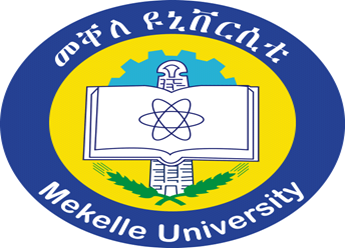
**Mekelle University**

**College of Business and Economics**

**Department of Marketing Management**



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# Course Introduction

What comes to your mind when see or hear the term marketing? Marketing must be understood not in the old sense of making a sale - 'selling' - but in the new sense of satisfying customer needs. Many people think of marketing only as selling and advertising but you may be surprised to learn that selling and advertising is only the tip of the marketing iceberg. This course is primarily designed to provide students with some preliminary insights of marketing management. It deals with the basic concepts of marketing: marketing management; the role and importance of marketing department in an organization; the main functions of marketing which include the product designing, promoting, pricing, and distributing want satisfying products.

This module consists of eight chapters. The first chapter deals with the basic concept and definition of marketing,major evolutions and philosophies of marketing, importance of marketing, marketing management and marketing task. The second chapter of this module is devoted to the marketing environment. The third chapter deals with definition of consumer and business market, difference and similarity business and consumer markets,major factors that influence consumer and business buyer behavior and the steps in consumer and business buying decision process. Market segmentation, targeting, and positioning, identification of attractive market segments, choosing a market-targeting strategy and ways to differentiate and position products are discussed in chapter four. Chapter five is concerned with definition and basic concepts of product, branding, packaging, and labeling. Points discussed in chapter six are meaning and significance of pricing, factors affecting pricing decisions and alternative price setting strategies. In the seventh chapter of the module meaning and significance of promotion, types of promotion mix elements and factor affecting promotional tools selection are discussed. Meaning and importance of distribution, marketing intermediaries and their functions, Channel design and management, Factors affecting marketing channel decisions are discussed in the last chapter of the module.

# Course Objectives

More specifically, after the successful accomplishment of the course, students will able to:

* Define marketing, identify its core concepts, explain the major evolutions and philosophies, describe the importance of marketing and marketing task.
* Explain the environmental factors that influence marketing decisions.
* Define the consumer and business market; explain how business markets differ from consumer markets.
* Explain the rationale for market segmentation, targeting, and positioning; explain how to identify attractive market segments and choose a market-targetingstrategy.
* Describe product related decisions and explain the basic concepts of branding, packaging, and labeling.
* Discuss factors affecting pricing decisions and identify the alternative price setting strategies.
* Identify the promotional tools used by marketers and Explain the different factors affecting promotion tool selection
* Describe the benefits of marketing channels and explain the key channel related decisions.

# CHAPTER ONE

# 1. NATURE AND SCOPE OF MARKETING

**Chapter objectives**

At the end of this chapter you should be able to:

* Define marketing and discuss its core concepts.
* Explain the evolution of marketing.
* Discuss the importance of marketing.
* Describe marketing management and its dimensions
* Compare the five marketing management philosophies,
* Define marketing management and examine how marketers manage demand and build profitable customer relationships.

**Introduction**

This chapter is aimed at acquainting you with the core concepts, scope and evolutional development of marketing. More specifically, it focuses on the definition of marketing, core marketing concepts, marketing, management, evolution of marketing, managerial orientations toward the market place, and major task of marketing management i.e. demand management, customer relationship.

## 1.1 Basic concepts of marketing

Change is occurring at an accelerating rate; today is not like yesterday, and tomorrow will be different from today. Continuing today’s strategy is risky; so is turning to a new strategy. Marketing deals with identifying and meeting human and social needs. One of the shortest definitions of marketing is “meeting needs profitably.”

As a first step, marketers need to understand customer needs and wants and the marketplace in which they operate. We examine five core customer and marketplace concepts: (1) needs, wants, and demands; (2) market offerings (products, services, and experiences); (3) value and satisfaction; (4) exchange, transactions and relationships; and (5) markets.

1. **Customer Needs, Wants, and Demands**

The most basic concept underlying marketing is that of human **needs**. Human needs are states of felt deprivation. They include basic ***physical*** needs for food, clothing, warmth, and safety; ***social*** needs for belonging and affection; and ***individual*** needs for knowledge and self-expression. Marketers did not create these needs; they are a basic part of the human makeup. **Wants** are the form human needs take as they are shaped by culture and individual personality. Wants are shaped by one’s society and are described in terms of objects that will satisfy those needs. When backed by buying power, wants become **demands**. Given their wants and resources, people demand products with benefits that add up to the most value and satisfaction.

Outstanding marketing companies go to great lengths to learn about and understand their customers’ needs, wants, and demands. They conduct consumer research and analyze mountains of customer data.

1. **Market Offerings—Products, Services, and Experiences**

Consumers’ needs and wants are fulfilled through market offerings some combination of products, services, information, or experiences offered to a market to satisfy a need or a want. Market offerings are not limited to physical products. They also include services activities or benefits offered for sale that are essentially intangible and do not result in the ownership of anything

**2.1 The Scope of Marketing**

Marketing people are involved in marketing 10 types of entities: goods, services, experiences, events, persons, places, properties, organizations, information, and ideas.

**Goods:** Physical goods constitute the bulk of most countries’ production and marketing effort. The United States produces and markets billions of physical goods, from eggs to steel to hair dryers. In developing nations, goods particularly food, commodities, clothing, and housing are the mainstay of the economy.

**Services:** As economies advance, a growing proportion of their activities are focused on the production of services. Services include airlines, hotels, and maintenance and repair people, as well as professionals such as accountants, lawyers, engineers, and doctors. Many market offerings consist of a variable mix of goods and services.

**Experiences:** By orchestrating several services and goods, one can create, stage, and market experiences.

**Events:** Marketers promote time-based events, such as the Olympics, trade shows, sports events, and artistic performances.

**Persons:** Celebrity marketing has become a major business. Artists, musicians, CEOs, Physicians, high-profile lawyers and financiers, and other professionals draw help from celebrity marketers.

**Places:** Cities, states, regions, and nations compete to attract tourists, factories, company headquarters, and new residents. Place marketers include economic development specialists, real estate agents, commercial banks, local business associations, and advertising and public relations agencies.

**Properties:** Properties are intangible rights of ownership of either real property (real estate) or financial property (stocks and bonds).

**Organizations:** Organizations actively work to build a strong, favorable image in the mind of their publics.

**Information:** The production, packaging, and distribution of information are one of society’s major industries. Among the marketers of information are schools and universities; publishers of encyclopedias, nonfiction books, and specialized magazines; makers of CDs; and Internet Web sites.

**Ideas:** Every market offering has a basic idea at its core. In essence, products and services are platforms for delivering some idea or benefit to satisfy need.

1. **Customer Value and Satisfaction**

Value defined as a ratio between what the customer gets and what he/she gives. The customer gets benefits and assumes costs, as shown in this equation:



Based on this equation, the marketer can increase the value of the customer offering by

1. Raising Benefits,
2. Reducing Costs,
3. Raising Benefits and Reducing Costs,
4. Raising Benefits By More Than The Raise In Costs, Or
5. Lowering benefits by less than the reduction in costs. A customer choosing between two value offerings,

Consumers usually face a broad array of products and services that might satisfy a given need. How do they choose among these many market offerings? Customers form expectations about the value and satisfaction that various market offerings will deliver and buy accordingly. Satisfied customers buy again and tell others about their good experiences. Dissatisfied customers often switch to competitors and disparage the product to others.

Marketers must be careful to set the right level of expectations.

* If the product's performance falls short of the customer's expectations, the buyer is  
  dissatisfied
* If performance matches expectations, the buyer is satisfied.
* If performance exceeds expectations, the buyer is delighted. Customer value and customer satisfaction are key building blocks for developing and managing customer relationships.

1. **Exchange, Transactions and Relationships**

Marketing occurs when people decide to satisfy needs and wants through exchange. Exchange is the act of obtaining a desired object from someone by offering something in return. Exchange is only one of many ways people can obtain a desired object. For example, hungry people can find food by hunting, fishing or gathering fruit. They could beg for food or take food from someone else. Finally, they could offer money, another good or a service in return for food. People do not have to prey on others or depend on donations. Nor must they possess the skills to produce every necessity for themselves. They can concentrate on making things they are good at making and trade them for needed items made by others. Thus, exchange allows a society to produce much more than it would with any alternative system.

**Exchange** is the core concept of marketing. For an exchange to take place, several conditions must be satisfied.

* At least two parties must participate.
* Each must have something of value to offer the other.
* Each party must also want to deal with the other party and
* Each must be free to accept or reject the other’s offer.
* Finally, each party must be able to communicate and deliver. These conditions simply make exchange possible.

**Transaction** is a trade between two parties that involves at least two things of value, agreed-upon conditions, a time of agreement and a place of agreement. Whereas exchange is the core concept of marketing, transaction is marketing’s unit of measurement.

A transaction also involves:

* At least two things of value,
* Agreed upon condition,
* A time of agreement, and
* A place of agreement.

**Relationship and network**

Transaction marketing is part of the larger idea of **relationship marketing**. Relationship marketing is the process of creating, maintaining and enhancing strong, value-laden relationships with customers and other stakeholders. Beyond creating short-term transactions, smart marketers work at building long-term relationships with valued customers, distributors, dealers and suppliers. They build strong economic and social connections by promising and consistently delivering high-quality products, good service and fair prices. Increasingly, marketing is shifting from trying to maximize the profit on each individual transaction to maximizing mutually beneficial relationships with consumers and other parties.

1. **Markets**

Traditionally, a “market” was a physical place where buyers and sellers gathered to buy and sell goods. Economists describe a **market**as a collection of buyers and sellers who transact over a particular product or product class (such as the housing market or the grain market).On the other hand, marketers uses the term **market** to cover various groupings of customers. They view sellers as constituting the industry and buyers as constituting the market.

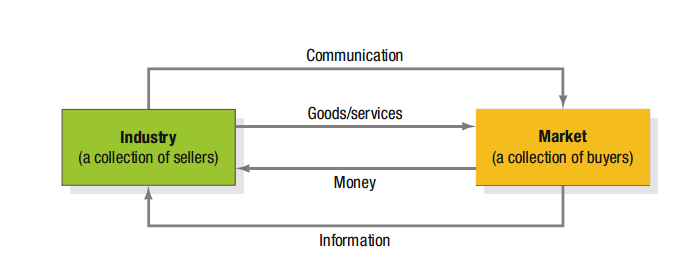


Figure 1.1 a simple marketing system

The sellers and the buyers are connected by four flows. The sellers send products, services and communications to the market; in return, they receive money and information. The inner loop shows an exchange of money for goods; the outer loop shows an exchange of information.

**There are five types of customer markets.**

1. **Consumer markets** consist of individuals and households that buy goods and services for personal consumption.
2. **Business/industrial markets** buy goods and services for further processing or for use in their production process.
3. **Reseller markets** buy goods and services to resell at a profit.
4. **Government markets** are made up of government agencies that buy goods and services to produce public services or transfer the goods and services to others who need them. Finally,
5. **International markets** consist of those buyers in other countries, including consumers, producers, resellers, and governments. Each market type has special characteristics that call for careful study by the seller.
6. **Marketing**

The concept of markets finally brings us full circle to the concept of marketing. Marketing means managing markets to bring about exchanges and relationships for the purpose of creating value and satisfying needs and wants. Modern marketing system is characterized by the company and competitors sending their respective products and messages to the consumers either directly or indirectly through marketing intermediaries to the end users.

**Marketers and Prospects**

Another core concept is the distinction between marketers and prospects. A marketer is someone who is seeking a response (attention, a purchase, a vote, a donation) from another party, called the prospect. If two parties are seeking to sell something to each other, both are marketers.

## 1.2 Definitions of marketing

Marketing is defined by many scholars as follows:The two most widely used definitions of marketing are these:

* Marketing is the management process which identifies, anticipates, and supplies customer requirements efficiently and profitably*.* **(UK Chartered Institute of Marketing)**
* Marketing is the process of planning and executing the conception, pricing, promotion and distribution of ideas, goods and services to create exchange and satisfy individual and organizational objectives.**(American Marketing Association)**

Both of these definitions have been criticized. The Chartered Institute of Marketing (CIM) definition has been criticized because it takes profit as being the only outcome of marketing, whereas marketing approaches and techniques are widely used by organizations such as charities and government departments which do not have profit as their goal.

The American Marketing Association (AMA) definition has also been criticized for failing to take account of the increasing role of marketing in a broader social context, and for appearing to regard consumers as being passive in the process. The same criticism couldequally be applied to the CIM definition. To the non-marketer, marketing often carries negative connotations; there is a popular view that marketing is about persuading people to buy things they do not want, or about cheating people. In fact, marketing practitioners have the responsibility for ensuring that the customer has to come first in the firm’s thinking, whereas other professionals might be more concerned with getting the balance sheet to look right or getting the production line running smoothly.

Marketing has been defined in various ways. The definition that serves our purpose best is the one which is given by Kotler as follows.

Marketing is asocial and managerial process by which individuals and groups obtain what they need and want through creating and exchanging products and value with others.

## 1.3 Evolution and Philosophies of Marketing

**The Evolution of Marketing**

The development of marketing is an evolutionary process. It has got four stages of development.

1. **The production era**. It was a stage where the emphasis of marketing was increasing production or output. High demands, low competition, and absence of consumer research characterized this stage. Therefore, marketing was devoted to increasing production and physical distribution of products to satisfy the high demand.
2. **Sales era**: Once a company was able to maximize its production capabilities, it hired a sales force to sell its inventory. When the company developed its products, consumer needs received little consideration. The role of advertising and the sales force was to make the desires of consumers fit the attributes of the products being manufactured.
3. **The Marketing Department Era**: it was an era that occurred when research was used to determine consumer needs. As competition grew, supply began to exceed demand. A firm could not prosper without input from marketing. As a result, marketing department was created. The marketing department conducted consumer research and advised management on how to design, price, distribute, and promote products.
4. **The Marketing company era**: This integrates consumer research and analysis into all company efforts. Competition gets intense and sophisticated. Company efforts are integrated and frequently evaluated.

## 1.4 Importance of marketing

Financial success often depends on marketing ability. Finance, operations, accounting, and other business functions ‘Will not really matter if there isn't sufficient demand for products and services so the company can make a profit. There must be a top line for there to be a bottom line. Many companies have now created a Chief Marketing Officer, or CMO, position to put marketing on a more equal footing with other C-Level executives, such as the Chief Executive Officer (CEO) and Chief Financial Officer (CFO). Press releases from organizations of all kinds-from consumer goods makers to health care insurers and from nonprofit organizations to industrial product manufacturers-trumpet their latest marketing achievements on their Web sites. In the business press, countless articles are devoted to marketing strategies and tactics.

In stating their business priorities, CEOs acknowledge the importance of marketing. One survey of the top 10 challenges CEOs face around the world in 2006 revealed that among the top 5 were both "sustained and steady top line growth" and "customer loyalty/retention," challenges whose achievement depends heavily on marketing. CEOs also recognize the importance of marketing to building brands and a loyal customer base, intangible assets that make up a large percentage of the value of a firm.

Making the right decisions about change isn't always easy. Marketing managers must decide what features to design into a new product, what prices to offer customers, where to sell products, and how much to spend on advertising, sales, or the Internet. They must also decide on details such as the exact wording or color for new packaging. The companies at greatest risk are those that fail to carefully monitor their customers and competitors and to continuously improve their value offerings. They take a short-term, sales-driven view of their business and ultimately they fail to satisfy their stockholders, employees, suppliers, and channel partners. Skillful marketing is a never-ending pursuit.

## 1.5 Marketing management

Marketing management is defined as the analysis, planning, implementation, and control of programs designed to create, build, and maintains beneficial exchanges with target buyers for the purpose of achieving organizational objectives. It is the art and science of choosing target markets and getting, keeping and growing superior value. Thus, marketing management involves managing demand, which in turn involves managing customer relationships.

**1.5.1 Company Orientations toward the Marketplace**

Marketing management is the conscious effort to achieve desired exchange outcomes with target markets. But what philosophy should guide a company’s marketing efforts? What relative weights should be given to the often conflicting interests of the organization, customers, and society?

Clearly, marketing activities should be carried out under a well-thought-out philosophy of efficient, effective, and socially responsible marketing. In fact, there are five competing concepts under which organizations conduct marketing activities: production concept, product concept, selling concept, marketing concept, and societal marketing concept.

* 1. **The Production Concept**

The production concept, one of the oldest in business, holds that consumers prefer products that are widely available and inexpensive. Managers of production-oriented businesses concentrate on achieving high production efficiency, low costs, and mass distribution. This orientation makes sense in developing countries, where consumers are more interested in obtaining the product than in its features. It is also used when a company wants to expand the market. Texas Instruments is a leading exponent of this concept. It concentrates on building production volume and upgrading technology in order to bring costs down, leading to lower prices and expansion of the market. This orientation has also been a key strategy of many Japanese companies.

1. **The Product Concept**

Other businesses are guided by the product concept, which holds that consumers favor those products that offer the most quality, performance, or innovative features. Managers in these organizations focus on making superior products and improving them over time, assuming that buyers can appraise quality and performance.

Product-oriented companies often design their products with little or no customer input, trusting that their engineers can design exceptional products. A General Motors executive said years ago: “How can the public know what kind of car they want until they see what is available?” GM today asks customers what they value in a car and includes marketing people in the very beginning stages of design.

However, the product concept can lead to marketing myopia. Railroad management thought that travelers wanted trains rather than transportation and overlooked the growing competition from airlines, buses, trucks, and automobiles. Colleges, department stores, and the post office all assume that they are offering the public the right product and wonder why their sales slip. These organizations too often are looking into a mirror when they should be looking out of the window.

1. **The Selling Concept**

The selling concept, another common business orientation, holds that consumers and businesses, if left alone, will ordinarily not buy enough of the organization’s products. The organization must, therefore, undertake an aggressive selling and promotion effort. This concept assumes that consumers must be coaxed into buying, so the company has a battery of selling and promotion tools to stimulate buying.

