotes money value of a product. It represents the amount of money that customers pay to the seller to gain benefits of having or using a good or service. In fact it is marketers' assessment of the value customers see in the product. So price indicates the money value which a buyer is ready to exchange for purchase of certain good or service.

#### **Definition of Price-**

The definition of Price according to Philip Kotler is- *“Price is the amount of money charged for a product or service.”* Similarly according to Stanton *“Price is the amount of money needed to acquire some combination of goods and its accompanying services.”*

Pricing is defined as *‘the process whereby a business sets the price at which it intends to sell its products and services’*.

It is the key variable in a firm’s marketing plan. While setting prices for its products, i.e. goods or services, the business takes into account various aspects of production, listed below.

- **Price of rawmaterial-** The firm considers price at which it could acquire the goods and raw material to prepare final product to be sold in the market. A higher cost of acquiring these implies a higher product-price and vice versa.
- **Cost of manufacturing-** If manufacturing cost is higher, the price of product will also be higher, whereas lower manufacturing cost leads to lower price. This cost includes the wages of labour, expenses on power and other overheads during manufacturing.
- **Market condition-** When market has positive sentiment i.e. high demand for goods and services because of high income and purchasing power of consumers, companies set higher prices for their products. On the contrary when there is depression or negative sentiment due to lack of demand in market, price is also kept low by firms. **For example**, automobile companies increase prices of cars when there is high demand and offer heavy discounts when demand is low.
- **Competition in the market-** If there is no other firm in the market offering similar product, the firm may set a higher price for its product or service, but if there are many market players for the same product, the price will be kept competitive. **For example**, Airtel initially kept high prices for its mobile services, but with entry of Vodafone, Idea and Reliance Jio the prices for various mobile services have been slashed.
- **Brand and quality of product-** A higher brand-value and better quality corresponds to a higher product price in the market. For example, a simple jewellery store in the Chandni Chowk market of Delhi will set price of its ornaments based on cost of gold/silver and making charges (cost of labour for making a particular piece of jewellery). But a high-end jewellery store such as Kalyan Jewellers or Tanishq will price similar ornaments at a much higher price owing to its brand-value and reputation in the market.

Price must be supporting other elements of the marketing mix. Too high or too low pricing of a product could mean lost sales for the organisation.

### **Objectives of Pricing**

Survival is the basic objective of any business. In order to continue their existence organizations may tolerate short run losses, but to obtain working capital for uninterrupted operations and sustainability appropriate pricing for the product is very necessary.

As an element of the marketing-mix, a firm's pricing strategy should be directed towards the achievement of specific marketing-objectives which would lead to the accomplishment of overall organisational objectives. Pricing is not an end in itself; but a means to achieve certain objectives of the marketing department of a firm. Therefore, every firm should carefully set pricing-objectives so that there is clarity and consistency in the firm with respect to pricing in the long run.

The objectives of pricing are as follows:

1. **Profitability objectives:**

- **Target Rate of Return on Investment or Net Sales**

This is an important goal of pricing policy of many firms. In this, the price represents **cost of production and profit margin**. The basic objective is to build a price structure to provide sufficient return on the investment or capital employed.

- **Profit Maximization**

In practice, no firm expressively states this as an objective for fear of public criticism. However, in economic theory, profit maximization is an important objective for any business for its survival. In recent times though, the business philosophy has changed. Businessmen have started to think from the perspective of society instead of only focusing on maximizing profits, and have incorporated business with other activities which help fulfil their societal obligations.

2. **Market-Related Objectives:**

- **Meeting or Preventing Competition in the Market**

Some firms adopt pricing policies to meet or prevent competition in the market. They are ready to fix their prices at a competitive level to meet competition in the market. They even follow "below cost pricing", that is, charge less than the cost because they believe it will prevent new firms from entering the market.

- **Maintaining or Improving Market Share**

Market share is meaningful measure of success of a firm's marketing strategy. This price objective helps to maintain the market share, i.e. either to increase or

sometimes to decrease it. This pricing objective is followed by firms operating in expanding markets. When a market has a potential for growth, market share is a better indicator of a firm's effectiveness than target return on investment. A firm might be earning a reasonable rate of return on investment or capital employed but its market share could be decreasing. Target market share means that sale which a company wishes to attain and it is normally expressed as a % of the total industry sales. Therefore, this is a worthwhile pricing objective for firms operating in expanding markets.

- **Price Stabilization**

Price Stabilization as an objective is prevalent in industries that have a price-leader. For example, in an oligopoly, there are only a few sellers which follow one big seller who acts as the price leader, and try to stabilize their prices simultaneously. No firm is willing to engage in price wars. They may even forego maximizing profits in times of prosperity or short supply in order to stabilize prices. This is because price stability helps in planned and regular production in long-run.

### 3. Public Relations' Objectives

- **Enhancing Public Image of the Firm**

A company's public image is important to its success. Every company has an identity representing what it has done to convey the public about its product, packages, trademarks, brand names, employees and the marketing programme. This image is deeply influenced by how the company handles the delicate and sharp weapon of pricing. Suppose a company with an established reputation in the market based on existing products and price lines introduces a new product to a different market segment. This new product could be at a higher or lower price. If this segment hasn't tried the product but is aware of its prestige and brand-value, it might desire to purchase its products because price is no longer a deterrent factor. Similarly, a firm known for high quality and high priced products will lose its current customers if it goes in for low quality and low priced products. However, a company image well established will favour price policies of its choice because the customers have accepted the company.

- **Resource Mobilization –**

Resource Mobilizing means the creating resources for either self – development or reinvestment in the firm. Prices are deliberately set high in certain cases to generate surplus for reinvestment in the same firm or its sister concerns, e.g. petrol rates are kept very high as it yields a good surplus (excess of income over spending) because gasoline automobiles depend fully on petrol. As a governmental exercise, it works well as the public escapes tax on their backs. This

objective of price is mostly found in the developed countries where it adds to the exchequer (former government departmental in charge of national revenue) for reallocation.

## **Importance of Pricing**

Pricing is an important element of the marketing mix of the firm. All other Ps of marketing i.e. Product, Place and Promotion are highly dependent on the price at which the firm can sell its products to the buyers. Price will usually be set relatively high by the firm if manufacturing is expensive, distribution and promotion are exclusive. On the contrary a low price may be a viable substitute for product quality, but firm requires effective promotion and an energetic selling effort to increase its market share. Similarly consumers' buying decisions also depends upon price of the product up to a great extent. Highly priced commodities generally witness a sluggish sale trend in comparison to moderately priced goods.

### **A. Importance of Pricing for Firm-**

Pricing is significant for firms in the following manner-

#### **1. To determine firm's Competitive Position and Market share-**

Pricing Policy of a firm is a major determinant of a firm's success as it affects the firm's competitive position and share in the market. If prices are too high, the business is lost. If prices are too low, the firm may be lost. The wrong price can also negatively affect sales and cash flow to the firm.

#### **2. To achieve the financial goals of the company-**

Price has an important bearing on the firm's financial goals, i.e. Revenue and Profit. For a given level of production, higher price means a higher revenue and higher profitability (revenue minus costs). With the help of price; a firm can make estimates of expected revenue and profits.

#### **3. To determine the quantum of production –**

Price also helps in determining the quantum of production which should be carried out by the firm. The management of a firm can make estimates of profit at different levels of production at different prices and can choose the best combination of production, volume, and price.

#### **4. To determine the product positioning and distribution in the market-**The sale of product is supported by extensive advertising and promotional campaigns. What type of promotional techniques is to be used and how much cost will be incurred,

these decisions depend upon prospective revenues of the firm, which again are influenced by the product price.

5. **To determine the quality and variants in production-**Before setting the price, managers try to explore ‘Will customers buy the product at that price?’ to fit the realities of the marketplace. This helps them to determine various product models that can be produced to fit different market segment, e.g. Samsung offers Samsung Grand for a medium-income group and Galaxy S7 Edge for a high-income group of consumers.
6. **To establish consistency with the other variables in the marketing mix-** Pricing decisions and policies directly influence the nature and quality of product, its packaging, promotion policies, channels of distribution etc. For instance, a firm may decide to improve the quality of a product, increase the number of accompanying services and spend more on promotion and packaging etc. only if it is confident to sell its product at the price which is good (high) enough to cover the cost of additional improvements and services. If this same product cannot command a very high price in the market, then the company will have to keep normal quality, reduce the number of accompanying services, go with different, less-expensive channels of distribution and simplify packaging etc. Therefore there is no doubt that the nature and type of product, promotion and distribution policies of the firm are influenced by the price-policy of the firm.
7. **Helpful in maintaining system of free enterprise and long run survival of firms-** Pricing is the key activity in the economy of a country which permits system of free enterprise. It influences factor prices, i.e. Wages, interest, rent and profit, by regulating production and allocating resources in a better way. The firms which are not able to market their products at good prices cannot survive in the long run as they are not able to pay for various factors of production. So pricing weeds out inefficient firms and shows way to long run survival.
8. **Improvement in company’s image-**  
A company’s image is important to its success and pricing helps to make that image. A firm with an established reputation for quality at existing price lines may introduce a new product at either higher or lower prices to attract different market segments. Buyers who are aware of its prestige might desire to purchase its products because price no longer remains a limiting factor for them. For example different models of Apple mobiles have good demand in the market in spite of being high priced.

## **B. Importance of Pricing to Consumers-**

1. **Helpful in decision-making-**

Goods and services offered by various producers at different prices help the consumer to make rational and informed buying decisions. For example, a person may choose to buy a T.V. from one shop which offers the product at Rs 20,000, or from another shop which offers the same T.V. at Rs 21,500 but gives free-repairs-service for five years.

2. **Helps in satisfaction of needs:** Goods and services offered by different producers at different prices help the consumer to take that buying-decision which will give him/her maximum satisfaction. By making a market survey and comparing the prices of different variants available vis a vis his budget, the consumer tries to make the best choice. It gives him value for his money spent, and maximizes his satisfaction and welfare.
3. **Helps determine the purchasing power and standard of living of the consumer-**  
If a consumer purchases expensive, luxury items, it implies that he/she has a higher purchasing power and enjoys good standard of living. On the other hand, if a consumer purchases only low-priced, essential items, then he/she has a lower purchasing power and standard of living. This tendency generally persuades consumers to buy branded goods to flaunt their status.
4. **Enhancement in social welfare-**  
Pricing decisions affect the competitive strength of the firm in the market. Since each firm tries to outsell others through price reduction and better quality products in competitive market, consumers are benefitted. In this way, quality goods are available at competitive price which maximizes social welfare in society.

### ***Knowledge Assessment I:***

#### ***A. State whether the following statements are true or false:***

1. The main elements of the marketing mix are Price, Product, Place and Promotion.
2. Price is marketers' assessment of the value customers see in the product or service and are willing to pay for a product or service.
3. For a given level of production, higher price means a higher revenue and higher profitability.
4. Highly priced commodities generally witness an increasing sale trend.
5. The wrong price can positively affect sales and cash flow to the firm.
6. Goods and services offered by various producers at different prices help the consumer to make rational and *informed buying decisions*.
7. The firms which are not able to market their products at good prices are able to pay for various factors of production adequately.

8. If prices are too high, the business is lost. If prices are too low, the firm may be lost.
9. A consumer purchasing expensive and branded items implies that he/she has a higher purchasing power and enjoys good standard of living.
10. To flaunt their status consumers generally buy cheaper goods.

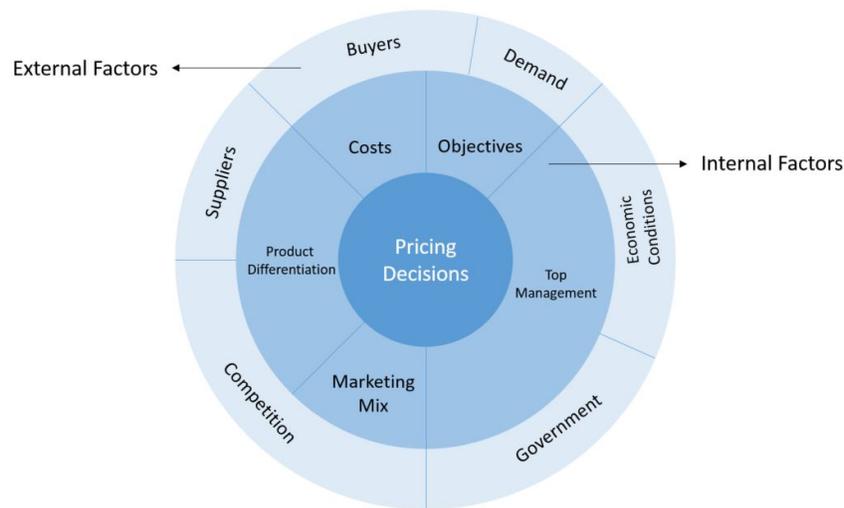
Answers: 1. True, 2. True, 3. True, 4. False, 5. False, 6. True, 7. False, 8. True, 9. True, 10. False

**B. Make the right choice:**

1. Price indicates the -----which a buyer is ready to exchange for purchase of certain good or service.
  - a) satisfaction
  - b) money value
2. Buyers who are aware of Firm's----- might desire to purchase its products because price no longer remains a limiting factor.
  - a) location
  - b) prestige
3. Availability of quality goods at competitive price -----social welfare in society.
  - a) neutralizes
  - b) minimizes
  - c) maximizes
4. Generally price will be set relatively -----by the firm if manufacturing is expensive, distribution and promotion are exclusive.
  - a) high
  - b) low
5. Management of a firm can make estimates of -----at different levels of production at different prices and can choose the best combination of production, volume, and price.
  - a) cost
  - b) profit

Answers: 1. b, 2. b, 3. c, 4. a, 5. B

## SESSION 2: FACTORS AFFECTING PRICING



The decisions related to price and pricing policies of a firm are affected by several factors present in marketing environment. A firm plans production keeping in view the customers' needs, market characteristics, competing firms, behaviour of suppliers and distributors for its product and certain legislative factors. These factors give important inputs to the management for marketing-decisions. A firm also gives due consideration to these factors while determining price of the product. These are studied under two categories-

- A. *Internal factors*
- B. *External factors.*

### A. *Internal factors*–

Internal factors are the forces which are within the control of a firm up to certain extent. The firm can regulate and change these factors as per requirement. For example all the P's of marketing mix, procurement of raw material, employment of labour and cost of production etc. not only determine the success of firm's operations, but also have great influence on product pricing. The factors can be discussed as following-

1. **Objectives of the firm:** A firm may have various objectives and pricing contributes in achieving them. Firms may pursue different objectives such as maximizing revenue,

maximizing profit, maximizing market share or maximizing customer satisfaction. The Pricing policy should be established only after clear consideration of the firm's objectives.

2. **Role of Top Management:** Usually, it is the top management that takes a firm's pricing decisions. But pricing activities are so crucial for future sales and profits that a marketing manager has to remain involved with the pricing. The role of the marketing manager is to assist the top management in price-determination and ensure that pricing takes place within the policies laid down by top-management.
3. **Cost of the Product:** There is a direct relation between the cost of production and price of a product. If the cost of acquiring material and manufacturing cost of the product are high, the price of the product in the market will also be higher and vice versa. The firm should also fix prices that are realistic, considering current demand and competition in the market.
4. **Product Differentiation:** The price of a product also depends upon its specifications. Generally, producers add more and more features to their products to attract customers, and the customers pay a price for them. Therefore, a highly differentiated product will have more features and attributes, and a higher price than one which is less-differentiated.
5. **Marketing Mix:** Price being an important element of the marketing-mix must be coordinated with the other elements- product, place and promotion. The price should be such that it covers the expenses on the other elements of the marketing mix and corresponds to them ideally. For example- a high-priced branded electronic product should be sold in high-end urban showrooms instead of rural markets; the promotion technique should be TV-advertising and not personal-selling, etc.
6. **Size of the organization:** If the size of firm is big and the scale of production is large, it can afford to set lower product price and increase its sales. On the other hand small sized firm keep high price of its products.
7. **Location of the organization:** Location of the organization is an important determinant of the price of a product. The price and product-size will vary depending upon whether the market is located in a rural or urban area. For example, in the *kirana* stores in smaller towns and villages, one will find the Rs 1 or Rs 2 shampoo-sachets instead of a big 200ml or 250ml bottle found in departmental stores in a large city of the same shampoo.
8. **Nature of Goods:** If product is necessity good, firm may set a moderate price keeping in view social welfare purpose; but if the product is luxury good in nature and is being demanded by high end consumers; its price will be high.

- 9. Promotional programs:** The extent of promotional programs and advertisement expenditure also influence the price of a product. If it is huge, the product will have high price and vice-versa.

**B. External Factors-**

External factors are forces which are beyond control of the firm. A firm cannot alter or change these factors or forces for its advantage. These factors can be discussed as following-

- 1. Demand:** The market demand for a product has a direct impact on its pricing. Since demand is affected by prospective buyers, their incomes, tastes and preferences etc., they should be taken into account while making decision of pricing. For an instance if the demand for a product is inelastic, as in case of necessity goods, a high price may be fixed. But if the demand for a product is elastic, i.e., changeable in response to change in price, the firm should not fix higher prices; rather fix lower prices to grab major market share.
- 2. Buyers' behaviour:** Buyers' behavior also affects the pricing decisions. If they are habitual of the product the price may be fixed high. Similar pricing decisions are taken by the firm, if buyers have a particular perception of the product being a symbol of prestige/status, or utility, e.g. luxury cars.
- 3. Competition:** Market-competition plays a crucial role in pricing. In a highly-competitive market, a seller's objective is to give maximum utility at minimum-possible price. Each firm tries to outsell others offering lesser price and better quality products in the market. Therefore, prevailing information about what price the competitors are charging for similar products and what possibilities exist for increasing/decreasing price also affect pricing.
- 4. Raw Material or Input suppliers:** Pricing decisions take into consideration three parties- the supplier of raw material, the manufacturer, and the final consumer. If the supplier charges a high price for inputs, the manufacturer shifts this burden to the consumer by charging a higher price for the final product. On the other hand, if a manufacturer is making large profit on a particular product, suppliers will also try to cash in on these profits by charging a higher price for the raw material. When this happens, the manufacturer would only want to absorb the additional cost and not increase the prices further.
- 5. Prevalent Economic Conditions:** During a boom-period in the economy, when market-conditions are favourable due to 'bullish attitude' or inflationary trend, firms can afford to fix higher prices of their products. On the other hand, during slump-period when market-conditions are un-favourable due to 'bearish attitude', firms have to lower the prices of products to keep the business going and to clear off their old stocks.

6. **Government Regulations:** If Government policies exert regulatory pressures, promote anti-price rise sentiment etc, then the companies cannot fix a higher price to capture the market. On the other hand, if government policies are supportive and promote businesses through healthy competition in the market, then firms can fix higher prices.

## Knowledge Assessment – II

### Fill in the blanks-

1. The decisions related to price and pricing policies of a firm are affected by ----- present in marketing environment.
2. Firms may pursue different objectives such as maximizing revenue, -----, maximizing market share or maximizing customer satisfaction.
3. If the cost of acquiring material and -----of the product is high, the price of the product in the market will also be higher.
4. The product price should be such that it covers the -----on the other elements of the marketing mix.
5. If buyers are habitual of the product the price may be fixed -----
6. Favourable market-conditions due to ‘-----or inflationary trend, encourage firms to fix higher prices of their products.
7. If the supplier charges a high price for inputs, the manufacturer shifts this burden to the -----by charging a higher price for the final product
8. If the demand for a product is inelastic firms fix a -----of the product.
9. Supportive government policies ----- businesses through healthy competition.
10. Competitive firm tries to outsell others offering -----and better quality products in the market.

**Answers:** 1. several factors, 2. maximizing profit, 3. manufacturing cost, 4. expenses, 5. High, 6. bullish attitude, 7. Consumer, 8. high price, 9. Promote, 10. lesser price

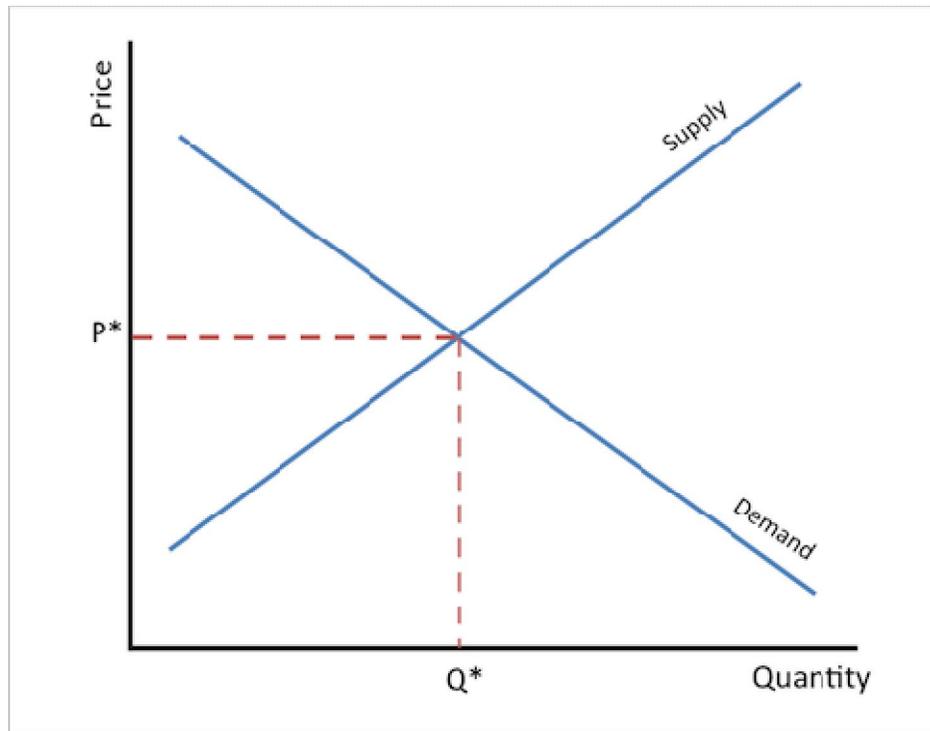
### SESSION 3: **METHODS OF PRICING**

Firms, in a competitive market aim at profit maximization and long term growth. For devising a unique pricing policy for their product they have to methodically analyse the market situations. Generally pricing can be put into following four categories-

- A. Demand-oriented pricing**
- B. Cost-oriented pricing**
- C. Competition-oriented pricing or market driven pricing**
- D. Value-based pricing**

#### **A. Demand-oriented pricing-**

When customer demand sets up the price of a product in the market, it is called Demand oriented pricing. There is an inverse relationship between the price and quantity demanded of a commodity. Higher is the price of a product, lower will be its demand and lower is the price of a product, higher will be its demand in a market. The basic equilibrium price is determined by the forces of demand and supply. It is fixed at the level where quantity demanded and quantity supplied is equal.



Under this method demand is the most important factor. Price is fixed by simply adjusting it to the market conditions. When customer demand sets up the price of a product in the market, it is called Demand oriented pricing.

There is an inverse relationship between the price and quantity demanded of a commodity. Higher is the price of a product, lower will be its demand and lower is the price of a product, higher will be its demand in a market. The basic equilibrium price is determined by the forces of demand and supply. It is fixed at the level where quantity demanded and quantity supplied is equal.

If demand of a commodity increases with respect to previous supply, its price increases, and if supply of a commodity increases with respect to previous demand, its price falls. It is termed as price elasticity of demand, which is the core of product pricing. On the other hand necessity goods have inelastic demand as any change in price does not affect their demand, e.g. demand for bread, rice, milk or vegetables does not fall due to increased price. Advantage of demand oriented pricing to a firm is that it increases firm's ability to optimize prices using diagrams that predict ideal prices.

**Some demand based methods of pricing are given below:**

- 1) **Perceived value pricing**

Perceived value pricing uses buyers' perception of value and not the sellers cost as the key to pricing. The company uses the non-priced variable in the marketing mix to build up perceived value in the buyers' mind. Price is set to match the perceived value. Different buyers often have different perceptions of the same product on the basis of its value to them. A cup of tea is priced differently by hotels and restaurants of different categories because buyers assign different values to the same items. A company using perceived value pricing must find out what value the buyers assign to different competitive offers in terms of product quality, features and attributes like colour, size, durability and looks etc. For example consumers would pay differently for the normal size coca-cola in different surroundings such as at a family restaurant at a 5-star hotel, In a cinema hall, at a fast food stall, etc.

The key to perceived value pricing is the most accurate determination of markets perceived of the offers value. Inflated or deflated perception value calculated by the price setters are likely to go wrong.

## 2) Differential Pricing

Different customers have different desires and wants. Intensity of the demand for the product would also be different.

*Following factors affect the differential pricing method.*

- a. **Time of purchase:** The Taxi charges vary on the basis of time of the day. There are night charges and day charges. Hotels charge different amount for different seasons.
- b. **Location:** The similar products can be sold at different prices to the customers in In different places. Factor of place is the determinant of price in such situation. One has to travel a lot to get the same product at a lower rate which is time consuming and may not be economically desirable.
- c. **Product version:** A book can be sold for different prices. By binding the book with attractive leather cover, the seller can demand a higher price than the ordinary book. The cost of the product will have a slight variation but the price could have huge variation in such situations. Slightly different versions of products could be sold on high prices in the market.
- d. **The Customer:** In a theatre, there are different classes for viewing the same film. But the film is same for all the customers. Some customers are willing to pay more for a comfortable seat. At the same time some customers are not willing to pay higher cost for the same film.
- e. **Bargaining ability:** Bargaining ability of the customer is another factor for low and high price of a product. Those who have the ability to bargain well can get the product at a lower cost and others will have to shell out more money for the same product.

- f. **Level of the knowledge:** Level of the knowledge of product features also affect the price paid by the customer.
- g. **Availability of a product.** When there are many customers for one piece of product, the seller can demand a high price. The one who is willing/able to pay more will get the product.

### 3) **Skimming Pricing:**

Skimming involves setting a very high price for a new product initially and to reduce the price gradually as competitors enter the market. It is remarked, 'launching a new product with high price is an efficient device for breaking up the market into segments that differ in price elasticity of demand. The initial high price serves to skim the cream of the market, that is, relatively insensitive to price. In the case of text books, this method is followed by having a high price for the first edition and lesser prices for subsequent editions. When an item is clearly different and the right price is not apparent, this method may be used. This approach to pricing is an experimental search for the right price and it may result in a market determined price. The method starts with a high price (skim price) and moves the price downward by steps until the price is reached. The idea is that when one is unsure about what price to charge, it is advantageous to begin with too high an initial price and move systematically downwards. This procedure is thought better than starting the price experiment at too low a price and subsequently increasing the price. It is, therefore, an automatically administered price.

#### **Skimming Pricing Policy is very effective under the following conditions:**

1. Where the demand is relatively inelastic, as the customers know little about the product and close rivals are few.
2. Where the market can be broken down into segments with different price elasticity of demand.
3. Where little is known about price elasticity of the product.
4. Where there is minimum risk and one can move up in the prices.
5. Where the firm is making an effort to 'up market' its product so as to improve further on quality, service and expenditure on marketing costs and so capitalizes on its efforts.

#### **4)Penetration Price Policy:**

As opposed to the concept of skimming price strategy, the penetration pricing, intends to help the product penetrate into markets to hold a position. This can be done only by adopting a low price in the initial period or till such time the product is finally accepted by customers. This is an attempt to set new product price low, relative to the cost. It involves setting low initial price to establish market share, prompt the competitors and/ or to capitalize production economies. By setting low initial prices, the competitors are kept away and this makes possible for the firm to enlarge its share by generating larger sales volume. This method of pricing is most common and is desirable when sales volume of the product is very sensitive to price, when a large volume of sales is to be effected, when product faces a threat from competitors and when stability of price is sought for. The conditions favouring Penetration Pricing policy are:

- 1. Where there is high price elasticity of demand, i.e., the firm is depending on low prices to attract more customers to new product.*
- 2. Where large economies are possible, it is because larger sales volume means lower unit.*
- 3. Where there is a strong threat of competition and only a low price can ward off the potential entrants to the market.*
- 4. Where there is utilized capacity: it is because; the price policy that increases the demand has no meaning unless the firm is in a position to meet the demand created.*
- 5. Where market segments are not there so that high price may be accepted.*
- 6. When substitute product is available in the market.*

One important consideration in the choice between skimming and penetration price policies is fundamentally based on the ease and the speed with which the competitors can bring out substitute products. But penetration price policies are usually considered when substitute product is marketed. Low starting prices sacrifice short run profits for long run profits and therefore, discourage potential competitors.

#### **ADVANTAGES OF DEMAND BASED PRICING:**

- The pricing based on demand takes into account customer's price elasticity and preferences
- It penalizes inefficiency, optimizes product mix and facilitates new product pricing.
- It also obviates the difficulty of joint cost allocation.
- it increases firm's ability to optimize prices using diagrams that predict ideal prices.

#### **DISADVANTAGES OF DEMAND BASED PRICING:**

- The demand based price does not ensure competitive harmony.
- It is not safe from a company's standpoint.

**B. Cost-oriented pricing-**

A method of setting prices that takes into account the company's profit objectives and covers its costs of production is called Cost-oriented pricing. In this the marketer mainly takes production costs as the key factor for determining the initial price, but normally overlooks the target market's demand for that product. This pricing again is of three types-

- a. *Cost plus Pricing*
- b. *Markup Pricing*
- c. *Break-even Pricing*

**a. Cost plus Pricing-**

Cost plus pricing is a cost-based method for setting the prices of goods and services. This type of pricing is most common type of product pricing. In this approach the cost estimates of a product is made and margin of profit is added to determine the price. The formula for its calculation is-

$$\text{Selling Price} = \text{Unit total cost} + \text{Desired unit profit}$$

Cost plus pricing is advantageous as it tells firm what prices competitors are charging in the market, but it ignores replacement costs issue.

**b. Markup Pricing-**

Markup is the difference between the cost of a good or service and its selling price. This pricing policy is generally adopted by the resellers who obtain the product from producers or whole sellers use a percentage increase on the top of product cost to arrive at an initial price. Retailers apply a set percentage for each product category according to their marketing objectives. For example at the time of annual sale firms adopt mark-up pricing on their products. The advantage of mark-up pricing is that this method helps firms fight the inflation effects throughout periods of increasing cost. With this firms can pass on increased production costs to its customers and generate a profit. But when firms feature prices too high or extremely low then these miss opportunities in terms of profit.

**c. Break-even Pricing-**

Break even pricing is the practice of setting a price point at which a business will earn zero profits on a sale. The cost of production is composed of fixed cost of production and variable cost of production. Fixed cost arises on fixed factors of production, which do not change during short run. Variable cost of production arises on variable factors of

production, and increase with increased volume of production. Break even analysis uses market demand as a basis of price determination. The formula for its calculation is-

$$\text{BEP} = \text{Total Fixed Cost} / \text{Selling Price per unit} - \text{Variable cost per unit}$$

The equilibrium establishes at a point where total revenue is equal to total cost and the firm enters into 'Break-even'; a situation of 'no profit, no loss'.

This can be explained with the help of a numerical example also-

**If Fixed expenses in a production unit are Rs. 54,000, variable cost per unit is Rs. 15 and selling price per unit is Rs.20; find out BEP quantity. What should be the selling price if Break-even output is brought down to 6,000 units?**

Ans.  $\text{BEP} = \text{Total Fixed Cost} / \text{Selling Price per unit} - \text{Variable cost per unit}$   
OR .  $\text{BEP} = \text{Total Fixed Cost} / \text{Contribution per unit}$

(Contribution per unit = Selling Price per unit – Variable cost per unit)

$$\begin{aligned} &= 54,000 / 20 - 15 \\ &= 10,800 \text{ units} \end{aligned}$$

**What should be the selling price if Break-even output is brought down to 6,000 units?**

$$\text{BEP} = \text{Total Fixed Cost} / \text{Contribution per unit}$$

(Contribution per unit = Selling Price per unit – Variable cost per unit)

$$\begin{aligned} 6,000 &= 54,000 / \text{Contribution per unit} \\ \text{Contribution per unit} &= 54,000 / 6000 = 9 \end{aligned}$$

Contribution per unit = Selling Price per unit – Variable cost per unit

$$\begin{aligned} 9 &= \text{Selling Price per unit} - 15 \\ \text{Selling Price per unit} &= 24 \end{aligned}$$

Selling Price per unit = Rs. 24

### **C. Competition-oriented pricing or market driven pricing-**

Competitive pricing is setting the price of a product or service based on what other firms are charging. This type of pricing generally takes place in perfect competitive market situation. Here product is homogeneous and buyers and sellers are well informed about

market price and market conditions. The seller has no control on price and has to accept this customary or market driven price. He cannot increase price rather has to adjust his cost to this customary price by reducing the quantity of the product. For example, Airtel initially kept high prices for its mobile services, but by entry of Vodafone, Idea and reliance Jio the prices for various mobile services have been slashed. The advantage of competitive pricing is that it avoids price competition that can damage the company, but disadvantage is that this pricing method may only cover production costs, resulting in low profits to the firm.