The selling concept is practiced most aggressively with unsought goods that buyers normally do not think of buying, such as insurance and funeral plots. The selling concept is also practiced in the nonprofit area by fund-raisers, college admissions offices, and political parties.

Most firms practice the selling concept when they have overcapacity. Their aim is to sell what they make rather than make what the market wants. In modern industrial economies, productive capacity has been built up to a point where most markets are buyer markets (the buyers are dominant) and sellers have to scramble for customers.

Prospects are bombarded with sales messages. As a result, the public often identifies marketing with hard selling and advertising. But marketing based on hard selling carries high risks. It assumes that customers who are coaxed into buying a product will like it; and if they don’t, that they won’t bad-mouth it or complain to consumer organizations and will forget their disappointment and buy it again. These are indefensible assumptions. In fact, one study showed that dissatisfied customers may bad-mouth the product to 10 or more acquaintances; bad news travels fast, something marketers that use hard selling should bear in mind.

1. **The Marketing Concept**

The marketing concept holds that the key to achieving organizational goals consists of the company being more effective than its competitors in creating, delivering, and communicating customer value to its chosen target markets.

Theodore Levitt of Harvard drew a perceptive contrast between the selling and marketing concepts:“Selling focuses on the needs of the seller; marketing on the needs of the buyer. Selling is preoccupied with the seller’s need to convert his product into cash; marketing with the idea of satisfying the needs of the customer by means of the product and the whole cluster of things associated with creating, delivering and finally consuming it.”

The marketing concept rests on four pillars: target market, customer needs, integrated marketing, and profitability. The selling concept takes an inside-out perspective. It starts with the factory, focuses on existing products, and calls for heavy selling and promoting to produce profitable sales. The marketing concept takes an outside-in perspective. It starts with a well-defined market, focuses on customer needs, coordinates activities that affect customers, and produces profits by satisfying customers.

Here examine how each pillar of the marketing concept contributes to more effective marketing.

**Starting point Focus Means Ends**

**The selling concept**

Factory Products Selling & Profits through promotion sales volume

**The marketing concept**

Target market Customer Coordinated Profits through

Needs marketing Customer Satisfaction

Figure 1.2 the selling concept vs. the marketing concepts

***Target Market***: No company can operate in every market and satisfy every need. Nor can it even do a good job within one broad market. Companies do best when define their target market (s) carefully and prepare a tailored marketing program.

An auto manufacture can think of designing passenger cars, station wagons, sports carts, and luxury. But this thinking is less precise than defining a customer target group. One Japanese carmaker is designing a car for the career woman, and it will have many features that male-dominated cars don’t have. Another Japanese carmaker is designing a car for the “town man,” the young person who needs to get about town and park easily. In each, the company has clarified a target market, and this will greatly influence the car design.

***Customer Needs***: A company can define its target market but fail to fully understand the customers’ needs. Consider the following example”A major chemical company invented a new substance that hardened into a marble like material. Looking for an application, the marketing department decided to target the bathtub market. The company created a few model bathtubs and exhibited them at a bathroom trade show. They hoped to convince bathtub manufacturers to produce bathtubs with the new material. Although, bathtub manufacturers thought the new bathtubs were attractive, none signed up. The reason becomes obvious. The bathtub would have to be priced at $2,000, for this price, consumers could buy bathtubs made of real marble or only. In additions, the bathtubs were so heavy that homeowners would have to reinforce their floors more, most bathtubs sold in the $500 range, and few people would spend $2,000. The chemical company chose a target market but failed to understand the customers.

***Integrated Marketing***: Unfortunately, not all company employees are trained and motivated to work for the consumer. An engineer complaint that the salespeople were “always protecting the customer and not thinking of the company’s interest”! He went on to blast customers for “asking for too much.“ The following situation highlights the coordination problem.

The marketing vice-president of a major airline wants to increase the airline’s traffic shape. Her strategy is customer satisfaction through providing better food cleaner cabins and better trained cabin crews. Yet she has no authority in these matters. The catering department chooses food that keeps down food costs, the; maintenance department uses cleaning services that keep down cleaning cost; and the personnel department hires people without regard to whether they are friendly and inclined to serve other people. Since these departments generally take cost of production point of view, she is stymied in creating a high level of customer satisfaction.

Integrated marketing means two things. First, the various marketing functions: sales force, advertising, product management, marketing research, and so on- must be integrated among them. Too often the sales force is made at the product managers for setting “too high a price” or too high a volume target”, or the advertising director and a brand manager cannot agree on the best advertising company for the brand. These marketing functions must be integrated from the customer point of view.

Second, marketing must be well integrated with the other company departments. Marketing does not work when it is merely a department; it only works when all employees appreciate the impact they have on customer satisfaction.

***Profitability****:* The marketing concept gives focus to customers’ satisfaction in order to secure long-term profitability or sustainable business. It tries to balance the needs of the firm with the interest of the customer. However it fails to compromise the interest of the society.

1. **The Societal Marketing Concept**

Some have questioned whether the marketing concept is an appropriate philosophy in an age of environmental deterioration, resource shortages, explosive population growth, world hunger and poverty, and neglected social services. Are companies that successfully satisfy consumer wants necessarily acting in the best, long-run interests of consumers and society? The marketing concept sidesteps the potential conflicts among consumer wants, consumer interests, and long-run societal welfare.

Yet some firms and industries are criticized for satisfying consumer wants at society’s expense. Such situations call for a new term that enlarges the marketing concept. We propose calling it the societal marketing concept, which holds that the organization’s task is to determine the needs, wants, and interests of target markets and to deliver the desired satisfactions more effectively and efficiently than competitors in a way that preserves or enhances the consumer’s and the society’s well-being.

The societal marketing concept calls upon marketers to build social and ethical considerations into their marketing practices. They must balance and juggle the often conflicting criteria of company profits, consumer want satisfaction, and public interest. Yet a number of companies have achieved notable sales and profit gains by adopting and practicing the societal marketing concept.

Some companies practice a form of the societal marketing concept called cause-related marketing. Pringle and Thompson define this as “activity by which a company with an image, product, or service to market builds a relationship or partnership with a ‘cause,’ or a number of ‘causes,’ for mutual benefit.”

They see it as affording an opportunity for companies to enhance their corporate reputation, raise brand awareness, increase customer loyalty, build sales, and increase press coverage. They believe that customers will increasingly look for demonstrations of good corporate citizenship. Smart companies will respond by adding “higher order” image attributes than simply rational and emotional benefits. Critics, however, complain that *cause-related marketing* might make consumers feel they have fulfilled their philanthropic duties by buying products instead of donating to causes directly.

1. **The Holistic Marketing Concept**

Without question, the trends and forces defining the 21st century are leading business firms to a new set of beliefs and practices. Today's best marketers recognize the need to have a more complete, cohesive approach that goes beyond traditional applications of the marketing concept. "Marketing Memo: Marketing Right and Wrong" suggests where companies go wrong-and how they can get it right-in their marketing.

The holistic marketing concept is based on the development, design, and implementation of marketing programs,processes, and activities that recognizes their breadth and interdependencies. Holistic marketing recognizes that "everything matters" in marketing-and that a broad, integrated perspective is often necessary. Holistic marketing is thus an approach that attempts to recognize and reconcile the scope and complexities of marketing activities. Figure below provides a schematic overview of four broad components characterizing holistic marketing: relationship marketing, integrated marketing, internal marketing, and performance marketing.

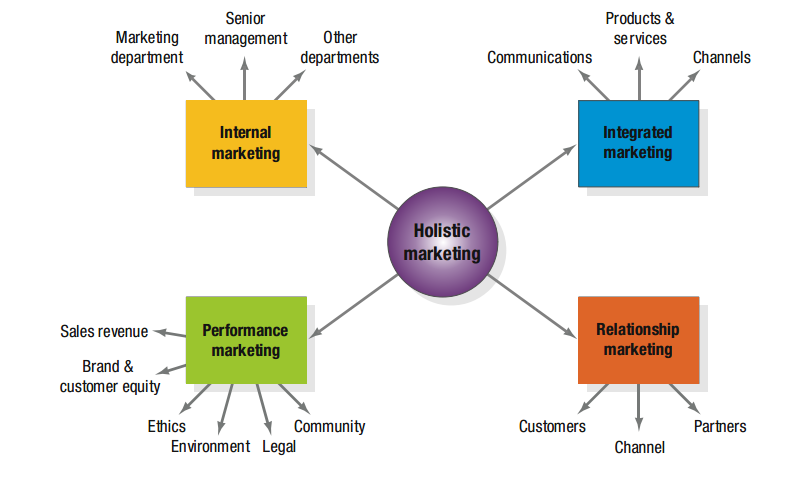


Figure 1.3 Holistic marketing dimensions

## 1.6 Marketing Tasks

**1.6.1 Building Customer Relationship**

Customer relationship management is perhaps the most important concept of modern marketing. Some marketers define it narrowly as a customer data management activity (a practice called **CRM**). By this definition, it involves managing detailed information about individual customers and carefully managing customer “touch points” to maximize customer loyalty.

Most marketers, however, give the concept of customer relationship management a broader meaning. In this broader sense, customer relationship management is the overall process of building and maintaining profitable customer relationships by delivering superior customer value and satisfaction. It deals with all aspects of acquiring, keeping, and growing customers.

**Relationship Building Blocks: Customer Value and Satisfaction**

The key to building lasting customer relationships is to create superior customer value and satisfaction. Satisfied customers are more likely to be loyal customers and give the company a larger share of their business.

**Customer Value:** Attracting and retaining customers can be a difficult task. Customers often face a bewildering array of products and services from which to choose. A customer buys from the firm that offers the highest ***customer-perceived value*** the customer’s evaluation of the difference between all the benefits and all the costs of a market offering relative to those of competing offers. Importantly, customers often do not judge values and costs “accurately” or “objectively.” They act on *perceived* value. To some consumers, value might mean sensible products at affordable prices, especiallyin the aftermath of recent recession. To other consumers, however, value might mean paying more to get more.

**Customer Satisfaction:** Customer satisfaction depends on the product’s perceived performance relative to a buyer’s expectations. If the product’s performance falls short of expectations, the customer is dissatisfied. If performance matches expectations, the customer is satisfied. If performance exceeds expectations, the customer is highly satisfied or delighted.

Outstanding marketing companies go out of their way to keep important customers satisfied. Most studies show that higher levels of customer satisfaction lead to greater customer loyalty, which in turn results in better company performance. Smart companies aim to delight customers by promising only what they can deliver and then delivering more than they promise. Delighted customers not only make repeat purchases but also become willing marketing partners and “customer evangelists” who spread the word about their good experiences to others.

* + 1. **Demand Management**

Marketing managers in different organizations might face any of the following states of demand. The marketing task is to manage demand effectively. The various states of demand and the corresponding marketing management task according to P.Kotler are the following:

1. **Negative demand:** This is a state in which all or the major parts of the society, dislikes the product and may even pay a price to avoid it. Examples are vaccination, alcoholic employees, dental work, and seat belts. The corresponding marketing task is to analyze why the market dislikes the product and whether product redesign, lower price, or more positive promotion can change the consumer attitudes. This marketing task or activity is known as **CONVERSIONAL** marketing which tries to change people’s want rather than serve their wants.
2. **No demand**: This is a case where target customers may be uninterested in or indifferent to a particular product. For example, farmers may not know about a new farming method; college students may not be interested in taking foreign language courses. Marketing managers are concerned with finding ways to connect the product’s benefits with the user’s needs and interests. This marketing task is known as **STIMULATIONAL** marketing; it tries to stimulate a want for an object in people who initially have no knowledge or interest in the product
3. **Latent demand**: Consumers have a want that is not satisfied by any existing product or service. This state of demand where many customers share a strong need for something that does not exist in the form of actual product is called **LATENT** demand. Examples include the need for harmless cigarettes, more fuel-efficient cars, etc. In this case marketing managers respond by trying and developing effective goods and services that will satisfy the demand through analysis and measurement of the potential market. The marketing task is called **DEVELOPMENTAL** marketing and its task is to measure the size of the potential market and trying to develop a new product or service that would satisfy the demand.
4. **Falling demand**: Sooner or later, every organization faces falling demand for one or more of its products. For example, churches have seen their membership decline, and private colleges have seen fewer applications. The marketer must find the causes of market decline and re-stimulate demand by finding new markets, changing product features, or creating more effective communication and the marketing task is **REMARKETING.**
5. **Irregular demand**: It is a state in which the timing pattern of demand is marked by seasonal and volatile fluctuations causing problems of idle capacity and overworked. For example museums are under-visited during weekdays and overworked during weekends. The corresponding marketing task is **SYNCHROMARKETING**, i.e., to find ways to alter the time pattern of demand through flexible pricing, promotion and other incentives so that it will better match the time pattern of supply.
6. **Full demand**: The organization has just the amount of demand it wants and can handle. It is a state where the current level and timing of demand is equal to the desired level and timing of demand. The marketing task is **MAINTENANCE** marketing and is designed to maintain the current level of demand against changing consumer preferences. The organization maintains quality, and continually measures satisfaction to make sure it is doing a good job.
7. **Overfull demand**: It is a state in which demand is higher than the company can or wants to handle. The marketing task is called **DEMARKETING** and its task is finding ways to reduce the demand temporarily, or permanently. De-marketing involves such actions as raising prices and reducing promotion and service. It does not aim to destroy demand, but only to reduce it. It calls for using normal marketing tools in reverse.
8. **Unwholesome-Some demand**: Unwholesome products such as cigarettes, alcohol, and hard drugs will attract organized effort to destroy the demand or interest in particular product or service. The corresponding marketing task is known as **COUNTERMARKETING** it is a difficult task in that the aim is to get people who like something to give it up. Marketing manager cope with these tasks by carrying out marketing research, planning, implementation and control.

## 1.7 Discussion Questions

* 1. What are the core concepts of marketing?
  2. Can marketers create needs? Why
  3. What is being marketed in exchange process?
  4. Contrast marketing activities during the four eras in the history of marketing?
  5. Discuss the guiding principles in each of the company orientations?
  6. Why is marketing as important for not-for-profit organizations as profit-driven ones?

# CHAPTER TWO

# 2. THE MARKETING ENVIRONMENT

**Chapter Objectives**

Upon the completion of the unit, students will be able to:

* Define marketing environment
* Describe the environmental forces that affect the company’s ability to serve its customers.
* Explain how changes in the demographic and economic environments affect marketing  
  decisions
* Identify the major trends in the firm’s natural and technological environments.
* Explain the key changes in the political and cultural environments.
* Discuss how companies can react to the marketing environment
* Explain how changes in macro factors (such as demographic, economic, and political) affect marketing activities.

**2. Marketing Environment**

**Introduction**

A company’s marketing environment consists of the actors and forces outside marketing that affectmarketing management’s ability to build and maintain successful relationships with target customers.

More than any other group in the company, marketers must be environmental trend  
trackers and opportunity seekers. Although every manager in an organization should  
watch the outside environment, marketers have two special aptitudes. They havedisciplined methods **marketing research** and **marketing intelligence** for collecting  
information about the marketing environment. They also spend more time in collecting  
data about customer and competitor environments. By carefully studying the environment,  
marketers can adapt their strategies to meet new marketplace challenges andopportunities.  
Marketing Intelligence is the systematic collection and analysis of publicly available  
information about consumers, competitors, and developments in the marketing  
environment. The goal of competitive marketing intelligence is to **improve strategic  
decision making** by understanding the consumer environment, assessing and tracking  
competitors’ actions, and providing early warnings of opportunities and threats. Similarly,  
the marketing environment consists of a microenvironment and a macro environment.  
The **micro environment** consists of the actors close to the company that affect its ability to  
serve its customers. Such microenvironment includes the company, suppliers, marketing  
intermediaries, customer markets, competitors, and publics. The **macro environment**consists of the larger societal forces that affect the microenvironment. Demographic,  
economic, natural, technological, political, and cultural forces are some of the macro  
environments. We look first at the company’s microenvironment.

## 2.1The Company’s microenvironment

Marketing management's job is to create attractive offers for target markets. However, marketing managers cannot simply focus on the target market's needs. Their success will also be affected by actors in the company's microenvironment. These actors include other company departments, suppliers, marketing intermediaries, customers, competitors and various publics (see Figure 2.1.).

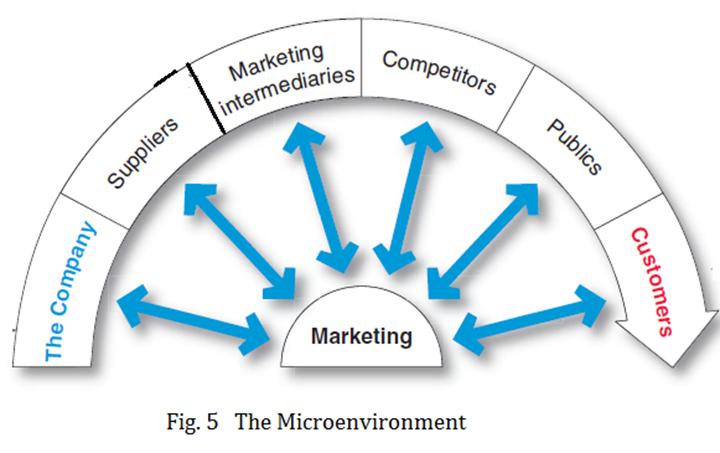


Figure 2.1. Principal actors in the company's microenvironment

**The Company**

In designing marketing plans, marketing management should take other company groups, such as top management, finance, research and development (R & D), purchasing, manufacturingand accounting, into consideration. All these interrelated groups form the internal environment. Top management sets the company's mission, objectives, broad strategies and policies. Marketing managers must make decisions consistent with the plans made by top management, and marketing plans must be approved by top management before they can be implemented.