**Some common methods of Competition-oriented pricing or market driven pricing are:**

**a) Going rate pricing**

Fixing the price as per the market trend is known as going rate pricing. This method practiced in such products which are easily available in the market and have no variants. The marketer does not analyze the market for its intensity of demand or the perceptions of the value of the products in the mind of buyers. It is not necessary that the price should be same as the competitor or the industry leader. It could be little higher or little lower than the price of industry leader. As the industry leader changes the price, the firm can increase or decrease the price accordingly. This is a popular method of pricing the product among the retailers. In such situation, it is very difficult to ascertain the customer reaction as the price change is for everyone throughout the industry. This is an easy method as there is no need to estimate the price elasticity, demand or various product costs. It is also felt that the adoption of the going rate pricing method prevents price wars among competitors. This method is practiced mainly in the case of homogeneous products, under conditions of pure competition and oligopoly. The firm selling an undifferentiated product in a purely competitive market actually has very little choice in setting its price. Those who adopt the going rate method of pricing argue that the rate prevailing is the collective wisdom of the industry.

**b) Sealed Bid pricing**

In all those business lines where the firms bid for jobs, competition based pricing is followed rather than its costs and demand. The firm fixes its prices on how the competitors price their products. It means that if the firm is to win a contract or a job, it should quote less than the competitors. With all this, the firm cannot set its price below a certain level. That is, it cannot price below the cost. On the other hand, a higher price above its costs may reduce the chances of winning the deal. The net effect of the two opposite pulls can be well described in terms of "expected profit" of a particular bid.

**These competitions based pricing methods are generally followed by the managers when:**

- a. They believe that strong competitors are better and able to select appropriate prices, so they "follow the leader."

- b. Retaliatory price changes are likely beyond given range, and price changes by competitors have a substantial effect on company sales.
- c. Costs, demand and other factors that affect sales and profit are stable enough to make it possible to rely on following general industry pricing trends

### c) Discriminatory Pricing

It implies that a firm sells the same product / service at two or more prices that do not reflect a proportional difference in costs. Price discrimination occurs in many forms:

- i) **Discrimination on the basis of customer segment** – the product / service is sold at different prices to different customer groups, e.g. Indian Railway charges lower fare for students.
- ii) **Discrimination on the basis of product form** – different version of the same product are sold at different places. Based on image differences, e.g. a company may sell two varieties of a bathing soap Rs.2 and Rs 50 respectively, through the difference in their cost of Rs 10 only.
- iii) **Locational discrimination** – the product is sold at different prices at two places even though the cost is the same at both the places, e.g. a cinema theatre charges different prices for seats close to the screen and higher for the seats located far off ie different for ground floor and balcony seats.
- iv) **Time discrimination** – Prices differ according to the season or time of the day. Public utilities like taxi charge higher rate at night. Similarly, 5 star hotels charge a lower price for their rooms during off-season
- v) **Image discrimination** – the same product is priced at different levels on the basis of difference in image, e.g. a perfume company may price its perfume @ 500 Rs each in an ordinary bottle and @ 1000Rs in a fancy bottle with a different name and image.

### D. Value- based pricing-

Value-based price is a pricing strategy which sets prices primarily, according to the perceived or estimated value of a product or service to customer rather than according to the cost of the product. In this type of pricing price of a product is determined on customers' perception of value rather than the seller's cost. Pricing begins with analysis of consumers' needs and value perceptions and then company sets its target price and designs the product. It is quite opposite to cost based pricing as higher value of product is perceived due to company's brand image or marketing at prestigious retail outlets. For example, the products sold at 'Fab-India' or 'Forest Essentials' cosmetics are considered as premium products by the customers and so are priced high.

A Value-based pricing strategy can be advantageous because it goes inside the mind of the intended consumer to predict what the consumer would be willing to pay for a product and so helps firm in setting price.

## Major Pricing Methods:

It is very difficult to ascertain precisely which pricing policy a firm practices because mostly, a firm uses a combination of different policies at once. It is also because not all the policies may be in explicit form.

The major pricing policies followed by business enterprises are discussed below:

1. Competitive Pricing
2. Penetration Pricing
3. One Price versus Variable Pricing
4. Market Skimming Pricing
5. Discrimination or Dual Pricing
6. Premium Pricing
7. Leader Pricing
8. Psychological Pricing
9. Price Lining
10. Resale Price Maintenance
11. Everyday low pricing
12. Team pricing

### 1. Competitive Pricing

In this, the management of a firm fixes the price at the competitive level in certain situations. This method is used when the market is highly competitive and the product is not differentiated significantly with respect to competing products. For example, when Coca-Cola introduced the 200ml beverage bottles for Rs. 8 only, rival Pepsi followed suit to tackle the competition.

### 2. Penetration Pricing

Under this pricing method, the company's objective is to *penetrate* the market; capture a large market share and develop popularity of the brand. For this purpose, prices are fixed below the competitive level. This method of pricing is usually found at the retail level of distribution, for products with a highly elastic demand. For example, the makers of **Nirma** detergent powder used penetration pricing to enter the market and raise its market share quickly at the cost of **Surf**.

### 3. One Price versus Variable Price Policy

In case of one-price policy, the seller charges the same price to similar types of customers who purchase similar quantities of the product under the same terms of sale. The price may vary according to the quantity of purchase. For example, a seller may charge Rs. 10 per unit if less than one dozen units are purchased, and at Rs. 9 per unit if more than one dozen units are purchased.

In case of variable-price policy, the seller sells similar quantities to similar buyers at different prices. For example, a seller may sell the same product at a lower price to old or

loyal customers. It usually happens for products such as refrigerators, automobiles, TVs etc.

#### **4. Market Skimming Pricing**

Under this pricing method, a seller may charge higher prices during the initial stages of the product life- that is, during the introduction of the new product in market. This is done to recover the initial investment on the product quickly and reap higher profits during the introduction stage, because of fear of competition at a later stage in the product-life-cycle, e.g. Apple's iPhone-7 is highly priced in the market.

#### **5. Discrimination or Dual Pricing**

Under this pricing method, a firm will charge different prices from different customers according to their ability to pay. This policy is popular with service-enterprises like legal and medical services, CAs, etc.

#### **6. Premium or Prestige Pricing**

A company that sells a premium product, ie a product of supreme quality and unique features and technology will employ premium distribution channels and promotional strategies. To justify these, the pricing of such a product is also premium. Premium pricing can give rich dividend when buyers are not price-conscious and are willing to pay a higher price for a better product, e.g. consumers are ready to pay high price for VanHuesen shirts in comparison of local brands.

#### **7. Leader Pricing**

Under this method of pricing, the prices of one or a few items may be cut temporarily to attract customers. Such products are called "loss leaders". Loss-leader products are mostly popular, highly advertised and purchased products. The rationale behind this method is that customers will come to the store to buy the advertised loss-leader product and then stay to buy other regular-priced products of the same company, leading to increased volume of sales.

#### **8. Psychological Pricing**

Under this pricing method, the prices of products are set in such a way that has a psychological influence on the buyers. Customary Pricing and Price Lining are examples of psychological pricing. *Odd Pricing* is also a form of psychological pricing, whereby prices are set at odd numbers such as Rs. 99, Rs. 149, Rs. 990 which makes the customers falsely believe that they're paying a lesser price.

#### **9. Price Lining**

This method is used extensively by retailers. In this, a retailer usually offers a good, better and best assortment of products at different price levels. For example, a retailer of readymade shirts may sell them at three prices: Rs. 90 for the economy choice, Rs. 150 for the medium quality and Rs. 500 for highest quality. Price lining simplifies pricing decisions in the future as retail prices are already set.

## **10. Resale Price Maintenance**

This type of pricing considers three parties, the manufacturer, the distributor of the manufacturer's products (who buys the products in bulk), and the consumer.

Under this policy, the manufacturer sets the price below which his/her manufactured product will not be sold to the distributors or consumers. He/she may enter into a formal agreement with the distributors of product to not sell below this fixed price in any situation. The basic purpose of this policy is to protect the interest of the manufacturer and create a positive brand-image in the market.

## **11. Everyday low pricing**

In this type of pricing sellers determine price of the product according to everyday demand and supply. This is followed generally in case of perishable goods. Here price differs even on the basis of early hours of market and late hour of market, for example in vegetable market prices of vegetables are different every day.

## **12. Team pricing**

In this type of pricing companies sell a package or set of goods or services for a lower price than they would charge if the customer buys all of them separately. This is also called product bundling. Common examples of such pricing may be option packages on new cars, value meals at restaurants and holiday trips.

## **EXERCISE QUESTIONS:**

1. Define Price and Pricing.
2. Discuss all the four elements of marketing mix.
3. "If prices are too high, the business is lost. If prices are too low, the firm may be lost." Comment on the statement.
4. Which aspects related to production a business should take into account, while setting price of a product?
5. How does price determine firm's Competitive Position and Market share?
6. How does pricing help in improving company's image?
7. How is pricing significant for a firm? Discuss.
8. Pricing is important for consumers in decision making. Explain how?
9. How does pricing maximizes social welfare in society?
10. "Generally price will be set relatively high by the firm if manufacturing is expensive, distribution and promotion are exclusive" Explain the statement.

11. What do you understand by external factors affecting price of a product?
12. What is meant by internal factors affecting price of a product?
13. Discuss the role of top management in price-determination.
14. Product Differentiation causes price variation in a firm's products. Explain the statement.
15. Discuss the coordination of all elements of marketing-mix in a firm.
16. How does the market demand for a product has a direct impact on its pricing?
17. 'Economic conditions and Government regulations play a vital role in determination of product price'; comment.
18. Differentiate Leader pricing and Psychological pricing.
19. What do you understand by Market skimming pricing?
20. Discuss the concept of penetration pricing with an example.
21. What do you understand by Value- based pricing?
22. Discuss Competition-oriented pricing with an example.
23. Explain Break-even Pricing.
24. What do you mean by cost based pricing?
25. Differentiate Cost plus Pricing and Markup Pricing.

**UNIT TITLE III: Place & Distribution**

<b>Unit Code</b>	<b>UNIT TITLE: Place &amp; Distribution</b>			
<b>Location:</b>	<b>Duration:</b> Marks: 12			
Class Room	<b>Learning Outcome</b>	<b>Knowledge Evaluation</b>	<b>Performance Evaluation</b>	<b>Teaching &amp; Training Method</b>
<b>Session 1: Meaning and Importance of Place</b>				
	<ul style="list-style-type: none"> <li>Meaning &amp; Importance of Place</li> </ul>	<ol style="list-style-type: none"> <li>Understanding the role of place as a part of marketing mix</li> <li>Detailed definition of place</li> <li>Participants of distribution system</li> <li>Functions performed by channels of distribution</li> </ol>	<ul style="list-style-type: none"> <li>The learner would be able to understand Nature and importance of distribution channel for Place</li> <li>The learner should be able to understand the role of Manufacturers, Intermediaries, Facilitating agencies, and Consumers</li> <li>The learner should be able to understand Functions performed by channels of distribution</li> </ul>	<p><b>Activity:</b> Acquaint students with the concept of Place and its acronyms. The need for a middlemen</p>

<b>Session 2: Types of Distribution</b>				
	Types of Distribution	<p>1. Describe: direct and indirect channels of distribution</p> <p>2. Understanding of Distribution Channel Intermediaries</p>	<ul style="list-style-type: none"> <li>1. Learner should understand types of distribution</li> <li>Learner should understand different intermediaries involved for place</li> </ul>	<p><b>Interactive Lecture:</b> Acquaint students with the direct and indirect channels of distribution</p> <p><b>Activity: 1.</b> Take 5 products of your choice and find out which type of channel were involved before it reaches your hand.</p>
<b>Session 3: Functions of Intermediaries</b>				
	<ul style="list-style-type: none"> <li>Functions of intermediates</li> </ul>	<p>1. Understand the functions of two main Intermediaries i.e wholesalers and retailers</p>	<p>1. . Identify the the functions performed by intermediaries</p>	<p>1. <b>Interactive Lecture:</b> Discussion of Functions of Intermediaries</p> <p><b>Activity:</b> Visit in a team of four-five students to different marketing organisations in your locality (retailers, wholesalers, distributor etc.).</p>

## **UNIT TITLE: Place and Distribution**

### **Unit 3**

#### ***Learning Objectives***

After reading this unit, students will be able to:

- Meaning and importance of Place
- Functions of Place
- Types of Distribution
- Functions of intermediates
- Factors affecting the choice of Channels Of Distribution

### **INTRODUCTION**

Two important elements of marketing mix, i.e. product and pricing have already been discussed in the previous chapters. However just producing a product and pricing does not ensure success of a product in the market. It is equally important that the product is made available at a place where the customer would like to buy it. The product should be available at the right time and at the right place. This is only possible if each firm concentrates and understands the importance of distribution of its products. The present unit discusses the meaning of place, importance of place, role and functions of a channel of distribution, and factors influencing the choice of a distribution.

#### **Session I: Meaning and Importance of Place**

Every marketing activity starts with the customer and ends with the customer. Every marketing activity is customer driven and a customer would only purchase a product only when it is available to him. Availability of product depends upon efficiently managed place. Place is the process of moving products from the producer to the intended user. Place in marketing mix refers to the channel, or the route, through which goods move from the source or factory to the final user.



Fig 3.1: Place in marketing mix

In marketing, place has many names. Place is also known as channel, distribution or intermediary. Place is the mechanism through which goods move from the manufacturer to the consumer. In case of services place is moving of services from service provider to consumer. Place could be the intermediaries, distributors, wholesalers and retailers. Let's go through few definitions of marketing gurus on place to have more clarity.

According to Philip Kotler, "Every producer seeks to link together the set of marketing intermediaries that best fulfil the firm's objective. This set of marketing intermediaries is called marketing channel."

According to William J. Stanton, "A distribution channel for a product is the route taken by the title to the goods as they move from the producer to the ultimate customer."

Definition by Kotler indicates that distribution channel is nothing but set of intermediaries. While Stanton indicates transfer of title of goods from producer to customers as another angle of place.

But is transfer of good possible without intermediaries? It is only possible if the company sells directly to customers either using direct selling option to customers or online selling. This issue will be touched upon in the chapter in types of channels of distribution.

Place or Channel of distribution is concerned with the movement of goods from the point of production to the point of consumption. The term 'Channel of Distribution' refers to the route taken by goods as they flow from the Manufacturer to the consumer. This flow of goods may mean its physical distribution and/or the transfer of title (ownership). Channels of distribution are mainly concerned with the transfer of title to a product which may be affected directly or

through a chain of intermediaries. It comprises of set of four participants of distribution system:

- (1) Manufacturers,
- (2) Intermediaries,
- (3) Facilitating agencies, and
- (4) Consumers

The starting point of distribution is the Manufacturer who produces the goods. The second participant being Intermediaries, they are in direct negotiation between buyer and seller. They identify the needs of the consumers and the manufacturers who produce various products. In the process, they perform various functions like buying, selling, assembling, standardisation and grading, packing and packaging, risk bearing. etc.

The third participant being the Facilitating agencies are the independent business organisations other than intermediaries. These agencies facilitate the smooth distribution of goods from producers, through intermediaries, to consumers. The major facilitating agencies are banking institutions, insurance companies, and transportation agencies and warehousing companies.

The fourth category of participants in the distribution system i.e., consumers, are the final destination for goods in the distribution system.

Let's take a case of consumer goods, the manufacturer might be a remote location and consumers are scattered geographically throughout India. The goods can only reach the consumers with the help of intermediaries in between the manufacturer and consumer; these intermediaries can be retailers, wholesalers, distributors, warehouses and even the Internet make up the 'place' aspect of the marketing mix. All of these move, stock and sell goods.

In other words, it is how your product is bought and where it is bought. This movement could be through a combination of intermediaries such as distributors, wholesalers and retailers. In addition, a newer method is the internet which itself is a marketplace now. The right place means greater chances of sales over a longer period of time. This translates into greater market share, more profits and better ability to track the changes in the marketplace in thinking, styles, fashion and needs. For Example you are a soap manufacturer in Haryana and your customers are scattered in all 29 states of India from Jammu and Kashmir to

Kanyakumari. It is not possible for manufacturer to sell directly to consumers without the intermediaries mentioned or place consideration.

### **Functions performed by channels of distribution**

Channels of distribution help in smooth flow of goods by creating possession, place and time utilities. The functions performed by the middlemen in distribution channels may be grouped into three categories as follows:

- 1) Transactional Functions
- 2) Logistical Functions
- 3) Facilitating Functions

1) **Transactional Functions:** the primary function of distribution channel is to bridge the gap between production and consumption for which various transactions performed for movement of the goods from one place to another are called transactional functions. **Buying, selling and risk bearing functions** come under this category. Buying takes place as producers sell the goods and intermediaries buy them. Later intermediaries sell the goods and consumers buy them. Because of this buying and selling by the channel participants, title to goods changes hands and goods flow from producer to consumer. There has to be willingness of buying and selling in the transactions involved, on the other hand there will be no transaction if there is no willingness for buying and selling, there would be no transaction. When goods are bought, it involves risk also. For instance, an intermediary bought goods from the producer with the intention of selling at a profit but Government announced a decision due to which price of product fell down which can lead to loss. All the participants in the distribution channel must assume such risk of loss.

2) **Logistical Functions:** The functions involved in the physical exchange of goods are called logistical function. The goods are produced by producer /manufacturer and assembled in different assembly lines. Assembling refers to the process of keeping the goods, purchased from different places, at a particular place. **Assembling of goods** is done only after they have been bought. Not only assembling but also **storage, grading, sorting and transportation** are essential for physical exchange of goods which forms logistical functions of physical distribution.

Grading and packing of goods facilitate handling and sale of goods promptly. Proper storage of goods prevents loss or damage as well as helps regular supply of goods to consumers whenever they want. Transportation makes goods available at places where buyers are located. In the channel of distribution all these functions are performed so that goods may reach the market place at proper time and may be conveniently sold to the ultimate consumers.

3) **Facilitating Functions:** These functions facilitate both the transaction as well as physical exchange of goods. These facilitating functions of the channel include **post-purchase service and maintenance, financing, market information** etc. Sellers provide necessary information to buyers in addition to after sales services and financial assistance in the form of Sale on credit. Similarly, traders are often guided by manufacturers to help them in selling goods, while the traders also inform manufacturers about the customers' opinions about the products.

Thus, a channel of distribution performs a variety of functions such as buying, selling, risk bearing, assembling, storage, grading, transportation, post-purchase service and maintenance, financing, market information, etc. But the relative importance of storage is more important for perishable goods and bulky material such as coal, petroleum products, iron, etc. In the case of automobiles, computers and mobiles etc after sales service is very important.

Some other important functions are **product promotion** which involves advertising and sales promotion activities organised by manufacturers. Middlemen are also involved in various activities like demonstration of product, display and contest etc. to increase the sale of products.

**Negotiation** takes place between manufacturers and customers before closing a deal. Negotiation in terms of quality of product, guarantee, after sale services and finally price takes place before the transfer of ownership is done.

### **KNOWLEDGE ASSESSMENT I**

**Fill in the blanks:**

Q1. The primary function of a distribution channel is to bridge the gap between \_\_\_\_\_ and \_\_\_\_\_.

Q2. Buying, selling and \_\_\_\_\_ is a part of transaction function.

Q3. A close study of the \_\_\_\_\_ is extremely essential. A sound marketing plan depends upon thorough market study.

Q4. A customer bought a product and has defect and post purchase service is desired by customer then \_\_\_\_\_ function of channel of distribution is performed.

Q5. Four participants of distribution system are manufacturers, intermediaries, facilitating agencies, and \_\_\_\_\_.

Q6. \_\_\_\_\_ is also known as channel, distribution or intermediary.

Q7. It is important that the product is made \_\_\_\_\_ at a place where the customer would like to buy it.

Q8. Middlemen are also involved in various activities like demonstration of product, display and contest which form a part of \_\_\_\_\_ function.

Q9. \_\_\_\_\_ refers to the process of keeping the goods, purchased from different places, at a particular place.

Q10. In \_\_\_\_\_, middlemen procure supplies of goods from a variety of sources, which is often not of same quality, nature and size and groups them in homogenous groups.

Ans: 1 production and consumption 2. Risk bearing 3. Market 4. Facilitating 5. Consumers

6. Place 7. Available 8. Product promotion 9. Assembling 10. Sorting

## Session II: Types of Distribution Channels

A manufacturer can choose from direct distribution channel to indirect distribution depending upon the kind of product or market they serve. The **two main types of distribution channels** are as follows:

I. Direct Channel

II. Indirect Channel

I. **Direct Channel (Zero level)**

The most simple and the shortest mode of distribution is direct channel. In this channel, the manufacturer directly provides the product to the consumer.



Figure 3.2: Zero Level

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In zero level there are no intermediaries involved, the manufacturer is selling directly to the customer. This is called the 'direct channel' or direct selling. In this the manufacturer or producer supplies the product to the customer through its own retail outlets and salesmen present there (e.g. Mc Donald, Patanjali stores). Another option is delivering directly to customer either by hand or by the option is using the medium of post office. Similarly, mail order selling, you obtain orders from your customers who respond by mail or telephone to your advertisements or to letters mailed directly to their houses.

#### **Examples of Direct Channel**

**Example 1:** Eureka Forbes, the company which markets vacuum cleaners and water purifying equipment. It believes that if the market is in the customer's house, the best way to get there is to knock at the door. The company has clearly demonstrated that door-to-door selling can be effective in Indian conditions. One benefit of this method is that the company has complete control over the product, its image at all stages and the user experience.

**Example 2 :** Maruti Udyog selling its cars through NEXA company owned showrooms is direct channel.

**Example 3:** Dell Computers was founded by a college freshman Michael Dell. By 1985, the company had developed its unique strategy of offering 'made to order'. Along with a superior supply chain and innovative manufacturing, unique distribution strategy adopted by the company acted as a differentiator. Identifying and capitalizing on an emerging market trend, Dell eliminated the middleman or retailers from their distribution channel. Dell became a strong direct seller, by using mail-order systems before the spread of the internet. After the internet became more mainstream, an online sales platform was also established. Early on in

the internet era, Dell began providing order status reports and technical support to their customers online. Through careful analysis of the target market, a study of available channel options and effective use of a novel idea, Dell computers managed to reach early success in its industry.

## II. Indirect Channel:

In this channel, a manufacturer doesn't sell directly to the consumer rather chooses various intermediaries to sell a product to the consumer that is why called indirect channel. When a manufacturer/producer employs one or more intermediary to move goods from point of production to point of consumption also called indirect marketing channel.

The company may sell to a wholesaler who further distributes to retailers (retail outlets). This may raise product costs since each intermediary will get their percentage of the profits. This channel may become necessary for large producers who sell through hundreds of small retailers.

**a. One level channel (Manufacturer-Retailer-Consumer):** In this only one intermediary is involved. Normally the manufacturer supply goods directly to retail which finally sell to the end consumer. In this case the producer ascertains the requirements of retailers at periodical intervals and goods are supplied accordingly. As and when required, the retailer may also procure goods from the producer's godown located in that region. For Example: Maruti Udyog selling it cars through company approved retailers like DD Motors is called indirect channel.



Figure 3.3: One Level Channel

**b. Two level channel (Manufacturer-Wholesaler-Retailer-Consumer):** When the manufacturer can use the services of the wholesaler as well as the retailer. This is the most

common adopted distribution network for consumer goods. In this case the manufacturer may supply his products in bulk to wholesalers. The retailer may buy periodically from the 'wholesaler and sell the same to the consumers located in his locality. As there are two middlemen (both wholesaler and retailer) in this channel, it is referred to as two level channels (2 level channel) and helps in covering a larger market.

For Example: Consumer goods like oils, cloths, sugar, pulses and soaps etc sold through nearby retail outlets also called mom and pop shops. Another example can be FMCG being sold through big retailers like BIG BAZAAR.



Figure 3.4: Two level channel

c. **Three level channel (Manufacturer-Agents-Wholesaler-Retailer-Consumer):** Another alternative channel of distribution consists of mercantile agents, wholesaler and retailer. In this case, the manufacturer deals with a mercantile agent. Then the wholesalers buy the goods from the agents and sell the same to retailers. In turn the retailer sells it to the ultimate consumers. This type of channel is referred to as three level channel as there are three types of middlemen involved in the distribution. This level is used particularly when the manufacturer carries a limited product line and has to cover a wide market where an agent in the major areas are appointed who further contact wholesalers and retailers.

We have understood that there are a number of channels of distribution prevalent. From the producer's point of view, more the number of middlemen used, lesser is the cost of distribution, distribution vary from one type of product to another.



Figure 3.5: Three level channel

### Distribution Channel Intermediaries

Marketing intermediaries are also known as middlemen or distribution intermediaries form an important part of the product distribution channel. The people and the organisations that assist in the flow of goods and services from manufacturer to consumer are known as marketing intermediaries. The four basic types of marketing intermediaries are agents, wholesalers, distributors and retailers.

**Middlemen:** Anybody acting as an intermediary between the manufacturer and consumer.

**Agents:** The agent as a marketing intermediary is an independent individual or company whose main function is to act as the primary selling arm of the producer and represent the producer to users. Agents take possession of products but do not actually own them. Agents usually make profits from commissions or fees paid for the services they provide to the producer and users.

**For Example:** travel agents, insurance agents and the organisers of party-based selling events of Tupperware.

**Wholesalers:** Wholesalers are independently owned firms that take title to the merchandise they handle. In other words, the wholesalers own the products they sell. Wholesalers purchase product in bulk and store it until they can resell it. Wholesalers generally sell the products they have purchased to other intermediary usually retailers, for a profit.

**Distributors:** Distributors are similar to wholesalers, but with one key difference. Wholesalers will carry a variety of competing products, for instance Pepsi and Coke products, whereas distributors only carry complementary product lines, either Pepsi or Coke products. Distributors usually maintain close relationships with their suppliers and customers. Distributors will take title to products and store them until they are sold.

**Retailers:** The retailer will sell the products it has purchased directly to the end user for a profit. A retailer takes title to, or purchases, products from other market intermediaries. Retailers can be independently owned and operated, like small “mom and pop” stores, or they can be part of a large chain, like Aditya Birla’s More Mega Stores.

## **KNOWLEDGE ASSESSMENT 2**

<b>State True or False for the following statements:</b>
--

1. A distribution channel can be defined as the activities and processes required to move a product from the producer to the consumer.
2. Distribution channel intermediaries are middlemen who play a crucial role in the distribution process.
3. These middlemen facilitate the distribution process through their money and transportation.
4. An agent actually gains ownership of the product and usually makes money from commissions and fees paid for their services.
5. Wholesalers are also independent entities who actually purchase goods from a producer in bulk and store them in warehouses then goods are resold in smaller amounts at a profit.
6. Wholesalers seldom sell directly to only end users.
7. A distributor carries products from a single brand or company.
8. A distributor has close relationship with the producer and consumer.
9. **Retailers** stock the goods and sell them to the ultimate end user at a profit.
10. Retailers perform set of activities that add value to the product.

**Ans: 1. T, 2. T, 3. F, 4. F, 5.T, 6.F, 7. T, 8. F, 9. T, 10. T**

**Activity:**

Take 5 products of your choice and find out which types of channel were involved before it reaches your hand. Does it use wholesaler or retailer? Is it possible to eliminate wholesaler?

**Session III: Functions of Intermediaries**

Manufacturer will not be able to reach to consumers without the intermediaries like wholesalers and retailers in between. This session focuses on functions performed by wholesalers and retailers.

**Wholesalers**

The term wholesaler applies to all merchant or traders who purchase and sell in large quantities. A wholesaler provides an important link between the manufacturer or producer and the retailer. It takes title to the goods he handles and assumes marketing risks in the process of distribution of goods. He purchases in bulk and sell in small lots to the retailer or industrial users and is generally away from the ultimate consumers.

### **Functions Of Wholesalers**

The wholesaler performs the following important marketing functions in the process of distribution of goods and service:

- **Buying And Selling:** The wholesaler make an estimate of demand for the goods, and then purchase and assembly different varieties of goods from different manufacturers spread throughout the country. They also undertake import of goods from different countries.
- **Storage:** Wholesaler keep the goods assembled by them in their warehouse to supply them to retailers whenever require .They help the manufacturers and retailers by making storage arrangement.
- **Transportation:** Wholesalers make transportation arrangement from the premises of manufacturers to their godowns and from their godowns to the retail stores. They often maintain their own fleet of vehicles for this purpose.
- **Grading And Packing:** Wholesalers grade the goods according to certain standards which they have purchased from different manufacturers. Some manufacturers also give brand names to graded products to convince the consumers or industrial users about the quality of the products they deal in. They also undertake the packaging of goods in convenient lots.
- **Financing:** Wholesalers provide financial accommodation to both the manufactures and the retailers. They generally purchase goods on cash basis from the manufactures and sometimes also give advance to the manufactures. Thus, the manufactures need not wait till product are sold .The wholesalers help the retailers by selling the goods on credit.
- **Risk-taking:** Wholesalers assumes a large number of risks in the process of distribution of goods. These risks may occur on account of charges in prices and demands, spoilage of goods, and bad debts. Thus, they undertake many marketing risks which would have been undertaken by the manufactures and retailers.

- **Promotion:** The wholesalers job's does not end with the selling of goods to the retailers. They also assist in the dispersal of goods by the retailers situated in various markets .They perform advertising and other sales promotion activities in order to promote the sale of their product.

## **Retailers**

According to Stanton, Retailing consists of the sale, and all activities directly related to the sale of goods or services to the ultimate consumer, for personal, non-business use. Retailing or retail trade involves all such activities which are related to direct sale of goods to the ultimate consumer. Retail trade is usually done by the retailers. A retailer may be defined as a dealer in goods and services who purchases from manufacturers and wholesaler and sells to the ultimate consumer.

### **Function of Retailers**

Retail stores or retailers have strategic importance as a channel of distribution. They perform the following function:

- **Collection of goods:** Retailers purchase and collect goods from large number of wholesales and manufactures to meet the needs of the ultimate consumers.
- **Time Utility:** Retailers keep a large number of products of different varieties in stock to sell them to the customers whenever they require. Thus, they create time in searching variety of products.
- **Transportation:** Retailers perform transportation function by carrying the goods from the wholesaler and handing them over to the ultimate consumers. Sometimes, they also provide free home delivery of products to the customers.
- **Financing:** Retailers sell the goods on credit to the consumers and thus they increase their short-term purchasing power. In this process, they undertake the risk of bad debts.
- **Customer Education:** Retailers educate the customers by informing them about the availability and diverse uses of new products along with their demonstration.
- **Spokesperson of Customers:** Retailers act as the spokesperson or agents of the customers. They communicate the needs or demands of their customers to the wholesalers and manufactures. Thus, they help the customers in getting the want-

satisfying products and help the manufacturers in producing the products which are desired by the customers.