Finance is concerned with finding and using funds to carry out the marketing plan. The R & D department focuses on the problems of designing safe and attractive products. Purchasing worries about getting supplies and materials, whereas manufacturing is responsible for producing the desired quality and quantity of products. Accounting has to measure revenues and costs to help marketing know how well it is achieving its objectives. Therefore, all of these departments have an impact on the marketing department's plans and actions. Under the marketing concept, all of these functions must 'think customer' and they should work together to provide superior customer value and satisfaction.

**Suppliers**

Suppliers are an important link in the company's overall customer 'value delivery system". They provide the resources needed by the company to produce its goods and services. Supplier developments can seriously affect marketing. Marketing managers must watch supply availability - supply shortages or delays, labor strikes and other events can cost sales in the short run and damage customer [Satisfaction in the long run. Marketing managers must also monitor the price trends of their key inputs. Rising supply costs may force price increases that can harm the company's sales volume.

**Marketing Intermediaries**

Marketing intermediaries are firms that help the company to promote, sell and distribute its goods to final buyers. They include resellers, physical distribution firms, marketing services agencies and financial intermediaries. Resellers are distribution channel firms that help the company find customers or make sales to them. These include wholesalers and retailers which buy and resell merchandise. Selecting and working with resellers is not easy. No longer do manufacturers have many small, independent resellers from which to choose. They now face large and growing reseller organizations. These organizations frequently have enough power to dictate terms or even shut the manufacturer out of large markets.

**Physical distribution firms** help the company to stock and move goods from their points of origin to their destinations. Working with warehouse and transportation firms, a company must determine the best ways to store and ship goods, balancing such factors as cost, delivery, speed and safety.

**Marketing services agencies** are the marketing research firms, advertising agencies, media firms and marketing consultancies that help the company target and promote its products to the right markets. When the company decides to use one of these agencies, it must choose carefully because the firms vary in creativity, quality, service and price. The company has to review the performance of these firms regularly and consider replacing those that no longer perform well.

**Financial intermediaries** include banks, credit companies, insurance companies and other businesses that help finance transactions or insure against the risks associated with the buying and selling of goods. Most firms and customers depend on financial intermediaries to finance their transactions. The company's marketing performance can be seriously affected by rising credit costs and limited credit.

Like suppliers, marketing intermediaries form an important component of the company's overall value delivery system. In its quest to create satisfying customer relationships, the company must do more than just optimize its own performance. It must partner effectively with suppliers and marketing intermediaries to optimize the performance of the entire system.

**Customers**

The company must study its customer markets closely. **Consumer markets**consist of individuals and households that buy goods and services for personal consumption. **Business markets**buy goods and services for further processing or for use in their production process, whereas **reseller markets**buy goods and services to resell at a profit. **Institutional markets**are made up of schools, hospitals, nursing homes, prisons and other institutions that provide goods and services to people in their care. **Government markets**are made up of government agencies that buy goods and services in order to produce public services or transfer the goods and services to others who need them. Finally, **international markets**consist of buyers in other countries, including consumers, producers, resellers and governments. Each market type has special characteristics Chat call for careful study by the seller. At any point in time, the firm may deal with one or more customer markets: for example, Unilever has to communicate detergent brand benefits to consumers as well as maintaining a dialogue with retailers that stock and resell its branded products.

**Competitors**

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

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

**Publics**

The company's marketing environment also includes various publics. A public is any group that has an actual or potential interest in or impact on an organization's ability to achieve its objectives. Figure 2.5 shows seven types of public:

1. *Financial publics*: Financial publics influence the company's ability to obtain funds. Banks, investment houses and stockholders are the principal financial publics.

2. *Media publics:*Media publics are those that carry news, features and editorial opinion. They include newspapers, magazines and radio and television stations,

3.*Government public:*Management must take government developments into account. Marketers must often consult the company's lawyers on issues of product safety, truth-in-advertising and other matters.

4. *Citizen action publics:*A company's marketing decisions may be questioned by consumer organizations, environmental groups, minority groups and other pressure groups. Its public relations department can help it stay in touch with consumer and citizen groups.

5. *Local publics:* Every company has local publics, such as neighborhood residents and community organizations. Large companies usually appoint a community-relations officer to deal with the community, attend meetings, answer questions and contribute to worthwhile causes.

*6. General public:* A company needs to be concerned about the general public's attitude towards its products and activities. The public's image of the company affects its buying. Thus, many large corporations invest huge sums of money to promote and build a healthy corporate image.

7. *Internal publics:* A company's internal publics include its workers, managers, volunteers and the board of directors. Large companies use newsletters and other means to inform and motivate their internal publics. When employees feel good about their company, this positive attitude spills over to their external publics.

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

## 2.2The Company's Macro environment

The company and all the other actors operate in a larger macro environment of forces that shape opportunities and pose threats to the company. Figure 2.4 shows the six most influential forces in the company's macro environment. The remaining sections of this chapter examine these forces and show how they affect marketing plans.

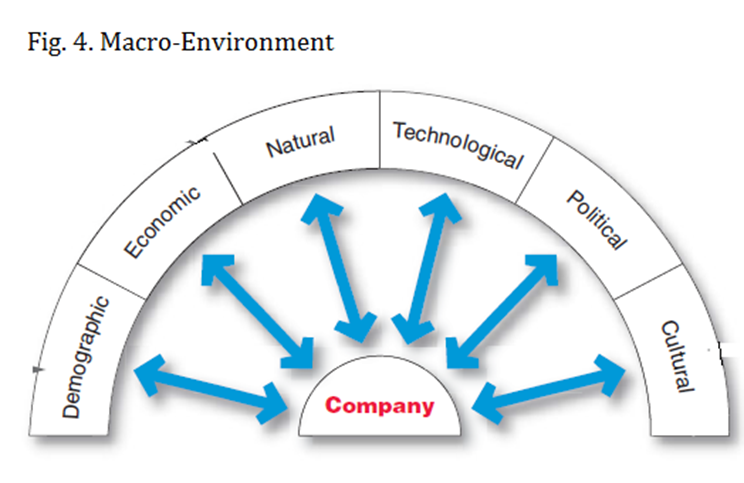


Figure 2.4. Influential forces in the company's macro environment

**Demographic Environment**

Demography is the study of human populations in terms of size, density, location, age, gender, race, occupation and other statistics. The demographic environment is of considerable interest to marketers because it involves people, and people make up markets.

**Economic Environment**

Markets require buying power as well as people. The economic environment consists of factors that affect consumer purchasing power and spending patterns. Changes in major economic variables such as income, cost of living, interest rates, and savings and borrowing patterns have a large impact on the market place. Companies watch these variables by using economic forecasting.

Businesses do not have to be wiped out by an economic downturn or caught short, in a boom.

**Natural Environment**

The natural environment involves the natural resources that are needed as inputs by marketers or that are affected by marketing activities. Environmental concerns have grown steadily during the past two decades. Protection of the natural environment will remain a crucial worldwide issue facing business and the public. In many cities around the world, air and water pollution have reached dangerous levels. Concern continues to mount about the depletion of the earth's ozone layer and the resulting 'greenhouse effect', a dangerous warming of the earth.

Marketers should be aware of four trends in the natural environment:

* Shortages of Raw Materials
* Increased Cost of Energy
* increased Pollution
* Government Intervention in Natural Resource Management

**Technology**

Technological developments offer marketers both opportunities and threats. Although firms can offer customers a wider array of advanced products, changes in technology also mean that there may be more than one technical solution to a customer’s needs. Where a market converges towards one technological standard, there can be problems for marketers who have promoted an alternative standard. Increased technological development accelerates the speed of obsolescence. Marketers have to consider how their product may need to be developed over time, if it is to remain competitive.

**Political Environment**

Marketing decisions are strongly affected by developments in the political environment. The political environment consists of laws, government agencies and pressure groups that influence and limit various organizations and individuals in a given society.

Even the most liberal advocates of free-market economies agree that the system works best with at least some regulation. Well-conceived regulation can encourage competition and ensure fair markets for goods and services. Thus governments develop public policy to guide commerce - sets of laws and regulations that limit business for the good of society as a whole. Almost every marketing activity is subject to a wide range of laws and regulations.

1. **Legislation Regulating Business**

Even the most liberal advocates of free-market economies agree that the system works best with at least some regulation. Well-conceived regulation can encourage competition and ensure fair markets for goods and services. Thus, governments develop *public policy* to guide commerce sets of laws and regulations that limit business for the good of society as a whole. Almost every marketing activity is subject to a wide range of laws and regulations.

***Why is Business Legislation Enacted?***

Business legislation has been enacted for a number of reasons.

The ***first*** is to protect companies from each other. Although business executives may praise competition, they sometimes try to neutralize it when it threatens them. So laws are passed to define and prevent unfair competition.

The ***second*** purpose of government regulation is to protect consumers from unfair business practices. Some firms, if left alone would make shoddy products, invade consumer privacy, mislead consumers in their advertising, and deceive consumers through their packaging and pricing. Unfair business practices have been defined and are enforced by various agencies.

The ***third*** purpose of government regulation is to protect the interests of society against unrestrained business behavior. Profitable business activity does not always create a better quality of life. Regulation arises to ensure that firms take responsibility for the social costs of their production or products.

1. **Increased Emphasis on Ethics and Socially Responsible Actions**

Written regulations cannot possibly cover all potential marketing abuses, and existing laws are often difficult to enforce. However, beyond written laws and regulations, business is also governed by social codes and rules of professional ethics.

**Cultural Environment**

The cultural environment is made up of institutions and other forces that affect society's basic values, perceptions, preferences and behaviors. People grow up in a particular society that shapes their basic beliefs and values. They absorb a world-view that defines their relationships with others. The following cultural characteristics can affect marketing decision making. Marketers must be aware of these cultural influences and how they vary across societies within the markets served by the firm.

**Persistence of Cultural Values**

People in a given society hold many beliefs and values. Their core beliefs and values have a high degree of persistence. For example, most of us believe in working, getting married, giving to charity and being honest. These beliefs shape more specific attitudes and behaviours found in everyday life. Core beliefs and values are passed on from parents to children and are reinforced by schools, religious groups, business and government.

Secondary beliefs and values are more open to change. Believing in marriage is a core belief; believing that people should get married early in life is a secondary belief. Marketers have some chance of changing secondary values, but little chance of changing core values. For example, family-planning marketers could argue more effectively that people should get married later than that they should not get married at all.

**Shifts in Secondary Cultural Values**

Although core values are fairly persistent, cultural swings do take place. Consider the impact of popular music groups, movie personalities and other celebrities on young people's hair styling, clothing and sexual norms. Marketers want to predict cultural shifts in order to spot new opportunities or threats. Such information helps marketers cater to trends with appropriate products and communication appeals.

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

**People's Views of Themselves**

People vary in their emphasis on serving themselves versus serving others. Some people seek personal pleasure, wanting fun, change and escape. Others seek self -realization through religion, recreation or the avid pursuit of careers or other life goals. People use products, brands and services as a means of self-expression and buy products and services that match their views of themselves.

In the last decade or so, personal ambition and materialism increased dramatically, with significant marketing implications. In a 'me-society', people buy their 'dream cars' and take their 'dream vacations'. They spend more time in outdoor health activities G°ggin& tennis, etc.), in thought, and on arts and crafts. The leisure industry (camping, skiing, boating, arts and crafts, and sports) faces good growth prospects in a society where people seek self-fulfillment.

**People's Views of Others**

More recently, observers have noted a shift from a 'me-society' to a 'we-society', in which more people want to be with and serve others. Flashy spending and self-indulgence appear to be on the way out, whereas saving, family concerns and helping others are on the rise. A recent survey showed that more people are becoming involved in charity, volunteer work and social service activities. This suggests a bright future for 'social support' products and services that improve direct communication between people, such as health clubs, family vacations and games. It also suggests a growing market for 'social substitutes' - things like VGRs and computers that allow people who are alone to feel that they are not.

**People's Views of Organizations**

People vary in their attitudes towards corporations, government agencies, trade unions, universities and other organizations. By and large, people are willing to work for big organizations and expect them, in turn, to carry out society's work. There has been a decline in organizational loyalty, however. People are giving a little less to their organizations and trusting them less.

This trend suggests that organizations need to find new ways to win consumer confidence. They need to review their advertising communications to make sure their messages are honest. Also, they need to review their various activities to make sure that they are coming across as 'good corporate citizens'. More companies are linking themselves to worthwhile causes, measuring their images with important publics and using public relations to build more positive images.

**People's Views of Society**

People vary in their attitudes toward their society - from patriots who defend it, to reformers who want to change it, and malcontents who want to leave it. People's orientation to their society influences their consumption patterns, levels of savings and attitudes toward the marketplace.

In the affluent and industrializing Asian nations, consumers aspire to achieve the high living standards and lifestyles of people in the more advanced western countries. The display of conspicuous consumption and fondness for expensive western brands - the common label for achievement and westernization – are highly acceptable behaviour. Consumer patriotism, for example, is not an issue, since locally made goods are often viewed as inferior or less desirable than foreign imported brands. By contrast, in the western developed countries, the late 1980s and early 1990s saw an increase in consumer patriotism. European consumers reckoned that sticking to locally produced goods would save and protect jobs.

Many US companies also responded to American patriotism with 'made in America' themes and flag-waving promotions, such as Chevrolet is 'the heartbeat of America', Black & Decker's flag-like symbol on **its** tools, and the textile industry's 'Grafted with Pride in the USA' advertising campaign, which insisted that 'made in the USA matters.*"*

**People's Views of Nature**

People vary in their attitudes towards the natural world. Some feel ruled by it, others feel in harmony with it and still others seek to master it. A long-term trend has been people's growing mastery over nature through technology and the belief that nature is bountiful. More recently, however, people have recognized that nature is finite and fragile - that it can be destroyed or spoiled by human activities.

Love of nature is leading to more camping, hiking, boating, fishing and other outdoor activities. Business has responded by offering more hiking gear, camping equipment, better insect repellents and other products for nature enthusiasts. Tour operators are offering more tours to wilderness areas. Food producers have found growing markets for 'natural' products like natural cereal, natural ice cream, organically farmed produce and a variety of health foods. Marketing communicators are using appealing natural backgrounds in advertising their products.

**Peoples Views of the Universe**

Finally, people vary in their beliefs about the origin of the universe and their place in it. While the practice of religion remains strong in many parts of the world, religious conviction and practice have been dropping of through the years in certain countries, notably in the United States and Europe where, for example, church attendance has fallen gradually. As people lose their religious orientation, they seek goods and experiences with more immediate satisfactions. During the 1980s, people increasingly measured success in terms of career achievement, wealth and worldly possessions. Some futurists, however, have noted an emerging renewal of interest in religion, perhaps as part of a broader search for a new inner purpose. Starting in the 1990s, they believe, people are moving away from materialism and dog-eat-dog ambition to seek more permanent values and a more certain grasp of right and wrong. The 'new realists', found mainly in the developed western markets, reflect a move away from overt consumerism. However, in many markets such as India, China and south-east

Asia, society's value systems place great importance on economic achievement and material possession. The values of these 'enthusiastic materialists' are also shared by the developing markets of Europe, such as Turkey, and some Latin American countries.

## 2.3 Responding to the marketing Environment

There are three kinds of companies regarding their response to the marketing environment: those who make things happen, those who watch things happen, and those who wonder what’s happened.

Many companies view the marketing environment as an uncontrollable element to which they must react and adapt. They passively accept the marketing environment and do not try to change it. They analyze environmental forces and design strategies that will help the company avoid the threats and take advantage of the opportunities the environment provides.

Other companies take a proactive stance toward the marketing environment. Instead of letting the environment define their strategy, craft a strategy that defines your environment.Rather than assuming that strategic options are bounded by the current environment, these firms develop strategies to change the environment.

Even more, rather than simply watching and reacting to environmental events, these firms take aggressive actions to affect the public and forces in their marketing environment. Such companies hire lobbyists to influence legislation affecting their industries and stage media events to gain favorable press coverage. They run “advertorials” (ads expressing editorial points of view) to shape public opinion. They press lawsuits and file complaints with regulators to keep competitors in line, and they form contractual agreements to better control their distribution channels. By taking action, companies can often overcome seemingly uncontrollable environmental events.

Marketing management cannot always control environmental forces. In many cases, it must settle for simply watching and reacting to the environment. But whenever possible, smart marketing managers will take a proactive rather than reactive approach to the marketing environment.

## 2.4 DiscussionQuestions

1. Describe the environmental forces that affect the company’s ability to serve its customers.
2. Name and describe the types of publics in a company’s marketing environment.
3. What are publics in the marketing context? Why are theyimportant to marketers? Suggest the publics for a specific business.
4. Why should marketers play close attention to the political environment?

# CHAPTER THREE

# 3. UNDERSTANDING THE MARKET

**CHAPTER OBJECTIVES**

After reading this chapter, you should be able to;

* Define the consumer market and construct a simple model of consumer buying behavior.
* Tell how culture, subculture and social class influence consumer buying behavior.
* Describe how consumers' personal characteristics and primary psychological factors affect their buying decisions.
* Discuss how consumer decision making varies with the type of buying decision.
* Explain the stages of the buyer decision and adoption processes.
* Explain how business markets differ from consumer markets.
* Identify the main factors that influence business buyer behavior.
* List and define the steps in the business buying decision process.
* Explain how institutional and government buyers make their buying decisions.

## 3.1 Consumer Buying Behavior

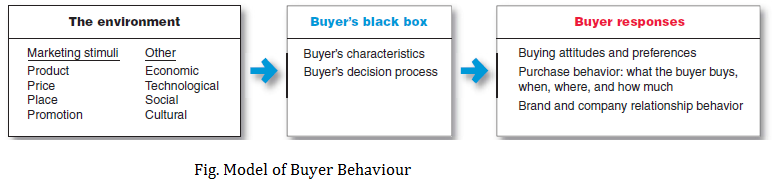
**Introduction**

Models of Consumer Behavior in earlier times, marketers could understand consumers well through the daily experience of selling to them. But as firms and markets have grown in size, many marketing decision makers have lost direct contact with their customers and must now turn to consumer research. They spend more money than ever to study consumers, trying to learn more about consumer behavior. Who buys? How do they buy? When do they buy? Where do they buy? Why do they buy?