### Difference between Wholesaler and Retailer

Wholesaler	Retailer
<ol style="list-style-type: none"> <li>1. Deals in <b>large quantities</b> and on a large scale</li> <li>2. Handles a small <b>number of items</b> and <b>varieties</b></li> <li>3. First outlet in the chain of distribution</li> <li>4. Sells to <b>retailers</b> and <b>industrial</b> users</li> <li>5. Receives goods from <b>manufacturers/producers</b></li> <li>6. <b>Location</b> of a wholesaler's shop is not very important</li> <li>7. <b>Window display</b> is not very important</li> <li>8. Sells at a <b>very low margin of profit</b> as turnover is very fast</li> <li>9. <b>Do not provide after-sale</b> service</li> </ol>	<ol style="list-style-type: none"> <li>1. Deals in <b>small quantities</b> and on small scale</li> <li>2. Handles a large <b>number of items</b> and <b>varieties</b></li> <li>3. Second outlet in the chain of distribution</li> <li>4. Sells to <b>consumers</b></li> <li>5. Receives goods from <b>wholesalers</b> and sometimes from the <b>manufacturers</b></li> <li>6. <b>Location</b> of retailers's shop near the residential areas is very important</li> <li>7. <b>Window display</b> is a must to attract customers</li> <li>8. Sells at a <b>higher margin</b> of profit as he has to spend on window display and pay higher rent for accommodation in a central place</li> <li>9. <b>Provide after-sale service</b></li> </ol>

### Knowledge Assessment 3

#### State True or False:

1. Retailers deals in large quantities and on a large scale.
2. Retailers handle a small number of items and varieties.
3. Retailer is first point of contact in the chain of distribution.
4. Distributor sells to retailers and industrial users.
5. Retailers receive goods from manufacturers/producers.
6. Location of a wholesaler's shop is not very important.
7. Window display is equally important for wholesalers and retailers.
8. Wholesalers sell at a very low margin of profit as turnover is very fast.
9. Retailers do not provide after-sale service while wholesalers do.
10. Big Bazaar and Spencers are big chain of retailers.

**Ans: 1. F, 2. T, 3. T, 4. T, 5. F, 6.t, 7.F, 8. T, 9. F, 10. T**

### Activity

2. Visit in a team of four-five students to different marketing organisations in your locality (retailers, wholesalers, distributor etc.). Find what marketing activities are undertaken by them. Do you find any difference in the activities in the organisations visited by you? What common activities are found in these organisations? Write a report.

## Session IV: Factors Affecting the Selection of the Channel of Distribution

Every producer, in order to pass on the product to the consumer, is required to select a channel for distribution. The selection of the suitable channel of distribution is one of the important factors of the distribution decisions. The following factors affect the selection of the channel of distribution:

### 1) Factors Pertaining to the Product

Keeping in view the nature, qualities and peculiarities of the product, could only the channel for distribution be properly made. The following factors concerning the product, affect the selection of the channel of distribution:

- **Price of the Product.** The products of a lower price have a long chain of distributors. As against it, the products having higher price have a smaller chain. Very often, the producer himself has to sell the products to the consumers directly.
- **Perishability.** The products which are of a perishable nature need lesser number of the intermediaries or agents for their sale. Under this very rule, most of the eatables (food items), and the bakery items are distributed only by the retail sellers.
- **Size and Weight.** The size and weight of the products too affect the selection of the middlemen. Generally, heavy industrial goods are distributed by the producers themselves to the industrial consumers.

- **Technical Nature.** Some products are of the nature that prior to their selling, the consumer is required to be given proper instructions with regard to its consumption. In such a case less of the middlemen are required to be used.
- **Goods Made to Order.** The products that are manufactured as per the orders of the customers could be sold directly and the standardized items could be sold off only by the middlemen.
- **After-Sales Service.** The products regarding which the after-sales service is to be provided could be sold off either personally or through the authorized agents.

## 2) Factors Pertaining to the Consumer or Market

The following are the main elements concerned with the consumer or the market:

- **Number of Customers.** If the number of customers is large, definitely the services of the middlemen will have to be sought for. As against it, the products whose customers are less in number are distributed by the manufacturer himself.
- **Expansion of the Consumers.** The span over which are the customers of any commodity spread over, also affects the selection of the channel of distribution. When the consumers are spread through a small or limited sphere, the product is distributed by the producer himself or his agent. As against it, the goods whose distributors are spread throughout the whole country, for such distributors, services of wholeseller and the retailer are sought.
- **Size of the Order.** When bulk supply orders are received from the consumers, the producer himself takes up the responsibility for the supply of these goods. If the orders are received piece-meal or in smaller quantities, for it the services of the wholeseller could be sought. In this way, the size of the order also influences the selection of the channel of the distribution.
- **Objective of Purchase.** If the product is being purchased for the industrial use; its direct sale is proper or justified. As against it, if the products are being purchased for the general consumption, the products reach the consumers after passing innumerable hands.
- **Need of the Credit Facilities.** If, for the sale of any product, it becomes necessary to grant credit to any customer, it shall be helpful for the producer that for its distribution,

the services of the wholeseller and retailer businessmen be sought. In this way, the need of the credit facilities too influences the selection of the channel of distribution.

### 3) **Factors Pertaining to the Middlemen**

The following are the main factors concerned with the middlemen:

- **Services Provided by Middlemen.** The selection of the middlemen be made keeping in view their services. If some product is quite new and there is the need of its publicity and promotion of sales, then instead of adopting the agency system, the work must be entrusted to the representatives.
- **Scope or Possibilities of Quantity of Sales.** The same channel should be selected by means of which there is the possibility of more sales.
- **Attitude of Agents towards the Producers' Policies.** The producers generally prefer to select such middlemen who go by their policies. Very often when the distribution and supply policies of the producers being disliked by the middlemen, the selection of middlemen becomes quite limited.
- **Cost of Channel of Distribution.** While selecting the channel of distribution, the cost of distribution and the services provided by the middlemen or agents too must be kept into consideration. The producers generally select the most economical channel.

### 4) **Factors Pertaining to the Producer or Company**

The following factors, concerning the producer, affect the selection of the channel of distribution:

- **Level of Production.** The manufacturers who are financially sound and are of a larger category, are able to appoint the sales representatives in a larger number and thug could distribute the commodities (products) in larger quantities. As against it, for the smaller manufacturers, it becomes necessary to procure the services of the wholesalers and the retail traders.
- **Financial Resources of the Company.** From the financial point of view, the stronger company needs less middlemen.

- **Managerial Competence and Experience.** If some producer lacks in the necessary managerial experience or proficiency, he will depend more upon the middlemen. The new manufacturers in the beginning remain more dependent upon the middlemen.

5) **Other Factors**

- **Distribution Channel of Competitors.** While determining the channel of distribution, the channels of distribution of the competitors too must be borne in mind.
- **Social Viewpoint.** What is the attitude of society towards the distribution, this fact too must be kept into consideration while selecting the middlemen.
- **Freedom of Altering.** While selecting the agents, this fact too must be kept into mind that in case of need, there must be the liberty of changing or replacing the agents (middlemen).

**KNOWLEDGE ASSESSMENT 4**

**Multiple Choice Questions:**

1. Functions of wholesalers are

- a) Buying and selling
- b) Storing and grading
- c) Packing and assembling
- d) All of the above

2. Retailing consists of the sale, and all activities directly related to the sale of goods or services to the ultimate consumer, for personal, \_\_\_\_\_ use.

- a) business
- b) non-business
- c) both
- d) none

1. Along with Producer based factors, few more factors that affect the selection of channel of distribution are:

- a) Product based
- b) Market based
- c) Middlemen based
- d) All of above

2. Which of the following is NOT considered a type of reseller?

- a) wholesaler
  - b) retailer
  - c) manufacturer
  - d) distributor
3. Which of the following is NOT included in product decisions?
- a) Styling
  - b) Brand name
  - c) Warehousing
  - d) Packaging
4. Which of the following takes place at retailer's end?
- a) Promotion
  - b) Placing
  - c) Pricing
  - d) Exchange
5. Factors pertaining to product that affect the channel of distribution are:
- a) Price, perishability, size and weight
  - b) Design, comfort, size
  - c) After sale services and technical nature
  - d) Both a and c
6. Which of the following 4Ps of marketing mix involves decisions regarding channels coverage, assortments, locations, inventories or transports?
- a) Product
  - b) Price
  - c) Place
  - d) Promotion
7. At least how many parties should be included in "Exchange"?
- a) Two
  - b) Three
  - c) Four
  - d) Five
8. 'Breaking the bulk' is function of
- a) Wholesaler

- b) Retailer
- c) both
- d) none

**Ans. 1. D, 2. B, 3. D, 4. C, 5. C, 6. D, 7. D 8. C, 9. A, 10. B**

### **SUMMARY:**

- **Place** is one of the four elements of the marketing mix, the other three being product, pricing and promotion. This marketing mix is also referred to as the four Ps of marketing; distribution is also called physical distribution or place.
- Place is the mechanism through which goods and/or services are moved from the manufacturer/ service provider to the user or consumer.
- **Channels of Distribution** are set of firms and individuals that take title, or assist in transferring title, to particular goods or services as it moves from the producers to the consumers. Channels of distribution smoothen the flow of goods by creating possession, place and time utilities. **Functions** performed by the middlemen in distribution channels may be grouped into three categories 1) Transactional Functions 2) Logistical Functions 3) Facilitating Functions which comprise of activities like I) Sorting, (II) Assembling, (III) Allocation, (IV) Assorting, (V) Product promotion, (VI) negotiation and, (VII) risk taking.
- **Types of channels** (I) Direct distribution channels are those where in the goods are made directly available by the manufacturers to customers, without involving any intermediary, include (II) Indirect Distribution channels include Wholesaler-Retailer-Consumer (Two level channel) (III) Manufacturer-agent-Retailer-Consumer(Three level channel)
- **Physical Distribution Covers** all the activities required to physically move goods from manufacturers to the customers. The main component of physical distribution are.i) Order Processing,ii) Transportation,iii)Warehousing and iv) Inventory Control: v) Just-in-Time-Inventory.

- Factors determining choice of channels include i.) Product Related factors, ii) Company characteristics, iii) competitive factor, iv) Market factor, and v) Environmental Factor
- The distribution channel is also responsible for promoting the product. Awareness regarding products and other offers should be created among the consumers. Creating contacts or prospective buyers and maintaining liaison with existing ones. Understanding the customer's needs and adjusting the offer accordingly.
- **Retailers** operate outlets that trade directly with household customers for personal and non business use.
- **Wholesalers** stock a range of products from several producers. The role of the wholesaler is to sell onto retailers. Wholesalers usually specialise in particular products – for example food products.
- **Distributors and dealers** Distributors or dealers have a similar role to wholesalers – that of taking products from producers and selling them on. However, they often sell onto the end customer rather than a retailer. They also usually have a much narrower product range. Distributors and dealers are often involved in providing after-sales service.

### Knowledge Assessment 5

1. State the meaning of Place and its importance as a part of marketing mix.
2. What is channel of distribution? What are functions performed by different intermediaries in channel of distribution?
3. Explain the factors determining choice of channels of distribution?
4. Explain the major activities involved in the physical distribution of products?
5. Differentiate between wholesaler and retailer.
6. Coca Cola the leading soft drink maker of the world wants and makes attempt to put a bottle of Coke within the arms reach of every consumer. a) How will Coca-Cola reach every consumer? b) Will attempt of manufacturer to maximise the accessibility of his product to as many consumers as possible? c) Which type of channel of distribution will Coca –Cola follow to maximise its accessibility?



## Unit IV Promotion Decision

<b>SESSION I: CONCEPT AND IMPORTANCE OF PROMOTION</b>			
<b>Learning outcome</b>	<b>Knowledge evaluation</b>	<b>Performance evaluation</b>	<b>Teaching &amp; training method</b>
1. Concept of promotion	1. Describe the concept of promotion	1. Identify the concept of promotion	Interactive lecture: Discussing the concept and use of promotion.
2. Importance of Promotion	2. What is the importance of Promotion?	2. Specify the importance of Promotion.	Interactive lecture: Discussing the importance of Promotion.
<b>Session II: Elements of Promotional Mix</b>			
1. Elements of Promotional Mix	1. Describe the elements of Promotional Mix.	1. Identify the elements of Promotional Mix.	Interactive lecture: Discussing the elements of Promotional Mix.
<b>Session III: Factors affecting the selection of Promotional Mix</b>			
	1. Explain the factors	1. List out the factors in the selection of Promotional Mix	Interactive lecture: Discussing the selection factors of Promotional

			Mix.
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## Session I :Meaning & Importance

### Introduction

Everything communicates and life is not possible without communication. Communication can be of three types, the first one being internal, generated internally and meant only for internal publics. Second, between the members of a company and those outside the company; and third, communication between internal and external public In this chapter we shall be discussing only the external communication between the company and the various stakeholders.

### Meaning of Promotion

Promotion focuses on communicating with the target market. Promotion, thus, *informs*, *persuades* and *reminds* the target group of the availability of the product, the place where it is available, and the price of the product. Thus it includes the Integrated Marketing Communication, the Process of Communication, and the promotion mix or the tools to promote product, service or idea. Promotion is a fact of life and is essential for every business.

### Importance of Promotion

Promotion element of marketing mix performs the following functions:

- 1. Information:** It informs (awareness and education) customers about the launch of new product/service/idea and the place of availability.
- 2. Persuasion:** The promotion is to persuade the customers to use one particular brand in this brands-cluttered world.
- 3. Remind:** Promotion has to continuously remind the customers of the brand and enforce customer loyalty, It is true not only during normal times, but even when the product is in

shortage, so that customers do not forget your brand. During the World War II Bourn Vita was in short supply, yet the company continued to advertise for this very purpose.

4. **Relationship:** Promotion is meant to create relationships through constant promotion and involvement of customers with the marketer so as to create a lifetime relationship with them.
5. **Adds value:** Promotion creates value by influencing consumers' perceptions.
6. **Assists other company efforts:** Promotion accomplishes goals, assists sales representatives, and enhances the results of other marketing communications.

### **Role of Communication in Promotion**

Marketing requires effective communication and it is an important aspect of the promotion function. It is essential to have a good product, but all this is futile if we cannot inform about the availability of the product or create an awareness of the product to the consumer and it is only possible through communication. Hence marketing communication plays a vital role. It has been observed that some of the products have been quite successful because use of effective marketing communication tools while some products have been unsuccessful on account of ineffective marketing communication. It is also an vital component of the promotion function.

#### **Assessment I**

1. Promotion, thus, ----- the target group of the availability of the product, the place where it is available, and the price of the product.
  - a. informs, persuades and reminds
2. It -----about product/service/idea and the place of availability.
  - a. Informs
3. The promotion is to -----the customers to use one particular brand in this brands-cluttered world
  - a. persuade
4. Promotion has to continuously-----the customers of the brand and enforce

customer loyalty,

a. Remind

5. Promotion is meant to create----- through constant promotion and involvement of customers with the marketer so as to create a lifetime relationship with them.

a. relationship

6. Promotion creates----- by influencing consumers' perceptions.

a. Value

7. Promotion-----, assists sales representatives, and enhances the results of other marketing communications.

a. accomplishes goals

## Session II: Elements of Promotional Mix

### Elements of Promotion Mix

Promotion can be of two types – Above-the-Line (ATL) and Below-the-Line (BTL). ATL communications use the broadcast medium and print media to reach the mass audience while BTL activities are targeted to a selective audience which might be present in a store or in a fair. There has been a gradual shift to below-the-line activities, firstly because above-the-line (ATL) activities are prohibitively expensive. A full television campaign alone costs anywhere between Rs. 10 crore and Rs.12 crore and a 360 degree campaign entails an average investment of anywhere between Rs.20 crore and Rs.25 crore for a single product launch. Also BTL activities ensure greater interface with the consumer providing them instant feedback. Another reason is that markets are moving rural, which requires increase in consumer interface. Brand 'Dhara', from the Mother Dairy stable, with its thrust on tier-II towns, has been spending considerable amount on wall paintings, '*mela*' participation and out-of-home advertising. "Almost 75 per cent of our marketing expenditure is spent on below-the-line and out-of-home advertising to gain visibility at the ground level in rural areas, which is where we are predominantly present," says Dinesh Agrawal, Chief Operating Officer, Dhara\Out-of-home (OOH), which is comparatively

an inexpensive mode, stands to gain in times of slowdown. According to a FICCI-KPMG report, the OOH sector is projected to grow at 10 per cent over the next five years and touch Rs 28.59 billion by 2016.

Most of the writers on marketing have identified four elements of promotion mix, viz., Advertising, Sales promotion, Public Relations and Personal selling. However, Kotler et al. have identified eight elements of promotion mix – Advertising, Sales Promotion, Events and Experiences, Public Relations and Publicity, Direct Marketing, Interactive Marketing (online), Word-of-Mouth Marketing and Personal selling. All the eight elements can be included into the following five elements:

- Advertising and Word-of –Mouth Communication
- Sales Promotion
- Direct marketing and online Marketing
- Personal Selling
- Public Relations and Sponsorship

Thus, we have included five elements in Promotion Mix. This division of communication tools within promotion mix helps in different ways. First, it gives an approximate definition of what each tool is able to contribute to the mix and helps company to determine as to which one will be most useful in achieving particular objective. An industrial company may target mostly on direct marketing. A firm needing short-term sale may have focus on sales promotion. A firm launching a new product may go for publicity. Second, it helps companies to work out the balance between various tools. Combining all the elements of promotion mix is known as integrated marketing communication.

### **Advertising and Word-of –Mouth Communication**

American Marketing Association has given the following concept of advertising -“any paid form of non-personal presentation and promotion of ideas, goods, or services by an identified sponsor.”

This concept has four elements: **Payment, non-personal, Identifiable source, and Ideas, products and services.** Two important aspects missing in it are the persuasiveness and the media. Some British writers feel advertising as *communication with a purpose.*

“Word of mouth communication has always been popular in penetrating markets. Opinion leaders or influencers are now becoming important element in marketing strategies of new product developers as well as existing products. Recently, Marico, an FMCG marketing company, has decided to make use of barbers to promote Parachute After-Shower cream. The barber becomes the inflection point to influence the men who go for regular haircuts and shave. It’s here that men discuss their hair-related problems the barber can act as an influencer for promoting the product.

Presently, there is a whole lot of communication between a potential customer and the other existing customers. Today, the truth about the product is discussed by people who have experienced it themselves. Lenovo says that they tend to rely on word-of-mouth in India. Thus, opinion leaders in local communities have to be nurtured to win that confidence. Majority of the sources used by consumers in India relate to advocacy or the reviews of others.

In India, 90% people are most likely to seek post-purchase confirmation. According to Baba Shiv, a professor of marketing at Stanford Graduate Business School, two things happen when consumers feel good about their purchase decisions. First they derive more utility from the product and second, their excitement makes their decision contiguous.

According to Jonah Berger, only 7% of word of mouth is online. While platforms like Facebook, Twitter, and LinkedIn have certainly popularised the idea of viral, it is important to remember that most communication is offline.

## **Sales Promotion**

UK Institute of Sales Promotion has defined sales promotion as -

*“Any activity which aids value to a product or service for a limited time period by offering an incentive to purchase”*

Thus sales promotion is about 'extra benefit' offers or value addition to make an immediate purchase. It is different from advertising, personal selling, and public relations. However, to inform of sales promotion help of advertising is often taken to inform of the schemes. Over the years, sales promotion is getting preference over advertising for different reasons – consumers find more value, dealers and distributors find them helpful in boosting sales, manufacturers can shift brand loyalty.

McDonald and Wilson define sales promotion as “non-face-to-face activity concerned with the promotion of sales. It involves the making of a featured offer to defined customers within a specific time limit.”

## **Direct marketing and online Marketing**

Whenever direct marketing comes to the mind, most people think of medium of direct mail. Other people think of direct marketing as a method of selling and yet others confuse it with a channel of distribution. Many people do not agree that direct marketing may be called 'Direct Marketing'. That is why other names, such as 'curriculum marketing', 'dialogue marketing', 'personal marketing', 'relationship marketing', and 'database marketing' have been in currency. *Direct marketing refers to 'any advertising activity which creates and exploits a direct relationship between the marketer and its prospects or customer as an individual.* In nutshell, direct marketing is “a custom tailored marketing approach in which the company's objective is to build lasting relationships with carefully targeted individual consumers or buyers in narrowly defined segments and –using detailed customer information from a computerised database and direct communication tools such as direct mail, the telephone and Internet – to generate an immediate, measurable response in the form of an order, a request for further information, or a visit to a store, website or other place of business for the purchase of a product or service.”

Electronic commerce or e-commerce involves a wide range of online business activities for exchanging products and services. It also relates to “*any form of business transaction in which the parties interact electronically rather than by physical exchanges or direct physical contact.*” Simply speaking online Marketing is the use of electronic communications and digital

information processing technology in business transactions to create, transform, and redefine relationships for value creation between or among organizations, and between organisations and individuals.

## **Personal Selling**

*Personal selling is an important element of promotion mix, a part of 4Ps. Personal selling is a paid, two-way communication and to persuade customers through information to buy products in an exchange situation.* Direct selling through telemarketing (over the telephone), relies heavily on personal selling.

## **Public Relations and Sponsorship**

Edward Louis Bernays, who is considered the founding father of modern public relations, along with Ivy Lee in the early 1900s defined public relations as a “management function which tabulates public attitudes, defines the policies, procedures and interests of an organization followed by executing a program of action to earn public understanding and acceptance.” Public relations concerns with creating mutual understanding between the marketer and its target groups. Creating a good public image among all the stakeholders is essential. *Public Relations is a broad set of guidelines which makes use of advertising, annual reports, brochures, event sponsorships, and undertaking social projects like helping poor and environment to build or maintain a favourable image with its various publics.* Thus, PR is a generic term for a range of specialist and sophisticated skills involved in communication with publics through, primarily, broadcast, published media.

Sponsorship like other marketing activities is more than a century old. It entered the Oxford Dictionary around 1930. To sponsor something is to support financially or in-kind an event, activity, person, or organisation financially or through the provision of products or services to

reach specified business goals for commercial advantage. A sponsor is the individual or group that provides the support.

## **Assessment II**

Promotion can be of – -----

- a. Above-the-Line (ATL) and Below-the-Line (BTL).
2. Promotional elements can be divided-----
- a. Advertising and Word-of –Mouth Communication and Sales Promotion
  - b. Direct marketing and online Marketing and Personal Selling
  - c. Public Relations and Sponsorship
  - d. all of the above
3. This concept of advertising has elements-----
- a. Payment
  - b. Non-personal
  - c. Ideas, products and services.
  - d. Above

## **Modes of Advertising**

There can be different modes of advertising

**1. Print Media:** It consists of national newspapers, english dailies, vernacular papers, consumer magazines, trade journals, technical journals, professional journals, directories and yearbooks.

### **Advantages of Newspaper Advertising**

1. In-depth coverage
2. Mobility
3. Results assessable (coupons)
4. Improved printing due to availability of better technology
5. Cheapest in per capita viewing
6. Flexibility of immediate insertion

### **Limitations of Newspapers**

1. Short shelf life, newspapers are read only once
2. Poor print limits creativity
3. Advertisement space may be expensive and Passive medium
4. No audio-Video element
5. Literate people can only understand the advertisement.
6. Every advertisement has to compete against the clutter of other advertisers

### **Advantages of Magazine Advertising**

1. Permits easy reach to select markets
2. High reader involvement means that more attention will be paid to the advertisement
3. Magazines have a more shelf life

### **Limitations of Magazine Advertising**

1. Long lead time
2. There is limited flexibility in terms of an ad placement and format
3. Space and advertisement layout costs are higher

### **Advantages of Yellow Page Advertising**

1. Number is many and widely distributed
2. Non-intrusive
3. Advertisements are reasonably inexpensive

### **Limitations of Yellow Page Advertising**

1. The Internet has led to less usage of Yellow Pages
2. Pages look cluttered as same category ads appear on the same page
3. Advertisements slow to reflect market changes

## **2.Radio**

Radio is everywhere and it cannot be ignored. Currently there are 248 FM channels.It reaches 350 million people in 91 cities.

### **Advantages of Radio Advertising**

1. Radio is selective and has the ability to reach segmented audiences.
2. Radio is economical due to large penetration and rates
3. Radio is fast due to short lead times

### **Limitations of Radio Advertising**

1. Increase in Clutter
2. No visuals
3. Lack of proper attention as listeners give attention to other aspects

### **3. Television Advertising**

Nowadays everything is advertised on TV.

#### **Advantages of TV advertising**

1. Product can be shown in use
2. Ability to use humor is increased.
3. Appeals the retailers
4. Realism (because of color, sound and action)

#### **Limitations of TV Advertising**

1. Rapidly escalating advertisement cost
2. Zapping with remote control
3. Non-availability of timing

### **4. Mobiles & Telephones (Telemarketing)**

It is more RPI driven. Today it constitutes 15-20% of media plan today.

#### **Advantages of Telemarketing**

1. Cost efficient in delivery
2. Less intrusive than the phone calls
3. Place & time independent
4. Direct response

#### **Limitations of telemarketing**

1. An increased number of people are averse to telemarketing
2. More people are using technology to screen out unwanted callers
3. If outsourced, there is less control in the process

### **5. Cinema Advertising**

Movie halls and multiplexes use it for revenue generation.

#### **Advantages of Cinema Advertising**

1. Captive audience
2. Longer video
3. Larger screen

## **Limitations of Cinema Advertising**

1. Only selective audiences who visit the hall witness the advertisement.
2. High distractions
3. High costs

## **6. Out-of-Home Advertising**

When people think of out-of-home advertising they usually think of colorful billboards along the streets and highways. Included in the out-of-home classification, however, are benches, posters, signs and transit advertising (advertising on buses, subways, metros, taxicabs and trains).

### **Advantages of out-of-home advertising**

1. Reach to audience
2. Size and dominance
3. Different colours can be used
4. Mass viewing

### **Limitations of out-of-Home Advertising**

1. It draws 2-3 seconds of a reader's time, hence it is a glance medium
2. Messages must be brief to fit in 2-3 seconds time frame
3. It is not conducive to a very short, weeklong camp

## **7. Other Modes**

Other modes include cable advertising, Direct Mail advertising, specialty advertising (key chains, calendars, computer mouse, mugs etc), pay per click advertising, social media advertising. Banner advertising, advergaming etc..

## **Role/ Importance/objective of Sales Promotion**

UK Institute of Sales Promotion has defined sales promotion as "Any activity which adds value to a product or service for a limited time period by offering an incentive to purchase."

### **Objective of Sales Promotion**

1. **Increased trial:** Existing customers will increase the sales volume as they will buy in bulk.
2. **Increasing Loyalty:** Loyalty keeps customers buying even when it is no more the cheapest and the best.
3. **Widening Usage:** Here the marketer has to tell the users of other uses.

4. **Creating Interest:** Value promotions that create interest are characterized by humor, inventiveness, typically and style through - being the first to offer a new product as a promotional medium, linking up with a new celebrity or relevant charity or finding a totally new way to do something that people enjoy doing.
5. **Creating awareness:** Though this job is left to advertising, but there are number of sales promotions very effective at making people aware of products through joint promotions with other product or service which is already well known in the market.
6. **Deflecting Attention from Price:** It may lead to price wars which have a destructive effect on firm's profitability
7. **Gaining Intermediary Support:** Specific programmes directed at wholesalers, retailers, agents, distributors to gain distribution, display and cooperative advertising, introducing new customers, sales promotion is a must.
8. **Discriminating among users:** Usage varies from time to time. In case of airlines, train companies, and leisure facilities, customers are motivated by price. They book early and on-line. Particular groups are given additional benefits.
9. **Restoring Brand Perceptions and deflecting attention from Complaints after operational Mishandling of customer accounts:** The companies offer special sales promotion benefits to those who complain.

## Types of sales promotion

Many promotional tools/Techniques/Tactics are in use, these are:

1. **Price Promotions:** Indian print and electronic media are often full of such advertisements and these promotions include - Up to 51% off. i.e., cutting down price through discounts. In India this is very popular especially at the end of season.

- **Extra Fill Packs** - 20% extra free, i.e., extra fill without any additional charge.
- **Free Offers** - Buy two pieces and one piece is free, i.e., extra unit free.
- **Reduced Shelf Price** - The most common form of price promotion is reduced Shelf Price.
- **Reduced Price Offers( RPOs)** - RPO are flashed on-pack, offering a saving (Rs 10) or a price slashed through and a lower price given.
- **Cash Rebates** -The customer is invited to collect tokens from a number of packs and send them to receive cash voucher.

- **Cash Share-Out** - A sum of fixed money is divided among all those returning the requisite number of proofs of buying the product or service.
- **Discounts** -On single unit of higher value purchase sales through discount coupons is made.
- **Repurchase Offers**-Manufacturers of consumer durables, like cars, fridges, stereos are offered a commitment by them to buy back at a specified in the future.
- **Frequent-user incentive** -Most of the airlines offer this facility to their fliers. Economy class fliers can use free miles to upgrade their tickets.
- **Coupons** -Issue of coupons is very popular way of sales promotion.
- **Sale** -A sign on store item 'sale' can increase sales by 50%, even if the price is unchanged
- **Finance Deals** -Many manufacturers, especially, the consumer durables, give either interest free facility or finance at low rates to buy the product.

**2. Prize Promotions:** Prize Promotions include free prize draws,sweepstakes, and competitions.

- **Free Prize Draws (and lotteries):** It involves putting the names of all the entrants in a computer and deciding winners by chance.
- **Sweepstakes/Games:** “A sweepstake is a contest where the distribution of prizes is dependent on random distribution of predetermined winning tickets.” The participants exercise no control.
- **Competitions:**A competition is a contest where the winner is determined on the basis of exercise of skill.

**3. Premium Promotions:**In this kind of sales promotion, the benefit comes with an item of merchandise. It may be On-packet Offers, with Purchase Premiums, Free Mail-Ins, Partner Promotionsand Tailor-Made offers.

**4. Off-the Shelf Offers:**The leading off-the-shelf offers can be:

- **Free Accommodation** - Particularly for hotel industry, the offer now extends to be “two nights for price of one.
- **Holiday Vouchers** - Some companies give cash discount, travellercheques, duty-free shopping voucher, etc.

- **Discount coupons:** In India firms like include Snapdeal.com, Sodexo,etc provide discount coupons which can be redeemable. Snapdeal.com provides discount vouchers for health and beauty, entertainment and adventures, mobiles, apparel, lifestyle, electronics and travel categories.
- **Two-for One Flights:**Especially budget airlines offer this facility.
- **Insurance Offers** - Mostly the car manufacturers provide free insurance for the first year as part of sales promotion during slack season.

**5. Hybrid Sales Promotion:** Today many companies of different countries try to improve their image through Trade Fairs.

### **Difference between Advertising and Sales Promotion**

Advertising is different from sales promotion as it is clear from the following points.

- The advertising is derived from the Latin word ‘advertere’ (turn towards), whereas Promotion has its roots in Latin word ‘pomovere’ (move forward).
- Advertising is aimed at long-term building of positive brand attitude, whereas promotion is aimed at more shot-term tactical goal of ‘moving forward’ sales now.
- Advertising deals indirectly with potential action by providing information or creating feelings that turn them towards the product/service. The promotion does not require an incentive. What is required is the primary communication objective is band purchase intention.
- The pursuits of advertising are of long term, whereas sales promotion offers short term pursuits.
- Advertising is costly, but sales promotion is cheaper as compared to advertising.
- Advertising is suitable for medium to large firms, whereas sales promotion is suitable for large firms.
- Advertising has twin purposes of increasing sales and build brands, whereas sales promotion has an extra objective of providing knowledge.
- Sales Promotion is direct effect on sales, whereas advertising assumes that sales will increase.
- Advertising is done through newsprint, TV, Radio, Outdoor publicity,etc., however sales promotion is done through discount coupons, free stuff, tasting, contests, events, meets, etc.

- Result of advertising are slower and of sales promotion are faster.
- A TV ad of Intex cell phone listing all its features. HUL giving free tubes of Close Up toothpaste is an example of sales promotion.

## **Difference between Personal Selling and Sales Promotion**

The following factors differentiate personal selling and sales promotion. Though both of them are part of a marketing communication the purpose they serve and the process adopted reflect the different dimension of each. But, both are effective tools for integrated marketing communications.