The central question for marketers is; how do consumers respond to various marketing stimuli that the company might use? The company that really understands how consumers will respond to different product features, prices and advertising appeals has a great advantage over its competitors. Therefore, companies and academies have researched heavily the relationship between marketing stimuli and consumer response. Their starting point is the stimulus- response model of buyer behavior shown in Figure 3.1. This shows that marketing and other stimuli enter the consumer's 'black box and produce certain responses. Marketers must figure out what is in the buyer's black box. Marketing stimuli consist of the four Ps: product, price, place and promotion. Other stimuli include significant forces and events in the buyer's environment; economic, technological, political and cultural. All these stimuli enter the buyer's black box, where they are turned into a set of observable buyer responses (shown on the right-hand side of Figure 3.1): product choice, brand choice, dealer choice, purchase timing and purchase amount. The marketer wants to understand how the stimuli are changed into responses inside the consumer's black box, which has two parts.

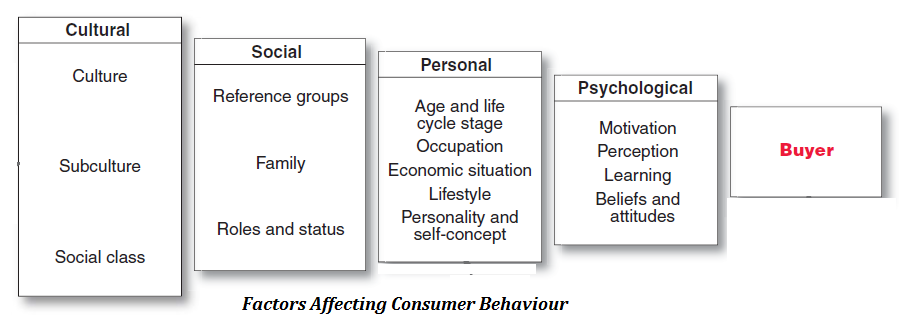
First, the buyer's characteristics influence how he or she perceives and reacts to the stimuli.

Second, the buyer's decision process itself affects the buyer's behavior. This chapter first looks at buyer characteristics as they affect buying behavior, and then examines the buyer decision process. We will never know what exactly is in the black box or be able perfectly to predict consumer behavior, but the models can help us understand consumers, help us to ask the right questions, and teach us how to influence them.



* + 1. **Characteristics Affecting Consumer Behavior**

Consumer purchases are influenced strongly by cultural, social, personal and psychological characteristics, as shown in Figure 3.2. For the most part, marketers cannot control such factors, but they must take them into account.



1. **Cultural Factors:**

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

* 1. ***Culture***

Cultureis the most basic cause of a person's wants and behavior. Human behavior is largely learned. Growing up in a society, a child learns basic values, perceptions, wants and behaviors from the family and other important institutions.

Marketers are always trying to spot *cultural shifts* in order to imagine new products that might be wanted. For example, the cultural shift towards greater concern about health and fitness has created a huge industry for exercise equipment and clothing, lower-calorie and more natural foods, and health and fitness services.

* 1. ***Subculture***

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

* 1. ***Social Class***

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

Social class is not determined by a single factor, such as income, but is measured as a combination of occupation, income, education, wealth and other variables.

1. **Social Factors**

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

1. ***Groups***

Groups influence a person's behavior. Groups that have a direct influence and to which a person belongs are called ***membershipgroups*.** Some are *primary groups* with whom there is regular but informal interaction - such as family, friends, neighbors and fellow workers. Some are *secondary groups,* which are more formal and have less regular interaction. These include organizations like religious groups, professional associations and trade unions. ***Reference groups*** are groups that serve as direct (face-to-face) or indirect points of comparison or reference in forming a person's attitudes or behavior. Reference groups to which they do not belong often influence people. Marketers try to identify the reference groups of their target markets.

Reference groups influence a person in at least three ways.

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

1. ***Family***

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

*The families of procreation - the buyer’s spouse and children have* a more direct influence on everyday buying behavior. This family is the most important consumer buying organization in society and it has been researched extensively.

Marketers are interested in the roles and relative influence of the husband, wife and children on the purchase of a large variety of products and services. Husband-wife involvement varies widely by product category and by stage in the buying process. Buying roles change with evolving consumer lifestyles. Almost everywhere in the world, the wife is traditionally the main purchasingagent for the family, especially in the areas of food, household products and clothing.

1. ***Roles and Status***

A person belongs to many groups - family, clubs, and organizations. The person's position in each group can be defined in terms of both *role* and status.**Role** is the activities a person is expected to perform according to the people around him or her. And **status** is the general esteem given to a role by society.

1. **Personal Factors**

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

* 1. ***Age and Life-Cycle Stage***

People change the goods and services they buy over their lifetimes. Tastes in food, clothes, furniture and recreation are often age related. Buying is also shaped by the family life cycle - the stages through which families might pass as they mature over time.

Marketers often define their target markets in terms of life-cycle stage and develop appropriate products and marketing plans for each stage.

* 1. ***Occupation***

A person's occupation affects the goods and services bought. Blue-collar workers tend to buy more work clothes, whereas white-collar workers buy more suits and ties. Marketers try to identify the occupational groups that have an above-average interest in their products and services. A company can even specialize in making products needed by a given occupational group.

* 1. ***Economic Circumstances***

A person's economic situation will affect product choice. Marketers of income sensitive goods closely watch trends in personal income, savings and interest rates. If economic indicators point to a recession, marketers can take steps to redesign, reposition and re price their products.

* 1. ***Lifestyle***

People coming from the same subculture, social class and occupation may have quite different lifestyles. Lifestyle is a person's pattern of living as expressed in his or her activities, interests and opinions. Lifestyle captures something more than the person's social class or personality. It profiles a person's whole pattern of acting and interacting in the world.

* 1. ***Personality and Self-Concept***

Each person's distinct personality influences his or her buying behavior. Personality refers to the unique psychological characteristics that lead to relatively consistent and lasting responses to one's own environment. Personality is usually described in terms of traits such as self-confidence, dominance, sociability, autonomy, defensiveness, adaptability and aggressiveness."' Personality can be useful in analyzing consumer behavior or certain product or brand choices.

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

1. **Psychological Factors**

A person's buying choices are further influenced by four important psychological factors: motivation, perception, learning, and beliefs and attitudes.

* 1. ***Motivation***

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

* 1. **Perception**

A motivated person is ready to act. How the person acts is influenced by his or her perception of the situation. Two people with the same motivation and in the same situation may act quite differently because they perceive the situation differently.

Why do people perceive the same situation differently? All of us learn by the flow of information through our five senses: sight, hearing, smell, touch and taste. However, each of us receives, organizes and interprets this sensory information in an individual way. Thus perception is the process by which people select, organize and interpret information to form a meaningful picture of the world.People can form different perceptions of the same stimulus because of three perceptual processes:

1. Selective attention
2. Selective distortion and
3. Selective retention.

1. **Selective attention.** People are exposed to a great number of stimuli every day. It is impossible for a person to pay attention to all these stimuli and some studies show people remembering only three or four. Selective attention is the tendency for people to screen out most of the information to which they are exposed - means that marketers have to work especially hard to attract the consumer's attention. Their message will be lost on most people who are not in the market for the product. Moreover, even people who are in the market may not notice the message unless it stands out from the surrounding sea of other ads.

2. **Selective distortion.** Even noted stimuli do not always come across in the intended way. Each person fits incoming information into an existing mindset. Selective distortion describes the tendency of people to adapt information to personal meanings. People tend to interpret information in a way that will support what they already believe. Selective distortion means that marketers must try to understand the mind-sets of consumers and how these will affect interpretations of advertising and sales information.

3. **Selective retention.** People will also forget much of what they learn. They tend to retain information that supports their attitudes and beliefs.Because of selective exposure, distortion and retention, marketers have to work hard to get their messages through. This fact explains why marketers use so much drama and repetition in sending messages to their market.

* 1. **Learning**

When people act, they learn. Learning describes changes in an individual's behavior arising from experience. Learning theorists say that most human behavior is learned.

* 1. **Beliefs and Attitudes**

Through doing and learning, people acquire their beliefs and attitudes. These, in turn, influence their buying behavior. Marketers are interested in the beliefs that people formulate about specific products and services, because these beliefs make up product and brand images that affect buying behavior. If some of the beliefs are wrong and prevent purchase, the marketer will want to launch a campaign to correct them.

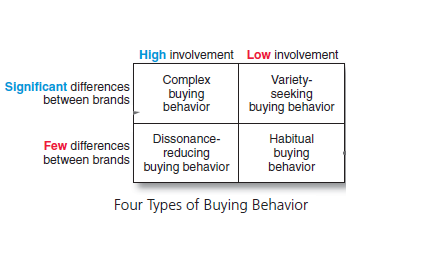
People have attitudes regarding religion, politics, clothes, music, food and almost everything else. An attitude describes a person's relatively consistent evaluations, feelings and tendencies towards an object or idea. Attitudes put people into a frame of mind of liking or disliking things, of moving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

Attitudes are difficult to change. A person's attitudes fit into a pattern and to change one attitude may require difficult adjustments in many others. Thus a company should usually try to fit its products into existing attitudes rather than try to change attitudes.

Therefore, the consumer’s choice results from the complex interplay of cultural, social, personal and psychological factors.

* + 1. **Types of Buying Decision Behavior**

Consumer decision making varies with the type of buying decision. Consumer buying behavior differs greatly for a tube of toothpaste, a tennis racket, an expensive camera and a new car. More complex decisions usually involve more buying participants and more buyer deliberation. Figure3.3. Shows types of consumer buying behavior based on the degree of buyer involvement and the degree of differences among brands.



1. **Complex Buying Behavior**

Consumers undertake complex buying behavior when they are highly involved in a purchase and perceive significant differences among brands, or when the product is expensive, risky, purchased infrequently and highly self-expressive. Typically, the consumer has much to learn about the product category. Marketers of high-involvement products must understand the information fathering and evaluation behavior of high-involvement consumers. They need to help buyers learn about product-class attributes and their relative importance and about what the company's brand offers on the important attributes.

Marketers need to differentiate their brand's features, perhaps by describing the brand's benefits using print media with long copy. They must motivate store salespeople and the buyer's acquaintances to influence the final brand choice.

1. **Dissonance-Reducing Buying Behavior**

Dissonance-reducing buying behavior occurs when consumers are highly involved with an expensive, infrequent or risky purchase, but see little difference among brands. For example, consumers buying carpeting may face a high involvement decision because carpeting is expensive and self-expressive. Yet buyers may consider most carpet brands in a given price range to be the same. In this case, because perceived brand differences are not large, buyers may shop around to learn what is available, but buy relatively quickly. They may respond primarily to a good price or to purchase convenience. After the purchase, consumers might experience post-purchase dissonance (after-sales discomfort) when they notice certain disadvantages of the purchased carpet brand or hear favorable things about brands not purchased. To counter such dissonance, the marketer's after-sale communications should provide evidence and support to help consumers feel good both before and after their brand choices.

1. **Habitual Buying Behavior**

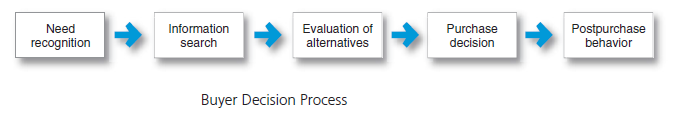
Habitual buying behavior occurs under conditions of low consumer involvement and little significant brand difference. For example, take salt. Consumers have little involvement in this product category - they simply go to the store and reach for a brand. If they keep reaching for the same brand, it is out of habit rather than strong brand loyalty. Consumers appear to have low involvement with most low-cost, frequently purchased products. Consumers do not search extensively for information about the brands, evaluate brand characteristics and make weighty decisions about which brands to buy. Instead, they passively receive information as they watch television or read magazines. Ad repetition creates *brand familiarity* rather than *brand* conviction. Consumers do not form strong attitudes towards a brand; they select the brand because it is familiar and may not evaluate the choice even after purchase. Because buyers are not highly committed to any brands, marketers of low involvement products with few brand differences often use price and sales promotions to stimulate product trial. Gaining distribution and attention at the point of sale is critical.

1. **Variety-Seeking Buying Behavior**

Consumers undertake variety-seeking buying behavior in situations characterized by low consumer involvement, but significant perceived brand differences. In such cases, consumers often do a lot of brand switching. For example, when purchasing biscuits, a consumer may hold some beliefs, choose a biscuit without much evaluation, then evaluate that brand during consumption. But the next time, the consumer might pick another brand out of boredom or simply to try something different. Brand switching occurs for the sake of variety rather than because of dissatisfaction.

* + 1. **The Buyer Decision Process**

We will examine the stages that buyers pass through to reach a buying decision. Consumers pass through five stages: need recognition, information search, evaluation of alternatives, purchase decision and post purchase behavior. Clearly the buying process starts long before actual purchase and continues long after. This encourages the marketer to focus on the entire buying process rather than just the purchase decision. Consumers pass through all five stages with every purchase. But in more routine purchases, consumers often skip or reverse some of these stages. A woman buying her regular brand of toothpaste would recognize the need and go right to the purchase decision, skipping information search and evaluation. However, we use the model in Figure 3.4 because it shows all the considerations that arise when a consumer faces a new and complex purchase situation.

****

1. **Need Recognition**

The buying process starts with need recognition - the buyer recognizing a problem or need. The buyer senses a difference between his or her *actual* state and some *desired* state. The need can be triggered by *internal stimuli* when one of the person's normal needs - hunger, thirst, sex - rises to a level high enough to become a drive.

A need can also be triggered by *external stimuli.* Example you may pass a bakery and the smell of freshly baked bread stimulate your hunger; you appreciate a neighbor’s new car; or you watch a television commercial for a Langano. At this stage, the marketer needs to determine the factors and situations that usually trigger consumer need recognition.

1. **Information Search**

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

* The following are sources of information
* Personal sources: family, friends, neighbors, acquaintances.
* Commercial sources: advertising, salespeople, dealers, packaging, displays.
* Public sources: mass media, consumer-rating organizations.
* Experiential sources: handling, examining, using the product.

The relative influence of these information sources varies with the product and the buyer. Generally, the consumer receives the most information about a product from commercial sources - those controlled by the marketer. The most effective sources, however, tend to be personal. Personal sources appear to be even more important in influencing the purchase of services.

1. **Evaluation of Alternatives**

We have seen how the consumer uses information to arrive at a set of final brand choices. How does the consumer choose among the alternative brands? The marketer needs to know about alternative evaluation - that is, how the consumer processes information to arrive at brand choices. Unfortunately, consumers do not use a simple and single evaluation process in all buying situations. Instead, several evaluation processes are at work.

Marketers should study buyers to find out how they actually evaluate brand alternatives. If they know what evaluative processes go on, marketers can take steps to influence the buyer's decision.

1. **Purchase Decision**

In the evaluation stage, the consumer ranks brands and forms purchase intentions.

Generally, the consumer's purchase decision will be to buy the most preferred brand, but two factors can come between the purchase intension and the purchase *decision.*

* The first factor is the *attitudes of others. If someone important to you thinks that you should buy the lowest priced car, then the chance of your buying a more expensive car is reduced.*
* The second factor is unexpected situational factors. The consumer may form purchase intention based on factors such as expected income, expected price, and expected product benefits, however, unexpected events may change the purchase intention.

**Example:** the economy might take a turn for the worse, close competitors might drop its price, or a friend might report being disappointed in your preferred brand.

Therefore, preference and even purchase intentions do not always result in actual purchase choice.

1. **Post purchase Behavior**

The marketer's job does not end when the product is bought. After purchasing the product, the consumer will be satisfied or dissatisfied and will engage in post purchase behavior of interest to the marketer. What determines whether the buyer is satisfied or dissatisfied with a purchase? The answer lies in the relationship between the *consumer's expectations* and the product's *perceived performance.* If the product falls short of expectations, the consumer is disappointed; if it meets expectations, the consumer is satisfied; if it exceeds expectations, the consumer is delighted.

## 3.2. Business Markets and Business Buyer Behavior

**3.2.1. Definition**

Organizational market consists of all individuals and organizations that buy goods and services to make other goods and services, to resell to other industrial users or to consumers, and to conduct the organization's operation.

In the industrial market we deal with both consumer products and industrial products. Organizations make up a vast market for a multitude of goods and services such as raw materials, manufactured parts, installations, accessory equipment, supplies and business services. The organizational market is divided into three major categories; the producer market, the reseller market, and the government market.

**1. The Producer Market**

The producer market consists of all the individuals and organizations who acquire goods and services that enter into the production of other goods and services that are sold, rented, or supplied to others. The major types of industries that make up the producer market are following.

* 1. Agriculture, forestry, and fishing
  2. Mining and quarrying
  3. Manufacturing
  4. Construction
  5. Transportation, communication, and other public utilities
  6. Banking, finance and insurance
  7. Services.

**2. The Reseller Market**

The reseller market consists of people and institutions organizations that buy goods and services for the purpose of reselling or renting them to others at a profit. Instead of producing form utility, the reseller market produces time, place and possession utilities.

The reseller market is composed of wholesale and retail organizations, which handle a vast variety of products for resale, indeed, everything produced except the few classes of goods that producers choose to sell directly to final consumers. The excluded class included heavy or complex machinery, customized products, and products sold on a direct mail or a door-to-door basis.

It is their role as buyers for resale that differentiates resellers and attracts special marketing attention from their suppliers. Usually, it is more difficult to determine what will please your outside customer, thus buying for resale typically is more difficult and risky than buying for use within a firm. Consequently, buying for resale especially in a large reseller organization can be a complex and sophisticated procedure.