Objective of personal selling is to create awareness and build a long term relationship which will lead to closing the sale, whereas the objective of sales promotion is to increase the sales and dispose of stocks in a short span of time.

Personal Selling is face-to-face interaction performed by individuals to give information on products and create mutual long-term relationships. Whereas, Sales Promotion has no interaction and provides incentives to encourage purchase and to disseminate information.

Personal selling involves negotiations and incentive is not mandatory whereas sales promotion would have incentive definitely to lure customers.

Personal selling is used for products having the characteristics of high value, or technically complex, or custom made. Whereas, Sales promotion is used for products having low value or easy to understand usage.

Personal selling involves use in markets with less potential customers or customers with high purchasing power. Whereas, Sales promotion involves use in markets where a larger number of customers exists and the product is of low value comparatively.

Personal selling is expensive as it needs sales force training, dedicated persons, repeated visits and transportation whereas sales promotion is bit less expensive to run compared to personal selling.

### **Factors affecting the selection of Promotion Mix**

There is no perfect promotion mix. Everyone has to devise a mix depending upon the situation. It has to be tailor-made depending upon the characteristics of the situation.

- 1. Push and Pull Strategies:** The purpose of promotion is to motivate and persuade not only the ultimate consumers, but also the intermediaries involved who make available goods finally to consumers.

If the strategy adopted is to motivate and persuade the intermediaries' to make effort to increase the sales the strategy is called *push strategy*. The push strategy is closely related to the "Selling Concept". It emphasizes more of personal selling (hard selling) along with advertising and other trade promotional measures. The manufacturer promotes goods to wholesalers, wholesalers in turn promote to the retailers and retailers persuading the consumers to buy.

On the other hand, the pull Strategy emphasizes on consumers. If the customer demands particular goods from the retailer and the retailers want the same from the wholesalers and the wholesalers in turn asking the manufacturers to provide that kind of goods. Thus here it is the customer to wholesaler who is pulling the cord. The advertising by the manufacturer may persuade the consumer to ask for the goods to their retailers. Retailers in turn will ask the wholesalers and the wholesalers to manufacturer. The pull strategy works well during recession. The marketing manager will have to decide whether to use push or pull strategy.

Customer-targeted marketing communications are pull type communications. The objectives of pull marketing communication are to build awareness, attraction, and loyalty and to reduce search costs. When pull communications are successful, customers will seek out certain products or services and, in essence, by the interest they create, pull the product through the channel.

On the other hand, push communications are directed at channel intermediaries. The objective is to motivate channel intermediaries to carry certain products to make available

to customers. If successful, push communication strategies result into a wider range of availability, fewer stock-outs, greater merchandising (shelf space), and a greater marketing effort than would have been achieved with little or no push communication. However, to be more successful, a combination of the two is required.

- 2. Product Features:** Use of a particular tool of promotion mix depends upon the type of goods to be marketed. For industrial products more of personal selling is required. For consumer products like HUL's Axe, more of advertising is required. For highly image-oriented products like fashion garment the presence of designers or celebrities inside the store is required. For goods where not much difference is there in features and performance more of sales promotion is required. Where the organisation is equally important, the public relations become more important. For seasonal products, off-season sale is very important, but advertising is required for round the year sale. This is why the retailers of full sleeve shirts and sweaters and suits organize sale in the month of January. For high-priced products, personal selling is important to mitigate risk. For low convenience goods marketers use advertising rather than personal selling. For products, where customers do not want to talk with the salesperson like Viagra, condom, hair colour (by a senior citizen) the advertising has to be more important.
- 3. Stage of the Product Life Cycle:** In different phases of a product life cycle different tools of promotion mix become more effective. In the introductory stage to create awareness among the customers including business customers and distributors advertising has to be undertaken in a big way. Free samples may be distributed to consumers and trade promotion may be undertaken to motivate distributors to stock the goods. In the growth stage, the consumers have already heard of the product. Promotion has to be directed at specifying product benefits. Advertising increases whereas sales promotion declines. During the maturity stage, the emphasis will be on switching of customers from competitors and hence more of sales promotion is used. In the decline stage the firm will be more interested in harvesting revenue as much as possible. There will be great decrease in expenditure on promotion.
- 4. Buyer Readiness:** If the customer is unaware of a product, advertising and public relations are more important, but when he is in the marketplace sales promotion and personal selling are more important to make a decision.

5. **Type of Buyer:** Buyers can be of different types and promotion mix has to be devised accordingly. In case of Organizational or business buyers, ads published in specialized trade publications and personal selling are more important; whereas, consumers are swayed by glossy advertisements endorsed by some celebrities.
6. **Type of Distribution:** For intensive distributable goods, more advertising is done and also the help of sales promotion is taken. For goods sold through selective distribution, the promotion mix would vary, and for exclusive distribution like Rado Watch, high-quality furniture, need more of personal selling.
7. **Promotion Objectives, Budget, Cost and Availability of Media:** Firm's promotional objectives are reflections of overall marketing objectives. If the objective is to make mass awareness, the firm may go in for advertising, sales promotion and public relation. Most of the food companies, like Nestle, HUL, PepsiCo not only go in for aggressive ad campaigning, but also distribute free samples and go in for public relations. If the objective is to invite the customer to the store where demonstration can be shown, then a combination of small advertising (to inform), sales promotion (to attract) and personal selling (to persuade) is undertaken.

Apart from objectives the promotion mix would be determined on the basis of budget made available to marketing department. If it is small the firm would concentrate on personal selling. If it is larger, then the firm can advertise through regional and national media like that of HUL in India.

Cost of promotional tools is important in determining promotion mix. To reach a larger audience advertising is used. Many a companies now do not buy ad slots in cricket tournaments as it has become a very costly affair. Of the small entrepreneurs they make use of local directories, cable TV bands, radio, local newspapers, outdoor ads and other promotional methods.

Even if the budget is there and the cost is ok, the availability of media is equally important. No marketer of tobacco or alcohol products is permitted to advertise on TV channels in India. Many ads are denied if they are against national dignity and interest and disrespect the motherland's culture. In some of the countries 'comparative advertising' is not allowed.

8. **Digital Dimension:** Over the last 10 years, the speed and depth of information access has changed. The marketers and advertising agencies have to grapple with the speed of digital medium. It is about understanding the digital media as human beings rather than as techies. Of course, the marketer should understand technology, but after that as to how consumers relate to it.
9. **Elections:** Coca Cola. Tata Global Beverages, Hero MotoCorp and shampoo maker CavinKare are looking to exploit campaign time. However, Consumer goods companies like Parle Products, Godrej Consumer Products, Marico, Dabur and Rasna don't plan any increased distribution or sales pitches. Some people are of the opinion that political parties often expect donations and products for free, adding that mismanagement is rife at election rallies.
- Election meetings offer a captive audience. Tata Global and Hero MotoCorp along with Coca-Cola and CavinKare are planning on pushing low-priced products. In 2013, HUL had organised promotion. Mass public events offer good opportunity to engage in marketing exercises. In rural markets Products often slow at election time as people are busy with rallies. Moreover, hoardings and billboard costs go up since political parties too have started putting their ads.

### KNOWLEDGE ASSIGNMENT III

1. Advantages of Newspaper Advertising are (any three)-----
2. Limitations of Magazine Advertising (any three) -----
3. Advantages of Yellow Page Advertising are (any three)-----
4. Limitations of Radio advertising are (any three)-----
5. Advantages of TV advertising are (any three)-----
6. Advantages of Telemarketing are (any three)-----
7. Advantages of cinema advertising ( any three)-----
8. Advantages of out-Of-home advertising (any three)-----
9. Limitations of out-of-home advertising are (any three)-----
10. Types of sales promotion can be (any three)-----

#### Answers

1. 1. In-depth coverage 2. Mobility 3. Results assessable (coupons)
2. 1. Long lead time 2. There is limited flexibility in terms of an ad placement and format 3.

space and ad layout costs are higher

3. 1. Number is many and widely distributed 2. Non-intrusive 3. Ads are reasonably inexpensive
4. 1. Clutter 2. No visuals 3. No proper attention as listeners give attention to other aspects
5. 1. Product can be shown in use 2. Ability to use humour 3. Appeal to retailers
6. 1. Cost efficient in delivery 2. less intrusive than the phone calls 3. Place & time independence
7. 1. Captive audience 2. Longer video 3. Larger screen
8. 1. Reach to audience 2. Size and dominance 3. Different colors can be used
9. 1. It draws 2-3 seconds of a reader's time; hence it is a glance medium 2. Messages must be brief to fit in 2-3 seconds time frame 3. It is not conducive to a very short, weeklong camp
10. 1. Price Promotions 2. Prize Promotions 3. Premium Promotions

#### **KNOWLEDGE ASSESSMENT IV**

1. State, in brief, with reasoning, whether following statements are correct or incorrect:

(i) Media is the message.

(ii) Brands and their fans never break up.

**{Answers: (i) Correct. This statement brings to the forefront the significance of media in communication strategy by generating a response. The media selected should be free from clutter for the message to be transmitted in the proposed manner.**

**(ii) Incorrect, Brand loyalty continues as long as brand delivers the value. The moment it stops delivering value, the fans or loyalists start breaking up.}**

2. Select the most appropriate answer from the given options to the following statements:

**(i) Promotion mix comprises –**

- (A) Advertising & words of mouth                      (B) Sales Promotion and Personal Selling  
(C) Public Relations & Sponsorship                      (D) All of the above

**(ii) The least cost per customer happens in-**

- (A) Consumer Promotion                      (B) Trade Promotion  
(C) Advertising                      (D) Personal selling

**(iii) For a small audience the most suitable promotion tool is-**

- (A) Trade Promotion                      (B) Personal Selling  
(C) Advertising                      (D) Publicity

**(iv) To increase impulsive buying the best suited promotion tool is -**

- (A) Consumer Promotion                      (B) Advertising  
(C) Publicity                      (D) Personal Selling

**(v) You give the message depending upon individual customer. It is known as-**

- (A) Advertising                      (B) Personal Selling  
(C) Publicity                      (D) Trade Promotion

**(vi) Normally it does not play a role in communication strategy for consumer goods-**

- (A) Distribution arrangement in marketing                      (B) the price of the product  
(C) the physical product                      (D) the brand name

**(vii) If the communicator and the receiver both share the same perception, the message is likely to be more effective in terms of -**

- (A) Encoding                      (B) Feedback  
(C) Noise filtering                      (D) Decoding

**(viii) What is not an example of noise in communication -**

- (A) the communicator and receiver talk one-to-one  
(B) the salesman fails to identify a product and gives wrong information  
(C) The direct-mail recipient is not interested in your offer  
(D) All of the above all examples of noise

**(ix) Normally it does not play a role in communication strategy for consumer goods -**

- (A) Distribution arrangement in marketing                      (B) the price of the product  
(C) the physical product                      (D) the brand name

**(x) If the communicator and the receiver both share the same perception, the Message is likely to be more effective in terms of -**

(A) Encoding (B) Feedback

(C) Noise filtering (D) Decoding

**(x) What is not an example of noise in communication –**

(A) the communicator and receiver talk one-to-one

(B) the salesman fails to identify a product and gives wrong information

(C) The direct-mail recipient is not interested in your offer

(D) All of the above all examples of noise

**(xi) If the company's focus is short-term, it will concentrate on –**

(A) Consumer Promotion (B) Publicity

(C) Advertising (D) Personal selling

**(xii) Which one of the following promotional technique is least effective in generating product trials?**

(A) On-pack premiums (B) coupons

(C) Refund offers (□10 off your next buy) (D) sampling

**{Answers: (i) D, (ii) C, (iii) B, (iv) A, (v) B, (vi) A, (vii) D, (viii) C, (ix) A, (x) D, (xi) C, (xii) A, and (xiii) C.}**

## Questions

- Write short notes on the following:
  - Integrated Marketing Communication
  - Communication Planning and Control
- Diagrammatically explain the communication process used in the promotion of goods and services.
- What is Promotion-mix? If you happen to be promotion manager of Dabur India to launch a new health drink in Indian metros, what factors will you keep in mind while setting the promotion mix?
- Suggest promotion mix for the following:
  - Cosmetics for men
  - College Festival
  - Multigrain biscuits
- Distinguish between the following:

- (i) Advertising and sales promotion
- (ii) Sales promotion and Personal Selling

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## UNIT V

### EMERGING TRENDS IN MARKETING

<b>Unit Code</b>	<b>UNIT TITLE: Emerging Trends in Marketing</b>			
<b>Location:</b>	<b>Duration:</b> Marks: 12			
Class Room	<b>Learning Outcome</b>	<b>Knowledge Evaluation</b>	<b>Performance Evaluation</b>	<b>Teaching &amp; Training Method</b>
	<b>Session 1: Services Marketing</b>			
	1. Describe the meaning and importance of Service Marketing	1. Define and understand the meaning service marketing 2. Characteristics of service 3. Identify the types of services 4. Emphasis on service quality	1. Identify the importance of services and their role in India's GDP 2. Specify scope Services	<b>Interactive Lecture:</b> Discussing the concept of Service Marketing
	<b>Session 2: Online Marketing and Social Media Marketing</b>			
	1. Describe the meaning and concept of Online Marketing and social media marketing	1) Define and understand the meaning online marketing s 2) Advantage of online marketing 3) Describe meaning of social media	1. Identify set of companies that are helped by online marketing 2. Identify	1. <b>Interactive Lecture:</b> Discussing the concept Online Marketing and social media marketing

		marketing 4) Advantages of social media marketing	platforms used for social media marketing	
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## UNIT TITLE: Emerging Trends in Marketing

### Unit 5

#### *Learning Objectives*

After reading this unit, students will be able to:

- Meaning and importance of Service Marketing
- Service Sector in India
- Characteristics of services and Types of services
- Service Quality
- Meaning and concept of Online Marketing and social media marketing
- Advantages and disadvantages of meaning and concept of Online Marketing and social media marketing

### Services Marketing

All over the world services are contributing heavily to the economy. The services are intangible, nor are they visible, felt or tasted but the services industry is omnipresent. The services are widely used in the medical field, retail sector, aviation(airline) sector, banking and insurance sector, information technology sector to name a few. In everyday life we all consume services. Travelling in Delhi Metro, in DTC, attending lectures, buying a book via internet and going into a canteen for a cup of tea are all examples of consumption of services.

Service is not a thing but a process – ‘the process is the product’,<sup>1</sup> but at the same time services rely upon things for their performance. A bottle of Coke is not a service, but it can be served to

<sup>1</sup>Shostack, G.L.(1977), “Breaking Free from Product Marketing”, Journal of Marketing, Vol. 41, April, pp. 73-80.

you. A ride in Delhi Metro is a service, but not the metro itself. A service can be rightly called, “a deed, a performance, an effort.”<sup>2</sup> Services are different from products.

### **Service sector in India<sup>3</sup>**

The economy of India is the seventh-largest in the world by GDP and the third largest by purchasing power parity (PPP). The country is classified as a newly industrialised country, one of the G-20 major economies, a member of BRICS and a developing economy with average growth of 7% over the last two decades. Indian economy became the fastest growing major economy from the last quarter of 2014, replacing the People’s Republic of China. The Indian economy has the potential to become World’s 3-largest economy by the next decade.

India has one of the fastest growing service sector in the world contributing to 57% GDP in 2012-13. The IT industry continues to be the largest private sector employer in India. The agriculture sector is the largest employer in Indian economy but it contributes to a declining share of GDP (17% in 2013-14). The Indian automobile industry is one of the largest in the world.

### **Definition of Services**

The American Marketing Association has defined Services as “Activities, Benefits and satisfaction which are offered for sale or are provided in connection with the sale of goods”.

According to Philip Kotler, “ Services is any act or performance that one party can offer to another that is essentially intangible and does not result in the ownership of anything”.

### **Characteristics Of Services**

1. Intangibility
2. Simultaneity
3. Heterogeneity
4. Perishability

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<sup>2</sup>Rathmell, John M. (1966), “What is meant by Services?” Journal of Marketing, 30 (October), pp. 32-36.

<sup>3</sup>See Hindustan Times –C fore Survey, Hindustan Times, March 11, 2012.

## 5. Non-Ownership

1. **Intangibility:** A service can't be seen, touched, held, or put on a shelf, because it has no physical shape. No customer can buy physical ownership (Non-ownership) of an 'experience' (entertainment), 'time' (consulting), or 'a process' (dry cleaning). No service can be examined before its enactment because of intangibility. Examples of services include ticketing, baby-sitting, schooling, etc.
2. **Simultaneity:** In most of the cases production and consumption goes in simultaneously. A consumer has always to be present in the service factory, either the service provider comes to him (plumber) or he goes to service provider (hair salon). This simultaneity develops much more close contact with the customer. Thus, in-service production and consumption can't be separated.
3. **Heterogeneity:** No two services can be the same, because services depend to a large extent on human actions and interactions between customers and providers. Since production and consumption goes in simultaneously, there is no chance to rectify a faulty product before it reaches the customer. Thus, heterogeneity makes it difficult to standardise the quality of service.
4. **Perishability:** No services can be produced and stored before consumption, hence, they are perishable. Perishability is the main source of many of the problems of supply and demand that services marketers face. A scheduled flight if not filled with fliers goes in vain forever. Most of the service providers, therefore, focus their marketing mix on managing demand.
5. **Non-Ownership:** Customers cannot own the service they receive because ownership is not transferred from the buyer to the seller as it is with a product.

### **Types of Services**

1. On the basis of Service operations to volume of customers: Silvestro, et al<sup>4</sup> have categorised on this basis as Professional service (accountant- low volume), Service Shop (bank, hotel- medium), Mass Service (transport - high).
2. On the basis of level of tangibility: The services may be identified on a goods-service continuum, tangible dominant to intangible dominant.

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<sup>4</sup>Silvestro R., Fitzgerald, L., Johnston, R. and Voss, C. (1992), "Towards a Classification of service Processes," International Journal of Service Industry Management, Volume 3, pp. 62-75.

3. On the basis of customer – employee presence: There might be self-service (only customer-ATM, weighing machine on the railway station; interpersonal services (both customer – employer present – school, hair salon); remote services (employee only – insurance company).
4. On the basis of customisation/empowerment: It includes low customization and low empowerment of employees (Food retailing superstore); High customization but low empowerment (Telebanking); low customization and high empowerment (Radiology service); and high customization and high empowerment (Accountant).
5. On the basis of service delivery and processing focus: Processing focus may be body, mind, tangible assets, intangible assets; and delivery system may be one-to-one sequential, one-to –one, and one-to-many. To illustrate if the focus is on mind the delivery system would be Counselling (one-to-one sequential), video games in arcade (one-to-one) and classroom lecture (one-to-many).

### **Service Quality**

Quality of service is always to be judged by what customers think. Following are the normal criteria to judge the quality of service:

1. Reliability: Is the service performed dependably and accurately? For example Indigo Air's flight go on time.
2. Access: Is the service accessible or delivered without little waiting? For example Hariyana Roadways buses are accessible to one and all.
3. Security: Is the service free from danger, risk or doubt? For example, Air India takes security measures to make its services secured.
4. Credibility: How trustworthy and honest does the service provider appear to be? For example, Indian Railways are trustworthy and honest to refund the money if a passenger is wait listed at the time of going of the train.
5. Understanding the customer: How much effort is made by service provider to understand customers' needs? Hindustan Unilevers Limited undertakes market surveys to understand the customer.

6. Responsiveness: How willing are service employees to help customers and to deal with their specific problems? Rajasthan Roadways at Jaipur provide information booth to provide information as to which bus is going where.
7. Competence: To what extent do employees possess the required skills and knowledge to perform the service? Is the Chartered Account a member of the Institute of Chartered Accountants of India?
8. Courtesy: Are staff polite and considerate to customers? Private sector is quite polite to customers.
9. Tangibles: How do physical facilities, equipment, personnel and communication materials look like? Are the waiters in proper and clean uniform?
10. Communication: How good the organisation is at communicating effectively? Rajasthan Roadways at Bikaner House, Delhi communicate effectively with the potential passengers.

#### Knowledge Assessment – I

Fill in the blanks with appropriate words

1. In everyday life we all consume-----.
2. Service is not a thing but a-----.
3. A service can't be seen, touched, held or put on a shelf. Because it has no-----  
-----.
4. In most of the cases production and consumption goes in-----.
5. No two services can be the-----.
6. No services can be produces and -----before consumption.
7. Customers cannot -----the service they receive.
8. On the basis of service operations the services can be -----service  
and mass service.
9. On the basis of tangibility the services can be tangible to-----.
10. On the basis of customer-employee presence the services can be -----and  
remote services.
11. On the basis of customisation/empowerment the services may be-----of  
employees and high customisation but low empowerment.

12. On the basis of service delivery and processing focus the services can be -----  
sequential and one-to-many.

13. Service has to be reliable, -----and secured.

14. Service should have features like credibility, -----and  
responsive.

15. Competence, -----, tangibles and communication are qualitative features of  
services.

{ANSWERS: 1. Services 2. Process 3. physical shape 4. Simultaneously 5. Same 6.  
Stored 7. Own 8. Professional 9. Intangible 10. self-service 11. lowcustomisation and  
low empowerment 12. one-to-one 13. Accessible 14. understanding the customer 15.  
courtesy

## **Session II: Online Marketing And Social Media Marketing**

### **Introduction:**

The use of the Internet in India is growing rapidly. India currently has about 302 million internet users by December 2014, making it the third-largest user base in the world; the number of users is set to increase threefold by 2020, and this will make India the second-largest national group, just behind China.. The changing trend of using Information Communication Technology (ICT) by young and dynamic user population of India makes company's shift to online marketing platform. India's online marketing is growing and has a unique Indian flavour, making local content development and innovation particularly important.

### **Online Marketing- Meaning And Concept**

Online marketing is the promotion of products or brands via one or more forms of electronic media. Online marketing is using of internet based channels to spread a message about a company's brand, products, or services to its potential customers. While digital marketing is an umbrella term for the marketing of products or services using digital technologies, mainly on

the Internet, but also including mobile phones, display advertising, and any other digital medium.<sup>1</sup>

Online marketing differs from traditional marketing as it involves the use of channels and methods that enable an organization to analyze the marketing campaigns in real time environment. Traditional marketing uses mediums like print, billboard, television and radio advertisements while on line marketing uses online platforms like email, social media, display advertising, search engine optimization, and more.

The widespread adoption of the Internet for business and personal use has generated many new channels for advertising and marketing engagement. Moving from traditional marketing to online marketing is another way to increase engagement. The main objective of marketing is to reach potential customers through the channels where they spend time reading, searching, shopping, or socializing online. E-mail, social media, display advertising, search engine optimization etc are latest techniques adopted for online marketing. There are also many benefits and challenges inherent with online marketing, which uses primarily digital mediums to attract, engage, and convert virtual visitors to customers.

Before online marketing channels emerged, the cost to market products or services was often prohibitively expensive, and traditionally difficult to measure. Think of national television ad campaigns, which are measured through consumer focus groups to determine levels of brand awareness. These methods are also not well-suited to controlled experimentation. Today, anyone with an online business along with offline businesses can participate in online marketing by **creating a website** and building customer acquisition campaigns at little to no cost. Those marketing products and services also have the ability to experiment with optimization to fine-tune their campaigns' efficiency and ROI.

### **Examples Of Online Marketing**

Nowadays online marketing is becoming common and companies have started shifting to online. Some examples of online marketing campaigns include:

- **Canon** advertises for search keywords related to "photography" on Google, Yahoo, and Bing search engines to market their cameras to a relevant audience.

- **Dove** creates video advertisements and shares them with their audience on Facebook, Twitter, and other social networks to promote favorable conversation about their brand and products.
- **Whole Foods** collects email addresses on their website to advertise new products, sales, and events in their stores.

## Advantages Of Online Marketing

1. **Brand Awareness:**
2. **Measure Impact:** A key benefit of using online channels for marketing a business or product is the ability to measure the impact of any given channel.
3. **Acquiring Valuable Customers:** it helps to find how visitors acquired through different channels interact with a website or landing page experience. Of the visitors that convert into paying customers, further analysis can be done to determine which channels are most effective at acquiring valuable customers.
4. **Use of Analytics:** Analytics on web or mobile app experiences can help determining which online marketing channels are the most cost-effective at acquiring customers.
5. **Better medium:** Through data we can get a quick view of which channels are effective at acquiring and driving higher lifetime value for customers as there are different mediums such as email marketing, online advertising, and mobile marketing, to find which drives repeat purchases to prior customers.
6. **Customer Analysis:** Helps to analyse group of customers that have strong engagement behavior and high potential for upsell for higher engagement.

## Online Marketing Tools

There are a number of tools that can be used to build and maintain a online marketing program:

- Email Marketing
- Social Media Marketing
- Search Engine Optimization (SEO)

- Display Advertising
- Search Engine Marketing (SEM)
- Events, Webinars
- A/B Testing & Website Optimization
- Content Marketing
- Video Marketing
- Marketing Analytic
- Customer Relationship Management (CRM)
- Content Management System (CMS)

Although online marketing creates many opportunities for businesses to grow their presence via the Internet and build their audiences, there are also inherent challenges with these methods of marketing.

### **Disadvantages of Online Marketing**

1. **Impersonal:** marketing can become impersonal, due to the virtual nature of message and content delivery to a desired audience.
2. **Competitive:** Online marketing can also be crowded and competitive. Although the opportunities to provide goods and services in both local and far-reaching markets is very high but still significant amount of competition exists.
3. **Catching Attention:** Companies investing in online marketing may find visitors' attention is difficult to capture due to the number of business also marketing their products and services online. Differentiating a product without touch and feel factor.

## **Social Media Marketing**

### **Introduction**

Social media usage in India has increased in fast pase, as number of internet users in India reached 302 million users by December 2014. India is a key market for social media giants — active social media users in India grew to around 106 million. **Social media marketing** is the

use of social media platforms and websites to promote a product or service<sup>[2]</sup>. Most of these social media platforms have their own built-in data analytics tools, which enable companies to track the progress, success, and engagement of ad campaigns.

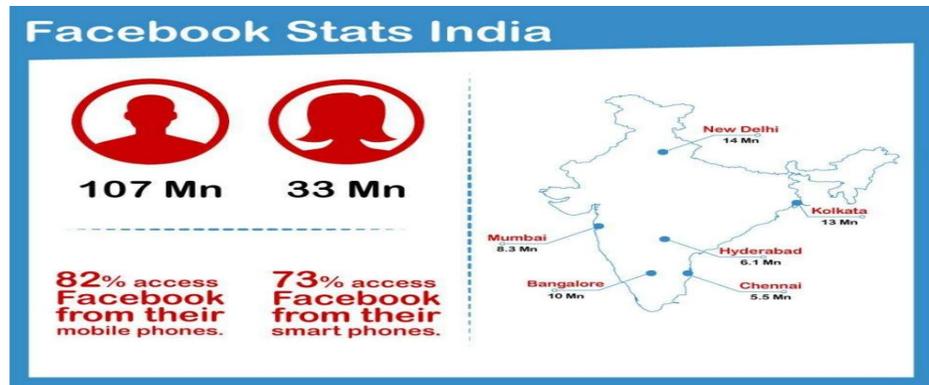
One of the main purposes of employing social media in marketing as a communication tool is that it makes the companies accessible to those interested in their product and makes them visible to those who have no knowledge of their products<sup>[4]</sup>. These companies use social media to learn from and target customers. It's the only form of marketing that can help consumers at each and every stage of the consumer decision journey.<sup>[5]</sup> Companies address a range stakeholders through social media marketing including current and potential customers, current and potential employees, journalists, bloggers, and the general public. Figure 5.1, depicts age wise presence of population of India and it is clear that all ages with less than 18 years to 55+ years are using social media platforms.

Age - Wise Split across platforms			
Age Group	LinkedIn	Instagram	facebook
<18	NA	0.79 Mn	14 Mn
18-24	4.5 Mn	5.4 Mn	63 Mn
25-34	5.4 Mn	2.4 Mn	42 Mn
35-54	2.09 Mn	0.67 Mn	18 Mn
55+	0.34 Mn	0.09 Mn	3 Mn

**Figure 5.1:** Age wise status across social media platforms

### Platforms for Social Media Marketing

1. **Facebook:** It is the most popular social media platform for brands to be present. They allow a product to provide videos, photos, and longer descriptions, and even testimonials. As of May 2015, 93% of businesses marketers use Facebook to promote their brand [7]. Facebook 107 million male and 33 million female users.



**Figure 5.2:** Facebook Status in India

2. **Twitter:** it is the second most popular social media platform. It allows companies to promote their products in short messages known as tweets limited to 140 characters which appear on followers' Home timelines. Tweets can contain text, Hash tag, photo, video, Animated GIF, or links to the product's website and other social media profiles, etc. Twitter is also used by companies to provide customer service.
  
3. **LinkedIn:** It is, a professional business-related networking site, allows companies to create professional profiles for themselves as well as their business to network and meet others. Through the use of widgets, members can promote their various social networking activities, such as Twitter stream or blog entries of their product pages, onto their LinkedIn profile page. LinkedIn provides its members the opportunity to generate sales leads and business partners. LinkedIn has 26.27 million male and 10.73 million female users in India.
  
4. **Google+:** Google+, in addition to providing pages and some features of Facebook, is also able to integrate with the Google search engine. Other Google products are also integrated, such as Google Adwords and Google Maps.
  
5. **Whatsapp:** WhatsApp has joined Facebook in 2014, but continues to operate as a separate app with a laser focus on building a messaging service that works fast and reliably anywhere in the world. WhatsApp started as an alternative to SMS. WhatsApp now supports sending and receiving a variety of media including text, photos, videos, documents, and location, as well as voice calls. WhatsApp messages

and calls are secured with end-to-end encryption, meaning that no third party including WhatsApp can read or listen to them. WhatsApp has a customer base of 1 billion people in over 180 countries.

6. **Foursquare:** Foursquare is a location-based social networking website, where users can check into locations via a Swarm app on their smart phones. Foursquare allows businesses to create a page or create a new/claim an existing venue.
7. **Instagram :** In May 2014, Instagram had over 200 million users. The user engagement rate of Instagram was 15 times higher than of Facebook and 25 times higher than that of Twitter.

### **Advantage of Social Media Marketing:**

1. **Brand Awareness:** There are a number of ways brands can use online marketing to benefit their marketing efforts. The use of online marketing in the digital era not only allows brands to market their products and services and creates brand awareness. It also allows for online customer support through 24/7 services to make customer feel supported and valued.
2. **Feedback:** The use of social media interaction allows brands to receive both positive and negative feedback from their customers as well as determining what media platforms work well for them and has become an increased advantage for brands and businesses. It is now common for consumers to post feedback online through *social media sources, blogs and websites* feedback on their experience with a product or brand <sup>[6]</sup>.
3. **Competitive advantage:** By using Internet platforms, businesses can create competitive advantage through various means. To reach the maximum potential of online marketing, firms use social media as its main tool to create a channel of information. Through this a business can create a system in which they are able to pinpoint behavioral patterns of clients and feedback on their needs.
4. **Impact:** Word of mouth communications and peer-to-peer dialogue often have a greater effect on customers, since they are not sent directly from the company and

are therefore not planned. Customers are more likely to trust other customers' experiences. It is increasingly advantageous for companies to utilise social media platforms to connect with their customers and create these dialogues and discussions.

### **Knowledge Assessment 2**

**State True or False for Following statements:**

1. Online marketing is the promotion of products or brands via one or more forms of electronic media.
2. Full form of ICT is Information Communication Technique.
3. Online marketing is broader aspect than social media marketing.
4. Online marketing and digital marketing are same.
5. Social media marketing is the use of social media platforms and websites to promote a product or service.
6. Twitter is most popular social media platform in India.
7. Social media marketing is only popular amongst younger generation in India.
8. Facebook has taken over Whatsapp in 2016.
9. WhatsApp started as an alternative to SMS initially.
10. Tweets can contain 140 characters and are text, Hash tag, photo, video, Animated GIF enabled.

**Ans: 1. T, 2.F, 3. T, 4. F, 5.T, 6. F, 7. F, 8.F, 9. T, 10. T**