**3. The Government Market**

The government market consists of government units and institutions of all types-schools, offices, hospitals and military bases who purchase or rent goods for carrying out the main functions of the government. The government as a buyer is so big and complex, however, it is difficult to comprehend and deal with. Government procurement processes are different from those in the private sector of the individual market. Much government procurement, by law, is made on the basis of bidding system. Stating the product specifications, the government advertises for bids, and accepts the lowest bid that meets the specification.

**3.2.2 Characteristics of Business Markets**

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

**1. Market Structure and Demand**

The business marketer normally deals with far fewer but far larger buyers than the consumer marketer does. In large business markets, a few buyers normally account for most of the purchasing. Business markets are also more geographically concentrated. Further, business demand is derived demand - it ultimately derives from the demand for consumer goods. Many business markets have inelastic demand, that is, total demand for many business products is not affected much by price changes, especially in the short run.A drop in the price of leather will not cause shoe manufacturers to buy much more leather unless it results in lower shoe prices, which, in turn, will increase consumer demand for shoes.

Finally, business markets have more fluctuating demand. The demand for many business goods and services tends to change more and more quickly than the demand for consumer goods and a service does. A small percentage increase in consumer demand can cause large increases in business demand.

**2. Nature of the Buying Unit**

Compared with consumer purchases, a business purchase usually involves more buyers and a more professional purchasing effort. Often, business buying is done by trained purchasing agents, who spend their working lives learning how to buy well. The more complex the purchase, the more likely that several people will participate in the decision making process. Buying committees made up of technical experts and top management are common in the buying of primary goods.

Therefore, business marketers must have well-trained salespeople to deal with well-trained buyers.

**3. Types of Decision and the Decision Process**

Business buyers usually face more complex buying decisions than do consumer buyers. Purchases often involve large sums of money, complex technical and economic considerations, and interactions among many people at many levels of the buyer's organization. Because the purchases are more complex, business buyers may take longer to make their decisions.

The business buying process tends to be more formalized than the consumer buying process. Large business purchases usually call for detailed product specifications, written purchase orders, careful supplier searches and formal approval. The buying firm might even prepare policy manuals that detail the purchase process.

Finally, in the business buying process, buyer and seller are often much more dependent on each other. Consumer marketers are usually at a distance from their customers. In contrast, business marketers may roll up their sleeves and work closely with their customers during all stages of the buying process – from helping customers define problems, to finding solutions, to supporting after-sales operations.

❖ Other Characteristics of Business Markets

**1. Direct Purchasing**

Business buyers often buy directly from producers rather than through intermediaries, especially for items that are technically complex or expensive.

**2. Reciprocity**

Business buyers often practice reciprocity, selecting suppliers that also buy from them. For example, a paper company might buy needed chemicals from a chemical company that in turn buys the company's paper.

3. **Leasing**: Business buyers are increasingly leasing equipment instead of buying it outright

**3.2.3 Business Buyer Behavior**

The model in Figure 3.5 suggests four questions about business buyer behavior: What buying decisions do business buyers make? Who participates in the buying process? What are the strongest influences on buyers? How do business buyers make their buying decisions?

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

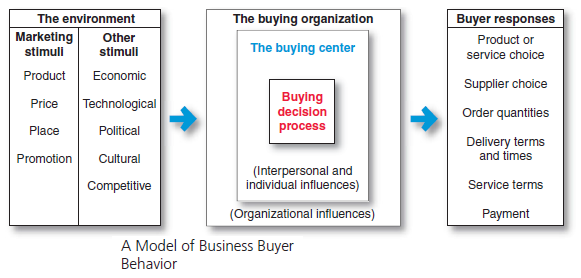


Figure 3.5 a model of business buyer behavior

**3.2.4 Buying situations in organizational buying**

There are three main types of buying situation. These are: straight rebuy, modified rebuy, and new task.

1. **Straight Rebuy:** In a straight rebuy, the buyer reorders something without any modifications. It is usually handled on a routine basis by the purchasing department. Based on past buying satisfaction, the buyer simply chooses from the various suppliers on its list. 'In' suppliers try to maintain product and service quality. They often propose automatic reordering systems so that the purchase agent will save reordering time. The 'out' suppliers try to offer something new or exploit dissatisfaction so that the buyer will consider them, 'Out' suppliers try to get their foot in the door with a small order and then enlarge their purchase share over time.
2. **Modified Rebuy:** In a modified rebuy, the buyer wants to modify product specifications, prices, terms or suppliers. The modified rebuy usually involves more decision participants than the straight rebuy. The 'in' suppliers may become nervous and feel pressured to put their best foot forward to protect an account. 'Out' suppliers may see the modified rebuy situation as an opportunity to make a better and gain new business.
3. **New Task:** A company buying a product or service for the first time faces a new task situation. In such cases, the greater the cost or risk, the larger will be the number of decision participants and the greater their efforts to collect information. The new-task situation is the marketer's greatest opportunity and challenge.
   * 1. **Who Participates in the Business Buying Process?**

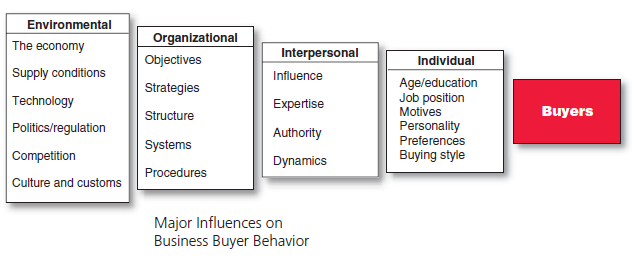
Who buys the goods and services needed by business organizations? The decision making unit of a buying organization is called its buying centre, defined as all the individuals and units that participate in the business decision-making process. The buying centre includes all members of the organization who play any of five roles in the purchase decision process.

1. ***Users***: Members of the organization who will use the product or service. In many cases, users initiate the buying proposal and help define product specifications.
2. ***Influencers***: People who affect the buying decision. They often help define specifications and also provide information for evaluating alternatives. Technical personnel are particularly important influencers.
3. ***Buyers***: People with formal authority to select the supplier and arrange terms of purchase. Buyers may help shape product specifications, but they play their most important role in selecting vendors and in negotiating. In more complex purchases, buyers might include high-level officers participating in the negotiations.
4. ***Deciders***: People who have formal or informal power to select or approve the final suppliers. In routine buying, the buyers are often the deciders or at least the approvers.
5. ***Gatekeepers***: People who control the flow of information to others. For example, purchasing agents often have authority to prevent salespersons from seeing users or deciders. Other gatekeepers include technical personnel and even personal secretaries.

The buying center is not a fixed and formally identified unit within the buying organization. It is a set of buying roles assumed by different people for different purchases. Within the organization, the size and make-up of the buying centre will vary for different products and for different buying situations. For some routine purchases, one person - say, a purchasing agent - may assume all the buying centre roles and serve as the only person involved in the buying decision. For more complex purchases, the buying centre may include 20 or 30 people from different levels and departments in the organization.

* + 1. **Influence on organizational buying decision**

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

****

1. ***Environmental Factors***

Business buyers are influenced heavily by factors in the current and expected economic environment, such as the level of primary demand, the economic outlook and the cost of money. As economic uncertainty rises, business buyers cut back on new investments and attempt to reduce their inventories. An increasingly important environmental factor is shortages in key materials. Many companies are now more willing to buy and hold larger inventories of scarce materials to ensure adequate supply. Business buyers are also affected by technological, political and competitive developments in the environment.

1. ***Organizational Factors***

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

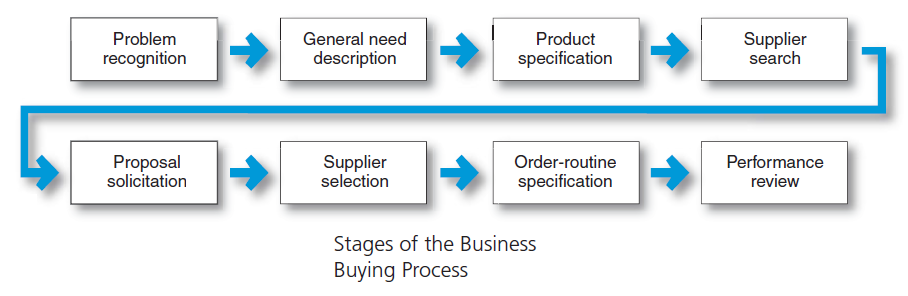
1. ***Interpersonal Factors***

The buying centre usually includes many participants who influence each other. The business marketer often finds it difficult to determine what kinds of *interpersonal factors* and group dynamics enter into the buying process.

1. ***Individual Factors***

Each participant in the business buying-decision process brings in personal motives, perceptions and preferences. These individual factors are affected by personal characteristics such as age, income, education, professional identification, personality and attitudes towards risk.

* + 1. **Decision making process in organizational buying**

****

1. ***Problem Recognition***

The buying process begins when someone in the company recognizes a problem or a need that can be met by acquiring a specific good or a service. Problem recognitioncan result from internal or external stimuli.

Internally, the company may decide to launch a new product that requires new production equipment and materials. Or a machine may break down and need new parts. Perhaps a purchasing manager is unhappy with a current supplier's product quality, service or prices.

Externally, the buyer may get some new ideas at a trade show, see an ad or receive a call from a salesperson who offers a better product or a lower price.

1. ***General Need Description***

Having recognized a need, the buyer next prepares a general need description that describes the characteristics and quantity of the needed item. For standard items, this process presents few problems. For complex items, however, the buyer may have to work with others - engineers, users, consultants - to define the item.

The team may want to rank the importance of reliability, durability, price and other attributes desired in the item. In this phase, the alert business marketer can help the buyers define their needs and provide information about the value of different product characteristics.

1. ***Product Specification***

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

1. ***Supplier Search***

The buyer now conducts a supplier search to find the best vendors. The buyer can compile a small list of qualified suppliers by reviewing trade directories, doing a computer search or phoning other companies for recommendations. The newer the buying task and the more complex and costly the item, the greater the amount of time the buyer will spend searching for suppliers. The supplier's task is to get listed in the big directories and build a good reputation in the marketplace. Salespeople should watch for companies in the process of searching for suppliers and make certain that their firm is considered.

1. ***Proposal Solicitation***

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

1. ***Supplier Selection***

The members of the buying centre now review the proposals and select a supplier or suppliers. During supplier selection, the buying centre will often draw up a list of the desired supplier attributes and their relative importance. In one survey, purchasing executives listed the following attributes as most important in influencing the relationship between supplier and customer: quality products and services, on-time delivery, ethical corporate behavior, honest communication and competitive prices. Other important factors include repair and servicing capabilities, technical aid and advice, geographic location, performance history and reputation. The members of the buying centre will rate suppliers against these attributes and identify the best suppliers.

1. ***Order-Routine Specification***

The buyer now prepares an order-routine specification. It includes the final order with the chosen supplier or suppliers and lists items such as technical specifications, quantity needed, expected time of delivery, return policies and warranties. In the ease of maintenance, repair and operating items, buyers are increasingly using *blanket* contracts rather than periodic purchase orders. A blanket contract creates a long-term relationship in which the supplier promises to resupply the buyer as needed at agreed prices for a set time period. The seller holds the stock and the buyer's computer automatically prints out an order to the seller when stock is needed.

1. ***Performance Review***

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

We have described the stages that would typically occur in a new-task buying situation. The eight-stage model provides a simple view of the business buying decision process. The actual process is usually much more complex. In the modified rebuy or straight rebuy situation, some of these stages would be compressed or bypassed. Each organization buys in its own way and each buying situation has unique requirements. Different buying-centre participants may be involved at different stages of the process. Although certain buying-process steps usually do occur, buyers do not always follow them in the same order and they may add other steps. Often, buyers will repeat certain stages of the process.

## 3.3. DiscussionQuestions

1. Define the consumer market and construct a simple model of consumer buyer behavior.
2. List and define the major types of buying decision behavior and the stages in the buyer decision process.
3. Name the four major factors that influence consumer buyer behavior.
4. Define the business market and explain how business markets differ from  
   consumer markets
5. Identify the major factors that influence business buyer behavior.

# CHAPTER FOUR

# 4. MARKET SEGMENTATION TARGETING AND POSITIONING

**Chapter Objectives**

After reading this chapter, you should be able to:

* Define market segmentation and market targeting.
* List and discuss the primary bases for segmenting consumer and business markets.
* Explain how companies identify attractive market segments and choose a market-cover age strategy.
* Explain how companies can position their products for maximum competitive advantage in the marketplace.

**Introduction**

Organizations that sell to consumer and business markets recognize that they cannot appeal to all buyers in those markets or at least not to all buyers in the same way. Buyers are too numerous, too widely scattered and too varied in their needs and buying practices. Companies vary widely in their abilities to serve different segments of the market. Rather than trying to compete in an entire market, sometimes against superior competitors, each company must identify the parts of the market that it can serve best. Segmentation is thus a compromise between mass marketing, which assumes everyone can be treated the same, and the assumption that each person needs a dedicated marketing effort.

Few companies now use mass marketing. Instead, they practice target marketing - identifying market segments, selecting one or more of them, and developing products and marketing mixes tailored to each. In this way, sellers can develop the right product for each target market and adjust their prices, distribution channels and advertising to reach the target market efficiently. Instead of scattering their marketing efforts (the 'shotgun' approach), they can focus on the buyers who have greater purchase interest (the 'rifle' approach).

## 4.1. Market Segmentation

**4.1.1. Meaning of Market segmentation**

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

**4.1.2 Levels of Market Segmentation**

Because buyers have unique needs and wants, each buyer is potentially a separate market. Ideally, then, a seller might design a separate marketing program for each buyer. However, although some companies attempt to serve buyers individually, many others face larger numbers of smaller buyers and do not find complete segmentation worthwhile. Instead, they look for broader classes of buyers who differ in their product needs or buying responses. Thus, market segmentation can be carried out at many different levels. Companies can practice no segmentation (mass marketing), complete segmentation (micromarketing) or something in between (segment marketing or niche marketing).

**1. Mass Marketing**

Companies have not always practiced target marketing. In fact, for most of the twentieth century, major consumer-products companies held fast to mass marketing - mass producing, mass distributing and mass promoting about the same product in about the same way to all consumers.

**2. Segmenting Markets**

A company that practices segment marketing recognizes that buyers differ in their needs, perceptions and buying behaviors. The company tries to isolate broad segments that make up a market and adapts its offers to match more closely the needs of one or more segments.

Segment marketing offers several benefits over mass marketing. The company can market more efficiently, targeting its products or services, channels and communications programs towards only consumers that it can serve well.

The company can also market more effectively by fine-tuning its products, prices and programs to the needs of carefully defined segments. And the company may face fewer competitors if fewer competitors are focusing on this market segment.

**3. Niche Marketing**

Market segments are normally large identifiable groups within a market. Niche marketing focuses on subgroups within these segments. A niche is a more narrowly defined group, usually identified by dividing a segment into sub segments or by defining a group with a distinctive set of traits who may seek a special combination of benefits. Whereas segments are fairly large and normally attract several competitors, niches are smaller and normally attract only one or a few competitors. Niche marketers presumably understand their niches' needs so well that their customers willingly pay price premium.

Niching offers smaller companies an opportunity to compete by focusing their limited resources on serving niches that may be unimportant to or overlooked by larger competitors.

**4. Micro marketing**

Segment and niche marketers tailor their offers and marketing programs so meet the needs of various market segments. At the same time, however, they do not customize their offers to each individual customer. Thus, segment marketing and niche marketing fall between the extremes of mass marketing and micromarketing. Micromarketing is the practice of tailoring products and marketing programs to suit the tastes of specific individuals and locations. Micromarketing includes: Local marketing, and Individual marketing

**1. Local marketing**: Local marketing involves tailoring brands and promotions to the needs and wants of local customer groups - cities, neighborhoods and even specific stores.

* Drawbacks of local marketing:

1. It can drive up manufacturing and marketing costs by reducing economies of scale.

2. It can also create logistical problems as companies try to meet the varied requirements of different regional and local markets. And

3. A brand's overall image may be diluted if the product and message vary in different localities.

* Advantages of Local Marketing

Still, as companies face increasingly fragmented markets, and as new supporting technologies develop, the advantages of local marketing often outweigh the drawbacks. Local marketing helps a company to market more effectively in the face of pronounced regional and local differences in community demographies and lifestyles. It also meets the needs of the company's 'first-line customers' - retailers — who prefer more fine-tuned product assortments for their neighborhoods.

2. **Individual marketing**: In the extreme, micromarketing becomes individual marketing tailoring products and marketing programs to the needs and preferences of individual customers. Individual marketing has also been labeled 'markets-of-one marketing', 'customized marketing' and 'one-to-one marketing'.

**4.1.3. Segmenting Consumer Markets**

There is no single way to segment a market. A marketer has to try different segmentation variables, alone and in combination. Here we look at the major geographic, demographic, psychographic and behavioral variables.

**1. Geographic Segmentation**

Geographic segmentation calls for dividing the market into different geographical units, such as nations, states, regions, countries, cities or neighborhoods. A company may decide to operate in one or a few geographical areas, or to operate in all areas but pay attention to geographical differences in needs and wants.

**2. Demographic Segmentation**

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

Another is that demographic variables are easier to measure than most other types of variable.

**Age**: consumer needs and wants change with age. Some companies use age and life-cycle segmentation, offering different products or using different marketing approaches for different age and life-cycle groups.

**Life-cycle stage: life**-cycle stage is important in recreation markets.

**Gender**: gender segmentation is usual in clothing, hairdressing, cosmetics and magazines. Recently, marketers have noticed other opportunities for gender segmentation.

**Income**: Income is also another variable used to segment the market.

**3. Psychographic Segmentation**

Psychographic segmentation divides buyers into groups based on social class, lifestyle or personality characteristics. People in the same demographic group can have very different psychographic make-ups.

**4. Behavioral Segmentation**

Behavioral segmentation divides buyers into groups based on their knowledge, attitudes, uses or responses to a product. Many marketers believe that behavior variables are the best starting point for building market segments.

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

**User Status**: Some markets segment into non-users, ex-users, potential users, first-time users and regular users of a product. Potential users and regular users may require different kinds of marketing appeal.

**Usage Rate:** Some markets also segment into light, medium and heavy-user groups. Heavy users are often a small percentage of the market, but account for a high percentage of total buying.

**Loyalty Status:** Many firms are now trying to segment their markets by loyalty, and are using loyalty schemes to do it. They assume that some consumers are completely loyal - they buy one brand all the time. Others are somewhat loyal - they are loyal to two or three brands of a given product, or favor one brand while sometimes buying others. Still other buyers show no loyalty to any brand. They either want something different each time they buy or always buy a brand on sale.

In most cases, marketers split buyers into groups according to their loyalty to their product or service, then focus on the profitable loyal customers.

**4.1.4 Requirements for Effective Segmentation**

Clearly there are many ways to segment a market, but not all segmentations are effective. Indeed, there is quite a gap between the sophisticated approaches to segmentation that are sometimes suggested and what is actually used by practitioners, For example, buyers of table salt may divide into blond and brunette customers, hut hair color obviously does not affect the purchase of salt.

Furthermore, if all salt buyers bought the same amount each month, believed all salt is the same and wanted to pay the same price, the company would not benefit from segmenting this market.

To be useful, market segments must have the following characteristics:

1.**Measurability**. The size, buying power and profiles of the segments need measuring. Certain segmentation variables are difficult to measure. For example, left-handed people

2.**Accessibility**. The market segment can be effectively reached and served.

3.**Substantiality**. The market segments are large or profitable enough to serve. A segment should be the largest possible homogeneous group worth pursuing with a tailored marketing program.

4. **Action-ability**. Effective programs need to attract and serve the segments.

## 4.2. Market Targeting

Target marketing is the process of evaluating each market segment’s attractiveness and selecting one or more segments to enter. Market segmentation reveals the firm’s market segment opportunities. The firm now has to evaluate the various segments and decide how many and which segments it can serve best.

**4.2.1 Evaluating Market Segments**

In evaluating different market segments, a firm must look at two dimensions; segment attractiveness and company fit.

**1. Segment Attractiveness**

The company must first collect and analyze data on current sales volume, projected sales-growth rates and expected profit margins for the various segments. Segments with the right size and growth characteristics are interesting. But 'right size and growth' are relative matters. Some companies will want to target segments with large current sales, a high growth rate and a high profit margin. However, the largest, fastest-growing segments are not always the most attractive ones for every company. Smaller companies may find that they lack the skills and resources needed to serve the larger segments, or that these segments are too competitive. Such companies may select segments that are smaller and less attractive, in an absolute sense, but that are potentially more profitable for them.

Segment might have desirable size and growth and still not be attractive from a profitability point of view. The company must examine several significant structural factors that affect long-run segment attractiveness, For example, the company should assess current and potential competitors. A segment is less attractive if it already contains many strong and aggressive competitors. Marketers also should consider the threat of substitute products. A segment is less attractive if actual or potential substitutes for the product already exist. Substitutes limit the potential prices and profits from segments. The relative power of buyers also affects segment attractiveness. If the buyers in a segment possess strong or increasing bargaining power relative to sellers, they will try to force prices down, demand more quality or services, and set competitors against one another. All these actions will reduce the sellers' profitability. Finally, segment attractiveness depends on the relative power of suppliers. A segment is less attractive if the suppliers of raw materials, equipment, labor and services in the segment are powerful enough to raise prices or reduce the quality or quantity of ordered goods and services. Suppliers tend to be powerful when they are large and concentrated, when few substitutes exist, or when the supplied product is an important input.

**2. Business Strengths**

Even if a segment has the right size and growth and is structurally attractive, the company must consider its objectives and resources for that segment. It is best to discard some attractive segments quickly because they do not mesh with the company's long-run objectives. Although such segments might be tempting in themselves, they might divert the company's attention and energies away from its main goals.

**4.2.2. Selecting Market Segments**

After evaluating different segments, the company must now decide which and how many segments it will target. A target market consists of set of buyers who share common needs or characteristics that the company decides to serve. Because buyers have unique needs and wants, a seller could potentially view each buyer as a separate target market.

## 4.3. The Concept of Positioning

A product's position is the way the product is defined by consumers on important attributes, i.e. the place the product occupies in consumers' minds relative to competing products.

A firm's competitive advantage and its product's position can be quite different. A competitive advantage is the strength of a company, while a product's position is a prospect's perception of a product. A competitive advantage, like low costs or high quality, could influence a product's position, but in many cases it is not central to it.

Consumers are overloaded with information about products and services. They cannot re-evaluate products every time they make a buying decision. To simplify buying decision making, consumers organize products into categories, i.e. they 'position' products, services and companies in their minds. A product's position is the complex set of perceptions, impressions and feelings that consumers hold for the product compared with competing products. Consumers position products with or without the help of marketers. But marketers do not want to leave their products' positions to chance. They plan positions that will give their products the greatest advantage in selected target markets, and they design marketing mixes to create these planned positions.

**4.3.1 Choosing a Positioning Strategy**

Some firms find it easy to choose their positioning strategy. For example, a firm well known for quality in certain segments will go for this position in a new segment if there are enough buyers seeking quality. In many cases, two or more firms will go after the same position. Then, each will have to find other ways to set itself apart. Each firm must differentiate its offer by building a unique bundle of competitive advantages that appeal to a substantial group within the segment.

Having identified a set of possible competitive advantages upon which to build a position, the next stages are to select the right competitive advantages and effectively communicate the chosen position to the market.

**1. Identifying Possible Competitive Advantages**

The key winning and keeping target customers is to understand their needs than competitors do and to deliver more value. To the extent that company can position itself as providing superior value, it gains competitive advantage. But solid positions cannot be built on empty promises. If a company positions its, predicts as offering the best quality and service, it must then deliver the promised quality and services. Thus positioning begins with actually differentiating the company’s marketing offer so that it will give consumers more value than competitor’s offers do.

Competitive advantage is an advantage over competitors gained by offering consumers greater value, either through lower prices or by providing more benefits justify higher prices. To find points of differentiation, marketers must think through the customer’s entire experience with the company’s product or service. An alert company can find ways to differentiate itself at every point where it comes in to contact with customers. In what specific ways can a company differentiated its offer from those of competitors? A company or market offer can be differentiated along the line of product, service, channel, people, or image.

Product differentiation takes places along a continuum. At one extreme we find physical products that allow little variation, steel, chicken, aspirin. At the other extreme are products that can be highly differentiated, such as automobiles, clothing and furniture such products can be differentiated on features, performance, or style and designing companies can also differentiate their products on such attributes as consistency, durability, reliability, or reparability.

Beyond differentiating its physical products, a firm can also differentiate the services that accompany the product. Some companies gain service differentiation through speedy, convenient or careful delivery.

Installation can also differentiate one company from another, as can repair service some companies differentiate their offers by providing customer training service of consulting service date, information systems, and advising services that buyers need.

Firms that practice channel differentiation gain competitive advantage through the way they design their channels coverage, expertise and performance.

Companies can gain a strong advantage through people differentiation hiring and training better people than their competitors do. Even when competing offers look the same buyers may perceive a difference based on company or brand image differentiation. A company or brand image should convey the products distinctive benefits and positioning. Developing a strong and distinctive image calls for creative and hard work. A company cannot plant an image in the public’s mind overnight using only a few advertisements.

**2. Selecting the Right Competitive Advantages**

Suppose a company is fortunate enough to have several potential competitive advantages. It must now choose the ones upon which it will build its positioning strategy. It must decide how many differences to promote and which ones.

***How Many Differences to Promote?***

Many marketers think that companies should aggressively promote only one benefit to the target market. Other marketers think that companies should position themselves on more than one differentiating factor. This may be necessary if two or more firms are claiming to be best on the same attribute.

Today, in a time when the mass market is fragmenting into many small segments, companies are trying to broaden their positioning strategies to appeal to more segments.

***Which Differences to Promote?***

Not all brand differences are meaningful or worthwhile. Not every difference makes a good differentiator. Each difference has the potential to create company costs as well as customerbenefits. Therefore, the company must carefully select the ways in which it will distinguish itself from competitors. A difference is worth establishing insofar as it satisfies the following criteria:

* ***Important****:*The difference delivers a highly valued benefit to target buyers.
* ***Distinctive:***Competitors do not offer the difference, or the company can offer it in a more distinctive way.
* ***Superior:***The difference is superior to other ways that customers might obtain the same benefit.
* ***Communicable****:*The difference is communicable and visible to buyers.
* ***Pre-emptive:***Competitors cannot easily copy the difference.
* ***Affordable:***Buyers can afford to pay for the difference.
* ***Profitable:***The company can be introduce the difference profitably.

**3. Communicating and Delivering the Chosen Position**

Once it has chosen a position, the company must take strong steps to deliver and communicate the desired position to target consumers. All the company's marketing-mix efforts must support the positioning strategy. Positioning the company calls for concrete action - it is not just talk. If the company decides to build a position on better quality and service, it must first deliver that position.

Designing the marketing mix - product, price, place and promotion – involves working out the tactical details of the positioning strategy. Thus a firm that seizes upon a 'high-quality position' knows that it must produce high-quality products, charge a high price, distribute through high-quality dealers and advertise in high quality media. It must hire and train more service people, find retailers that have a good reputation for service, and develop sales and advertising messages that broadcast its superior service. This is the only way to build a consistent and believable high-quality, high-service position

## 4.4 Discussion Question

1. List and discuss the major bases for segmenting consumer and business markets.
2. Explain how companies identify attractive market segments and choose a market-targeting strategy.
3. Explain how the effectiveness of market segments is tested.

# CHAPTER FIVE

# 5. MANAGING PRODUCT

**Chapter Objectives**

After reading this chapter, you should be able to:

* Define the term product including the core, actual and augmented product.
* Explain the main classifications of consumer and industrial products.
* Outline the range of individual product decisions that marketers make.
* Explain the purpose of branding and identify the chief branding decisions.
* Explain the decisions that companies make when developing product lines and mixes.
* Explain how companies find and develop new-product ideas.
* List and define the steps in the new-product development process.
* Describe the stages of the product life-cycle.l

## 5.1. Definition of Product

We define a product as anything that is offered to a market for attention, acquisition, use or consumption and that might satisfy a want or need. Products include more than just tangible goods. Broadly defined, products include physical objects, services, persons, places, organizations, ideas or mixes of these entities.Services are products that consist of activities, benefits or satisfactions that are offered for sale, such as haircuts, tax preparation and home repairs. Services are essentially intangible and do not result in the ownership of anything.

## 5.2. Levels of Product

* Products have three levels:

1. Core Product
2. Actual Product
3. Augmented Product
4. **Core Product:** this is the most basic level of product, which addresses the question; what is the buyer really buying? It stands at the center and consists of the core, problem solving benefits that consumers seek when they buy a product or service.
5. **Actual Product:** the next level to be built is actual product around the core product. It may have as many as five characteristics:

* Quality level
* Features
* Design
* Brand name and
* Packaging

Example: Sony television is an actual product; its name, parts, features, packaging, and other attributes have all been combined carefully to deliver the core benefit, i.e. a convenient, high quality service.

1. **Augmented Product:** is build around the core and actual products by offering additional consumer services and benefits.

Example: Toyota may offer more than a car. i.e.

* Repair and Maintenance
* Warranty, etc

Generally, a product is more than a simple set of tangible product rather is complex bundle of benefits that satisfies the need of consumer.

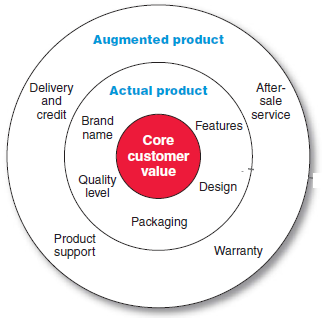


Figure 5.1 Three levels of product

## 5.3. Product Classifications

Before we examine individual product decisions, let us explain several product classification schemes. Products can be classified according to their durability and tangibility.

* Non- durable goods that are normally consumed quickly and used on one or a few usage occasions, such as beer, soap and food products.
* Durable products are products used over an extended period of time and normally survive for many years. Examples are refrigerators, cars and furniture.

Marketers have also divided products and services into two broad classes based on the types of customer that use them - consumer products and industrial products.

1. **Consumer Products**

Consumer products are those bought by final consumers for personal consumption. Marketers usually classify these goods based on consumer shopping habits. Consumer products include convenience products, shopping products, specialty products and unsought products. These products differ in the way consumers buy them, so they differ in how they are marketed.

* 1. **Convenience products:** are consumer goods and services that the consumer usually buys frequently, immediately and with a minimum of comparison and buying effort. They are usually low priced and widely available. Examples are soap, sweets and newspapers. Convenience goods can be divided further into staples, impulse goods and emergency goods.
* **Staple:** are goods that consumers buy on a regular basis, such as milk, toothpaste, salt, matches or bread.
* **Impulse goods**: are purchased with little planning or search effort. These goods are normally available in many places because consumers seldom seek them out. Such products are placed next to checkout counters because shoppers may not otherwise think of buying them.

Example: magazines, etc.

* **Emergency products**: are purchased when a need is urgent - umbrellas during a rainstorm, or boots and shovels during the year's first snowstorm. Manufacturers of emergency goods will place them in many outlets to make them readily available when the customer needs them.
  1. **Shopping products**: are less frequently purchased and consumers spend considerable time and effort gathering information and comparing alternative brands carefully on suitability, quality, price and style.

Examples of shopping products are furniture, clothing, used cars and major household appliances.

* 1. **Specialty products:** are consumer goods with unique characteristics or brand identification for which a significant group of buyers is willing to make a special purchase effort.

Examples are specific brands and types of car, high-priced home entertainment systems, photographic equipment and luxury goods.

* 1. **Unsought products**: are consumer goods that the consumer either does not know about or knows about but does not normally think of buying. Most major innovations are unsought until the consumer becomes aware of them through advertising. Other examples of known but unsought goods are life insurance, home security systems and blood donations to the Red Cross. By their very nature, unsought goods require a lot of advertising, personal selling and other marketing efforts.

**2. Industrial Products**

Industrial products are those bought for further processing or for use in conducting a business. Thus the distinction between a consumer product and an industrial product is based on the purpose for which the product is purchased. If a consumer buys a lawn mower for home use, the lawn mower is a consumer product. If the same consumer buys the same lawn mower for use in a landscaping business, the lawn mower is an industrial product.

There are three groups of industrial product: materials and parts, capital items and supplies and services.

**2.1. Materials and parts:** are industrial goods that become a part of the buyer's product, through further processing or as components. They include raw materials and manufactured materials and parts.

**Raw materials:** include farm products (wheat, cotton, livestock, fruits, vegetables and natural products (fish, timber, crude petroleum, iron ore). Farm products are supplied by many small producers, which turn them over to marketing intermediaries that process and sell them. Natural products usually have great bulk and low unit value, and require a lot of transportation to move them from producer to user.

They are supplied by fewer and larger producers, which tend to market them directly to industrial users.

**Manufactured materials and parts:**  include component materials (iron, yarn, cement, wires) and component parts (small motors, tyers,). Component materials are usually processed further - for example, pig iron is made into steel, and yarn is woven into cloth. Most manufactured materials and parts are sold directly to industrial users. Price and service are the most significant marketing factors, and branding and advertising tend to be less important.

**2.2. Capital items:** are industrial products that help in the buyers' production or operations. They include installations and accessory equipment.

* Installations consist of buildings (factories, offices) and fixed equipment (generators, drill presses, large computers). Because installations are substantial purchases, they are usually bought directly from the producer after a long decision period.
* Accessory equipment includes portable factory equipment and tools (hand tools, lift trucks) and office equipment (fax machines, desks). These products do not become part of the finished product. They have a shorter life than installations and simply aid in the production process. Most sellers of accessory equipment use intermediaries because the market is spread out geographically, the buyers are numerous and the orders are small.

**2.3. Supplies and services**: are industrial products that do not enter the finished product at all. Supplies include operating supplies (lubricants, coal, computer paper, pencils) and repair and maintenance items (paint, nails, brooms). Supplies are the convenience goods of the industrial field because they are usually purchased with a minimum of effort or comparison. Business services include maintenance and repair services (window cleaning, computer repair) and business advisory services (legal, management consulting, and advertising). These services are usually supplied under contract. Maintenance services are often provided by small producers, and repair services are often available from the manufacturers of the original equipment.

## 5.4. Individual Product Decisions

In developing and marketing of individual products and services, important decisions about **product attributes, branding, packaging, labeling, and product-support services**should be focused.

1. **PRODUCT ATTRIBUTES**

Developing a product involves defining the benefits that the product will offer. These benefits are communicated and delivered by tangible product attributes, such as quality, features and design. Decisions about these attributes are particularly important as they greatly affect consumer reactions to a product. We will now discuss the issues involved in each decision.

* 1. **Product Quality**

Quality is one of the marketer's major positioning tools. Quality has two dimensions: **level** and **consistency**.

* **Quality Level:** In developing a product, the marketer must first choose a quality level that will support the product's position in the target market. Here, **product** quality stands for the ability of a product to perform its functions; it includes the product's overall durability, reliability, precision, ease of operation and repair, and other valued attributes. Although some of these attributes can be measured objectively, from a marketing point of view, quality should be measured in terms of buyers' perceptions.
* **Consistency:** Beyond quality level, high quality can also mean consistently delivering the targeted level of quality to consumers. In this sense, quality means 'absence of defects or variation'.
  1. **Product Features**

A product can be offered with varying features. Companies can create more features by adding higher-level models. Features are a competitive tool for differentiating the company's product from competitors' products. Being the first producer to introduce a needed and valued new feature is one of the most effective ways to compete.

How can a company identify new features and decide which ones to add to its product? The company should periodically survey buyers who have used the product and ask these questions: How do you like the product? Which specific features of the product do you like most? Which features could we add to improve the product? How much would you pay for each feature? The answers provide the company with a rich list of feature ideas, each of which should be assessed on the basis of its customer value versus its company cost. The analysis should give insight into features that customers value highly in relation to costs, and which would truly improve the product's competitive position.

* 1. **Product Design**

Another way to add product distinctiveness is through product design. Design can be one of the most powerful competitive weapons in a company's marketing arsenal.

Design is a broader concept than style. Style simply describes the appearance of a product. A sensational style may grab attention, but it does not necessarily make the product perform better. In some cases, it might even result in worse performance. For example, a chair may look great yet be extremely uncomfortable. Unlike style, design is more than skin deep - it goes to the very heart of a product. Good design contributes to a product's usefulness as well as to its looks. A good designer considers appearance, but also creates products that are easy, safe, inexpensive to use and service, and simple and economical to produce and distribute.

1. **BRANDING**

Consumers view a brand as an important part of a product, and branding can add value to a product. Branding has become a central issue in product strategy. On the one hand, developing a branded product requires a great deal of long-term marketing investment, especially for advertising, promotion and packaging. Manufacturers often find it easier and less expensive simply to make the product and let others do the brand building. On the other hand, most manufacturers eventually learn that the power lies with the companies that control the brand names.

Powerful brand names have consumer franchise that is, they command strong consumer loyalty. This means that a sufficient number of customers demand these brands and refuse substitutes, even if the substitutes are offered at somewhat lower prices. Companies that develop brands with a strong consumer franchise are insulated from competitors' promotional strategies. Thus it makes sense for a supplier to invest heavily to create strong national or even global recognition and preference for its brand name.

* 1. **Definition of Brand**

Perhaps the most distinctive skill of professional marketers is their ability to create, maintain, protect, reinforce and enhance brands. A brand is a name, term, sign, symbol, design or a combination of these, which is used to identify the goods or services of one seller or group of sellers and to differentiate them from those of competitors.

* 1. **Brand Equity**

Brands vary in the amount of power and value they have in the marketplace.Some brands are largely unknown to most buyers. Other brands have a high degree of consumer brand awareness. Still others enjoy brand preference that buyers select them over the others. Finally, some brands command a high degree of brand loyalty.

A powerful brand has high brand equity. Brands have higher brand equity to the extent that they have higher brand loyalty, name awareness, perceived quality, strong brand associations and other assets such as patents, trademarks and channel relationships. A brand with strong brand equity is a valuable asset. High brand equity provides a company with many competitive advantages.

Because a powerful brand enjoys a high level of consumer brand awareness and loyalty, the company will incur lower marketing costs relative to revenues.

Marketers need to manage their brands carefully in order to preserve brand equity. They must develop strategies that effectively maintain or improve brand awareness, perceived brand quality and usefulness, and positive brand associations over time. This requires continuous R & D investment to provide a constant flow of improved and innovative products to satisfy customers' changing needs, skillful advertising and excellent trade and consumer service.

* **Branding helps buyers in many ways:**
* Brand names tell the buyer something about product quality. Buyers who always buy the same brand know that they will get the same quality each time they buy.
* Brand names also increase the shopper's efficiency. Imagine a buyer going into a supermarket and finding thousands of generic products.
* Brand names help call consumers' attention to new products that might benefit them. The brand name becomes the basis upon which a whole story can be built about the new product's special qualities.
* **Branding also gives the supplier several advantages:**
* The brand name makes it easier for the supplier to process orders and track down problems.
* The supplier's brand name and trademark provide legal protection for unique production features that otherwise might be copied by competitors.
* Branding enables the supplier to attract a loyal and profitable set of customers.
* Branding helps the supplier to segment markets.
* **Branding also adds value to consumers and society:**
* Those who favor branding suggest that it leads to higher and more consistent product quality.
* Branding also increases innovation by giving producers an incentive to look for new features that can be protected against imitating competitors. Thus, branding results in more product variety and choice for consumers.
* Branding helps shoppers because it provides much more information about products and where to find them.

**2.3 Major Branding Strategy Decisions**

Major branding decisions involving ***brand positioning, brand name selection, brand sponsorship and brand development.***

**2.3.1 Brand positioning**

Marketers need to position their brands clearly in target customers’ minds. But a brand is a complex symbol that can convey several levels of meaning:

**1. Attributes.**A brand first brings to mind certain product attributes. For example, Mercedes suggests such attributes as ‘well engineered’, ‘well built’, ‘durable’, ‘high prestige’, ‘fast’, ‘expensive’ and ‘high resale value’. The company may use one or more of these attributes in its advertising for the car.

**2. Benefits.**Customers do not buy attributes, they buy benefits. Therefore, attributes must be translated into functional and emotional benefits. For example, the attribute ‘durable’ could translate into the functional benefit ‘I won’t have to buy a new car every few years.’ The attribute ‘expensive’ might translate into the emotional benefit ‘The car makes me feel important and admired.’ The attribute ‘well built’ might translate into the functional and emotional benefit ‘I am safe in the event of an accident.’

**3. Values.** A brand also says something about the buyers’ values. Thus Mercedes buyers value high performance, safety and prestige. A brand marketer must identify the specific groups of car buyers whose values coincide with the delivered benefit package.

**4. Culture.** A brand also represents a certain culture. The Mercedes represents ‘German culture’: high performance, efficient, high quality.

**5. Personality.** A brand also projects a personality. Motivation researchers sometimes ask ‘If this brand were a person, what kind of person would it be?’. Consumers might visualize a Mercedes automobile as being a wealthy, middle-aged business executive. The brand will attract people whose actual or desired self-images match the brand’s image.

All this suggests that a brand is a complex symbol. If a company treats a brand only as a name, it misses the point of branding. The challenge of branding is to develop a deep set of meanings or associations for the brand. Given the five levels of a brand’s meaning, marketers must decide the level(s) at which they will position the brand and to promote the brand.

* + 1. **Brand Name Selection**

Selecting the right name is a crucial part of the marketing process. The brand name should be carefully chosen. A good name can add greatly to a product's success. Most large marketing companies have developed a formal, brand- name selection process. Finding the best brand name is a difficult task. It begins with a careful review of the product and its benefits, the target market and proposed marketing strategies.

* **Desirable qualities for a brand name include the following:**

1. It should suggest something about the product's benefits and qualities.

2. It should be easy to pronounce, recognize and remember.

3. The brand name should be distinctive. Examples: Shell, Kodak.

4. The name should translate easily (and meaningfully) into foreign languages.

5. It should be capable of registration and legal protection.

A brand name cannot be registered if it infringes on existing brand names. Also, brand names that are merely descriptive or suggestive may be un protectable. Once chosen, the brand name must be registered with the appropriate Trade Marks Register, giving owners intellectual property rights and preventing competitors from using the same or similar name.

* + 1. **Brand Sponsor**

A manufacturer has four sponsorship options.

* Manufacturer’s brand (national brand):- when manufacturers sell their output under their own manufacturer’s brand names.
* Private brands:-when manufacturer sell to resellers, who give it a private brand.
* Licensed brand:- names or symbols which are previously created by other manufacturer and licensed to others.
* Co-Branding:- the practice of using the established brand names of two different companies on the same product.

**2.3.4 Brand development**

A company has four choices when it comes to developing brands (see Figure 5.2). It can introduce *line extensions* (existing brand names extended to new forms, sizes and flavors of an existing product category), *brand extensions* (existing brand names extended to new product categories), *multi brands* (new brand names introduced in the same product category)

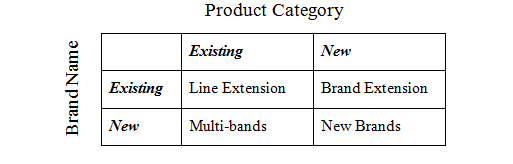


Figure 5.2. Brand development

1. **Line Extensions**

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

1. **Brand Extensions**

A brand-extension (or brand-stretching) strategy is any effort to use a successful brand name to launch new or modified products in a new category. A brand-extension strategy offers many advantages. First, brand extensions capture greater market share and realize greater advertising efficiency than individual brands. Second, a well-regarded brand name helps the company enter new product categories more easily as it gives a new product instant recognition and faster acceptance. Sony puts its name on most of its new electronic products, creating an instant perception of high quality for each new product. Thus, brand extensions also save the high advertising cost usually required to familiarize consumers with a new brand name.

1. **Multi Brands**

A strategy under a seller develops two or more brands in the same product category.

1. **New Brands**

Firms that favour a multiband approach are likely to create a new brand to differentiate a new product, whether it is introduced into an existing or a new-product category. However, for some companies, a new brand may be created because it is entering a new-product category for which none of the company's current brands seems appropriate.

1. **PACKAGING DECISIONS**

Many products offered to the market have to be packaged. Some marketers have called packaging a fifth ‘*P’*, along with price, product, place and promotion. Most marketers, however, treat packaging as an element of product strategy. Packaging includes the activities of designing and producing the container or wrapper for a product.

The package may include the product’s primary container (the tube holding and protecting Aqua fresh toothpaste); a secondary package that is thrown away when the product is about to be used (the cardboard box containing the tube of Aqua fresh); and the shipping package necessary to store, identify and ship the product (a corrugated box carrying six dozen tubes of Aqua fresh toothpaste). Labeling; printed information appearing on or with the package is also part of packaging.

Developing a good package for a new product requires making many decisions. The first task is to establish the **packaging concept**, which states what the package should *be* or *do* for the product. Should the main functions of the package be to offer product protection, introduce a new dispensing method, communicate certain qualities about the product, the brand or the company, or something else? Decisions, then, must be made on **package design** that cover specific elements of the package, such as size, shape, materials, color, text and brand mark. These elements must work together to support the product’s position and marketing strategy and be consistent with the product’s advertising, pricing and distribution. Furthermore, in recent years **product safety** has also become a major packaging concern.

In recent times, many factors, beyond containing and protecting the product, have made packaging an important marketing tool. Increased competition and clutter on retail store shelves means that packages must now perform many sales tasks – from attracting attention, to describing the product, to making the sale. Companies are realizing the power of good packaging to create instant consumer recognition of the company or brand.

* Packaging performs a vital function for most products.

1. It protects goods from being damaged before you buy them
2. helps keep, for example, foodstuffs hygienic and fresh, and
3. Is often necessary for labelling and information reasons.

**4. LABELLING DECISIONS**

Labels may range from simple tags attached to products to complex graphics that are part of the package.

* They perform several functions.

1. The label identifies the product or brand
2. The label might also grade the product, or describe several things about the product - who made it, where it was made, when it was made, its contents, how it is to be used and how to use it safely.
3. Finally, the label might promote the product through attractive graphics.

**5. PRODUCT-SUPPORT SERVICES DECISIONS**

Customer service is another element of product strategy, a company's offer to the marketplace usually includes some services, which can be a minor or a major part of the total offer. In fact, the offer can range from a pure good on the one hand to a pure service on the other.More and more companies are using product-support services as a vital tool in gaining competitive advantage. Good customer service makes sound business sense. It costs less to keep the goodwill of existing customers than it does to attract new customers or who back lost customers.

## 5.5 Product Line Decisions

We have looked at product strategy decisions such as branding, packaging, labelling and services for individual products. But product strategy also calls for building a product line. ***A product line is a group of products that are closely related because they function in a similar manner, are sold to the same customer groups, are marketed through the same types of outlet, or fall within given price ranges.*** For example, Nike produces several lines of athletic shoes.

**Product Line-Length Decisions**

Product line managers have to decide on product line length. Product line length is influenced by company objectives. Companies that want to be positioned as full-line companies or that are seeking high market share and market growth, usually carry longer lines.However, as the manager adds items, several costs rise: design and engineering costs, inventory carrying costs, manufacturing changeover costs, order processing costs, transportation costs, and promotional costs to introduce new items. Consequently, the company must plan product line growth carefully. It can systematically increase the length of its product line in two ways: by **stretching**its line and by **filling** its line. Every company's product line covers a certain range ofthe products offered by the industry as a whole.

* **Product Stretching**

Product line stretching occurs when a company lengthens its product line beyond its current range. Company can stretch its line downwards, upwards or both ways.

1. **Downward Stretch**

Downward stretching occurs when a company that is located at the upper end of the market later stretches its lines downwards. A firm may have first entered the upper end to establish a quality image and intended to roll downwards later. It may be responding to an attack on the upper end by invading the low end. Or a company may add a low-end product to plug a market hole that otherwise would attract a new competitor. It may find faster growth taking place at the low end.

In stretching downwards, the company faces some risks. The low-end item might provoke competitors to counteract by moving into the higher end. The company's dealers may not be willing or able to handle the lower-end products. Or the move may confuse the customer.

1. **Upward Stretch**

Companies at the lower end of the market may want to enter the higher end. They may be attracted by a faster growth rate or higher margins at the higher end, or they may simply want to position themselves as full-line manufacturers. Sometimes, companies move up-market in order to add prestige to their current products,

An upward stretch decision can be risky. The higher-end competitors not only are well entrenched, but also may strike back by entering the lower end of the market. Prospective customers may not believe that the newcomer can produce quality products. Finally, the company's salespeople and distributors may lack the talent and training to serve the higher end of the market.

1. **Two - Way Stretch**

Companies in the middle range of the market may decide to stretch their lines in both directions.

* **Product Line-Filling Decisions**

Rather than stretching into lower or higher-end segments, the firm can lengthen its product line by adding more items within the present range of the line. There are several reasons for productline filling: reaching for extra profits, trying to satisfy dealers, trying to use excess capacity, trying to be the leading full-line company, and trying to plug holes to keep out competitors. Thus Sony filled its line by adding solar-powered and waterproof Walkmans and an ultra light model that attaches to a sweat band for joggers, cyclists, tennis players and other exercisers.However, line filling is overdone if it results in cannibalization and customer confusion. The company should, therefore, ensure that new items are noticeably different from existing ones.

## 5.6 Products-Mix Decisions

Some companies may offer not one, but several lines of products which form a product **mix** or product assortment. For example, a cosmetics firm may have four main product lines in its product mix: cosmetics, jewellery, fashions and household items. Each product line may consist of a range of items or sub lines.

Take cosmetics. This could be broken down into several sub lines - lipstick, powder, nail varnish, eye-shadows and so on. Each sub line may have many individual items. For example, eye-shadows contain a string of items, ranging from different colours to alternative application modes (e.g. pencil, roll-on, powder).

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

* **Width:** The width of the product mix refers to the number of different product lines the company carries
* **Length**: The length of product mix refers to the total number of items the company carries.
* **Depth:** The depth or number of versions offered of each brand or product in the line can also be counted.
* **Consistency:** The consistency of the product mix refers to how closely related the various product lines are in end use, Production requirements, distribution channels or some other way.

## 5.7 Innovation and New-ProductDevelopment Strategy

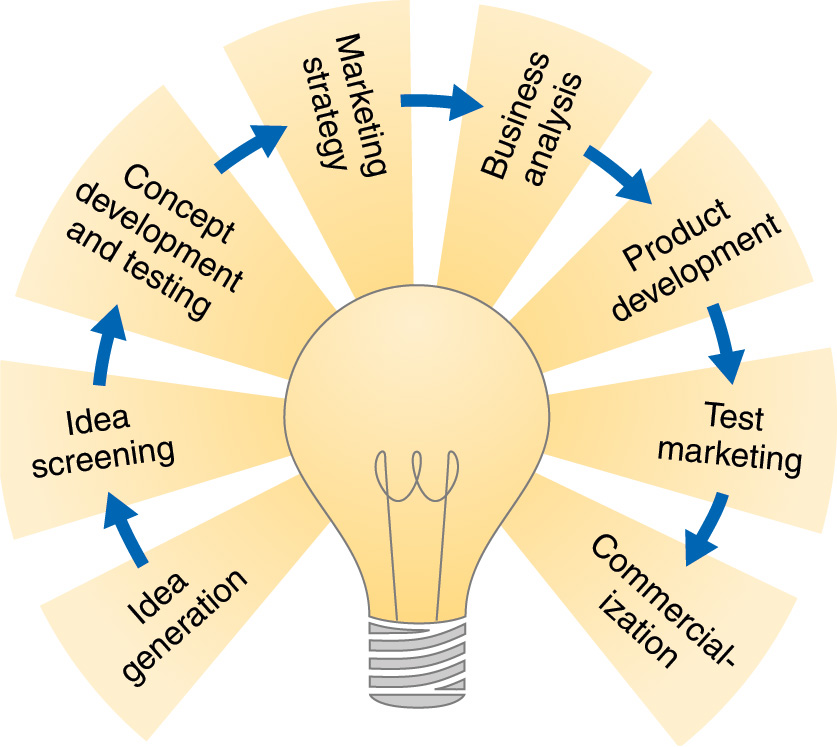
Product innovation encompasses a variety of product development activities – product improvement, development of entirely new products, and extensions that increase the range or number of lines of product the firm can offer. Product innovations are not to be confused with **inventions**. The latter are new technologies or products which may or may not be commercialized and may or may not deliver benefits to customers. An **innovation** is defined as *an idea, service, product or piece of technology that has been developed and marketed tocustomers who perceive it as novel or new*. **New-product development** is an act of innovation which entails a process of identifying, creating and delivering new-product values or benefits that were not offered before in the marketplace.

A firm can obtain new products in two ways. One is through *acquisition* – by buying a whole company, a patent or a license to produce someone else’s product. Many large companies have decided to acquire existing brands rather than to create new ones because of the rising costs of developing and introducing major new products. The other route to obtaining new products is through **new-product development** in the company’s own research-and-development department.

We can identify six categories of new products.

1. New – to – the – world – products: New products that create an entirely new market.
2. New product lines: New products that allow a company to enter an established market for the first time.
3. Additions to the existing lines: New products that supplement established product lines (package size, flavors.)
4. Improvements and revisions of existing products: new products that provide improved performance or greater perceived value and replace existing products.
5. Repositioning: Existing products that are targeted to new markets or market segments.
6. Cost reduction: New products that provide similar performance at lower cost.

**5.7.1 New-product development process**

The new-product development process for finding and growing new products consists of eight main steps (see Figure).

Steps in new product development

**Idea generation**

The PIC should direct the systematic search for new-product ideas. **Idea generation** should beproactive and systematic rather than haphazard. This ensures that the company will find notonly many ideas, but also ones that are good for its type of business. A company typically hasto generate many ideas in order to find a few good ones.

To obtain a flow of new-product ideas, the company can tap many sources. Chief sourcesof new-product ideas include internal sources (brainstorming), external sources (customers, competitors, distributors andsuppliers).

**Internal sources**

The company can find new ideas through its own formal research and development efforts.It can pick the brains of its executives, scientists, engineers, designers, manufacturing andsalespeople. Some companies have established ‘intrapreneurial’ programmes that encourageemployees to think up and develop new product ideas. Formalor informal suggestion schemes can also be used to tap staff’s ideas for improving production,products and services.

**Customers**

Good new-product ideas also come from watching and listening to customers. The companycan analyze customer questions and complaints to find new products that better solveconsumer problems. It can conduct surveys or focus groups to learn about consumer needsand wants. Or company engineers or salespeople can meet with or work alongside customersto get suggestions and ideas.

**Competitors**

Competitors are another good source of new-product ideas. Companies watch competitors’ads and other communications to get clues about their new products. They can researchcompeting competitors’ products and services. For example, they can find out what customerslike and dislike about competitors’ products. Or they can buy competitors’ new products, take them apart to see how they work, analyze their sales, and decide whether the company shouldbring out a new product of its own.

**Distributors, suppliers and others**

Resellers are close to the market and can pass along information about consumer problemsand new-product possibilities. Suppliers can tell the company about new concepts, techniquesand materials that can be used to develop new products. Other idea sources include trademagazines, shows and seminars, government agencies, advertising agencies, marketingresearch firms, university and commercial laboratories, science parks, and inventors.Companies may also turn to new-product consultants to find new ideas and problemsolutions to serve customer needs better.

The search for new-product ideas should be systematic in order to ensure that manygood ideas will surface, not sputter in and die. Top management can avoid these problemsby installing an ideas management system that directs the flow of new ideas to a centralpoint where they can be collected, reviewed and evaluated. The company may set up anideas management system in a number of ways: appoint a respected senior person to be thecompany’s ideas manager; create a multidisciplinary ideas management committee, consistingof people from R&D, engineering, purchasing, operations, finance, sales and marketing,who meet regularly and evaluate proposed new-product ideas; set up a freephone numberfor anyone who wants to volunteer new ideas to the ideas manager; encourage all of thecompany’s stakeholders – employees, suppliers, distributors, dealers and so forth – to sendtheir ideas to the ideas manager; and set up a formal recognition programme to reward thosewho contribute the best ideas.

The ideas manager approach has two advantages. First, it helps foster an innovationorientedcompany culture. It shows that top management supports, encourages and rewardsinnovation. Second, it yields a steady stream of ideas from which good ones will emerge.As the system matures, ideas will flow more freely. Importantly, companies that use such aformalized approach to finding new ideas will find that no longer will good ideas wither forthe lack of a sounding-board or a senior product advocate.

**Idea screening**

The purpose of idea generation is to create a large number of ideas. The purpose of thesucceeding stages is to *reduce* that number. The first idea-reducing stage is **idea screening**.The purpose of screening is to spot good ideas and drop poor ones as soon as possible. Asproduct development costs rise greatly in later stages, it is important for the company to goahead only with those product ideas that will turn into profitable products.Most companies require their executives to write up new-product ideas on a standardform that can be reviewed by a new-product committee. The write-up describes theproduct, the target market and the competition, and makes some rough estimates of marketsize, product price, development time and costs, manufacturing costs and rate of return.

The committee then evaluates the idea against a set of general criteria. Typically, thecommittee asks questions such as these: Is the product truly useful to consumers and society?Is this product good for our particular company? Does it mesh well with the company’sobjectives and strategies? Do we have the people, skills and resources to make it succeed?Does it deliver more value to customers than competing products? Is it easy to advertiseand distribute? Many companies have well-designed systems for rating and screeningnew-product ideas.

**Concept development and testing**

* **Concept development:** detailed version of the product concept in meaningful consumer terms
* **Concept testing:** testing new-product concepts for consumer appeal. The concepts may be presented to consumers symbolically or physically.

**Marketing strategy development**

The next step is to develop a **marketing strategy** for introducing the product to the market.The **marketing strategy statement** consists of three parts. The first part describes the targetmarket, the planned product positioning, and the sales, market share and profit goals for thefirst few years. Thus: The second part of the marketing strategy statement outlines the product’s planned price,distribution and marketing budget for the first year.The third part of the marketing strategy statement describes the planned long-run sales, profitgoals and marketing mix strategy.

**Business analysis**

Once management has decided on its product concept and marketing strategy, it can evaluatethe business attractiveness of the proposal. **Business analysis** involves a review of the sales,costs and profit projections for a new product to find out whether they satisfy the company’sobjectives. If they do, the product proceeds to the product development stage.

To estimate sales, the company looks at the sales history of similar products and conductssurveys of market opinion. It then estimates minimum and maximum sales to assess the rangeof risk. After preparing the sales forecast, management can estimate the expected costs andprofits for the product, including marketing, R&D, manufacturing, accounting and financecosts. The company then uses the sales and costs figures to analyze the new product’s financialattractiveness.

**Product development**

So far, for many new-product concepts, the product may have existed only as a word description,a drawing or perhaps a crude mock-up. If the product concept passes the business test,it moves into **product development**. Here, R&D or engineering develops the product conceptinto a physical product. The product development step, however, now calls for a large jumpin investment. It will show whether the product idea can be turned into a workable product.

The R&D department will develop one or more physical versions of the product concept.R&D hopes to design a prototype that functions, is able to satisfy and excite consumers andcan be produced quickly and at budgeted costs. Developing a successful prototype can takedays, weeks, months or even years. Sometimes product design and development may pose aserious challenge for the firm and companies have to find ways to get round these obstacles. When the prototypes are ready, they undergo rigorous functional tests under laboratoryand field conditions to make sure that the product performs safely and effectively.

The prototype must have the required functional features and also convey the intendedpsychological characteristics. The fuel-cell-powered electric car, for example, should strikeconsumers as being well built, comfortable and safe. Management must learn what makesconsumers decide that a car is well built. To some consumers, this means that the car has‘solid-sounding’ doors. To others, it means that the car is able to withstand heavy impactin crash tests.

Consumer tests are conducted, in which consumers test-drive the car and rateits attributes. For some products, prototyping and product development may involve both thekey intermediaries that supply the product or service and the final consumer or end-user.

**Test marketing**

If the product passes functional and consumer tests, the next step is **test marketing**, the stageat which the product and marketing programme are introduced into more realistic marketsettings.

Test marketing gives the marketer experience with marketing the product before goingto the great expense of full introduction. It lets the company test the product and its entire marketing programme – positioning strategy, advertising, distribution, pricing, branding andpackaging and budget levels. The company uses test marketing to learn how consumers anddealers will react to handling, using and repurchasing the product. The results can be used to make better sales and profit forecasts. Thus a good test market can provide a wealth ofinformation about the potential success of the product and marketing program me.

The amount of test marketing needed varies with each new product. Test marketing costscan be enormous. It takes time that may allow competitors to gain advantages. When thecosts of developing and introducing the product are low or when management is alreadyconfident that the new product will succeed, the company may do little or no test marketing.

Companies often do not test market simple line extensions, minor modifications of currentproducts or copies of successful competitor products. However, when the new-productintroduction requires a big investment, or when management is not sure of the product ormarketing programme, the company may do a lot of test marketing.

The idea of test marketing also applies to new service products. For example, an airlinecompany preparing to introduce a secure, cost-saving system of electronic ticketing may tryout the new service first on domestic routes before rolling out the service to internationalflights. Or it might offer the ticketless system on its busiest routes and restrict the test to itsmost frequent travelers.

When using test marketing, consumer-products companies usually choose one of threeapproaches – standard test markets, controlled test markets or simulated test markets.

**Standard test markets**

Using standard test markets, the company finds a small number of representative test cities,conducts a full marketing campaign in these cities and uses store audits, consumer anddistributor surveys and other measures to gauge product performance. It then uses the resultsto forecast national sales and profits, to discover potential product problems and to fine-tunethe marketing programme.

Standard market tests have some drawbacks. They can be costly and may take a long time –some last as long as three to five years. Moreover, competitors can monitor test-market resultsor even interfere with them by cutting their prices in test locations, increasing their promotionor even buying up the product being tested. Finally, test markets give competitors a look at thecompany’s new product well before it is introduced nationally. Thus, competitors may havetime to develop defensive strategies and may even beat the company’s product to the market.

Despite these disadvantages, standard test markets are still the most widely used approachfor major market testing. However, many companies today are shifting towards quicker andcheaper controlled and simulated test marketing methods.

**Controlled test markets**

Several research firms keep controlled panels of stores which have agreed to carry newproducts for a fee. The company with the new product specifies the number of stores andgeographical locations it wants. The research firm delivers the product to the participatingstores and controls shelf location, amount of shelf space, displays and point-of-purchasepromotions, and pricing according to specified plans. Sales results are tracked to determinethe impact of these factors on demand.

Controlled test markets usually cost less than standard test markets and take less timethan them (six months to a year). However, some companies are concerned that the limitednumber of small cities and panel consumers used by the research services may not berepresentative of their products’ markets or target consumers. And, as in standard testmarkets, controlled test markets allow competitors to get a look at the company’s newproduct. Nonetheless, experienced research firms can project test-market results to broadermarkets, while accounting for biases in the test markets used.

**Simulated test markets**

Companies also can test new products in a simulated shopping environment. The company orresearch firm shows to a sample of consumers. ads and promotions for a variety of products,including the new product being tested. It gives consumers a small amount of money andinvites them to a real or laboratory store, where they may keep the money or use it to buyitems. The researchers note how many consumers buy the new product and competingbrands. This simulation provides a measure of trial and the commercial’s effectiveness againstcompeting commercials. The researchers then ask consumers the reasons for their purchase ornon-purchase. Some weeks later, they interview the consumer by phone to determine product attitudes, usage, and satisfaction and repurchase intentions. Using sophisticated computer models,the researchers then project national sales from results of the simulated test market.Recently, some marketers have begun to use interesting new high-tech approaches tosimulated test market research, such as virtual reality and the Internet.

In general, simulated test markets overcome some of the disadvantages of standard andcontrolled test markets. They usually cost much less, can be run in eight weeks and keep thenew product out of competitors’ view. Yet, because of their small samples and simulatedshopping environments, many marketers do not think that simulated test markets are asaccurate or reliable as larger, real-world tests. Still, simulated test markets are used widely,often as ‘pre-test’ markets. Because they are fast and inexpensive, they can be run to assessquickly a new product or its marketing programme. If the pre-test results are stronglypositive, the product might be introduced without further testing. If the results are very poor,the product might be dropped or substantially redesigned and retested. If the results arepromising but indefinite, the product and marketing programme can be tested further incontrolled or standard test markets.

**Test marketing new industrial products**

Business marketers use different methods for test marketing their new products, such asproduct-use tests, trade shows, distributor/dealer display rooms, and standard or controlledtest markets.

**Product-use tests**

Here the business marketer selects a small group of potential customers who agree to usethe new product for a limited time. The manufacturer’s technical people watch how these customers use the product. From this test the manufacturer learns about customer trainingand servicing requirements. After the test, the marketer asks the customer about purchaseintent and other reactions. For some products, product-use tests may involve both thebusiness customer and final or end-user.

**Trade shows**

These shows draw a large number of buyers who view new products in a few concentrateddays. The manufacturer sees how buyers react to various product features and terms, andcan assess buyer interest and purchase intentions.

**Distributor and dealer display rooms**

The new industrial product may be placed next to other company products and possiblycompetitors’ products in the showrooms. This method yields preference and pricinginformation in the normal selling atmosphere of the product.

**Standard or controlled test markets**

These are used to measure the potential of new industrial products. The business marketerproduces a limited supply of the product which is sold by the salespeople to customers in alimited number of geographical areas. The company gives the product full advertising, salespromotion and other marketing support. Such test markets let the company test the productand its marketing programme in real market situations.

**Commercialization**

Test marketing gives management the information needed to make a final decision aboutwhether to launch the new product. If the company goes ahead with **commercialization** – thatis, introducing the new product into the market – it will face high costs. It may have to spend,as in the case of a new consumer packaged goods, between a10 million and a200 million foradvertising, sales promotion and other marketing efforts in the first year. The companywill have to build or rent a manufacturing facility. It must have sufficient funds to gearup production to meet demand. Failure to do so can leave an opening in the market forcompetitors to step in.

The company launching a new product must make four decisions.

**When?**

The first decision is introduction timing – whether the time is right to introduce the new product. If it cannibalizes the sales of the company’s other products, its introduction maybe delayed. If it can be improved further, or if the economy is down, the company may waituntil the following year to launch it.

**Where?**

The company must decide where to launch the new product. Should it be in a single location,or region, several regions, the national market or the international market? Few companieshave the confidence, capital and capacity to launch new products into full national orinternational distribution. They will develop a planned market rollout over time. In particular,small companies may enter attractive cities or regions one at a time. Larger companies mayquickly introduce new products into several regions or into the entire national market.

**To whom?**

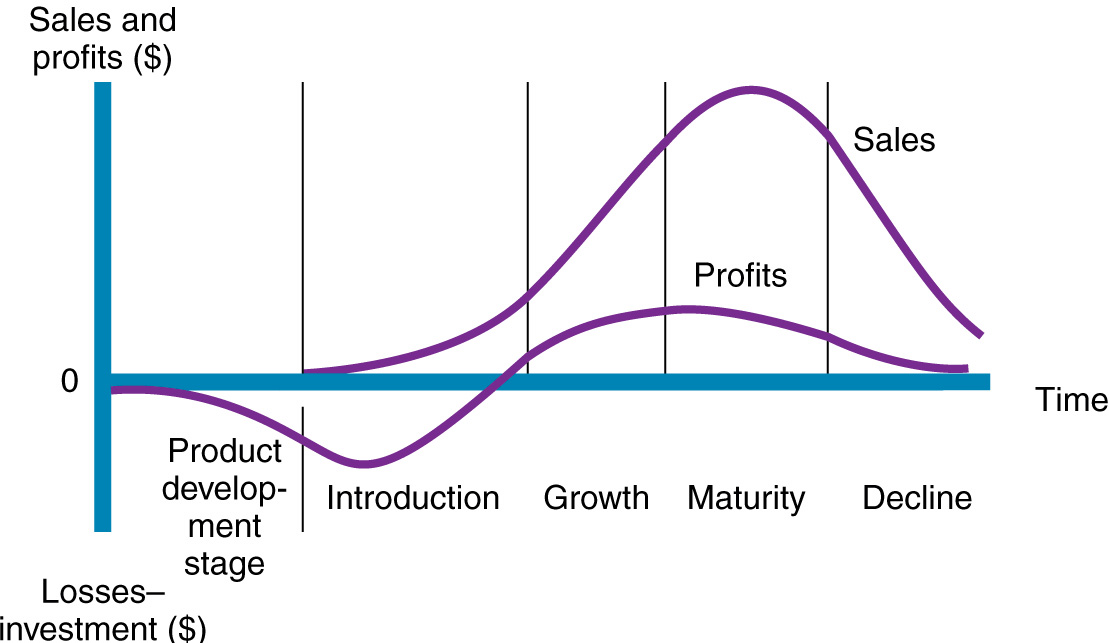
Within the rollout markets, the company must target its distribution and promotion tocustomer groups who represent the best prospects. These prime prospects should have beenprofiled by the firm in earlier research and test marketing. Generally, firms must fine-tune their targeting efforts, starting with the innovators,then looking especially for early adopters, heavy users and opinion leaders. Opinion leadersare particularly important as their endorsement of the new product has a powerful impactupon adoption by other buyers in the marketplace.

**How?**

The company also must develop an *action plan* for introducing the new product into theselected markets. It must spend the marketing budget on the marketing mix and variousother activities.

## 5.8 Product Life-Cycle Strategies

After launching the new product, the management challenge lies in making sure that theproduct enjoys a long and healthy life. The new product is not expected to sell forever, butthe company will want to recover a decent profit to cover all the effort and risk that went intolaunching it. Management is aware that each product will have a life-cycle, although the exactshape and length is not known in advance.



The above Figure shows a typical **product life-cycle (PLC)**, the course that a product’s sales andprofits take over its lifetime. The product life-cycle has five distinct stages:

1. *Product development* begins when the company finds and develops a new-product idea.During product development, sales are zero and the company’s investment costs mount.

2. *Introduction* is a period of slow sales growth as the product is being introduced in themarket. Profits are non-existent in this stage because of the heavy expenses of productintroduction.

3. *Growth* is a period of rapid market acceptance and increasing profits.

4. *Maturity* is a period of slowdown in sales growth because the product has achievedacceptance by most potential buyers. Profits level off or decline because of increasedmarketing outlays to defend the product against competition.

5. *Decline* is the period when sales fall off and profits drop.

Not all products follow the product life-cycle. Some products are introduced and diequickly; others stay in the mature stage for a long, long time. Some enter the decline stageand are then cycled back into the growth stage through strong promotion or repositioning.

The PLC concept can describe a product class (petrol-engined cars), a product form(people-carrier) or a brand (the Ford Explorer). The PLC concept applies differently in eachcase. Product classes have the longest life-cycles. The sales of many product classes stay in themature stage for a long time. Product forms, in contrast, tend to have the standard PLC shape.

Product forms such as ‘cream deodorants’, the ‘dial telephone’ and ‘cassette tapes’ passedthrough a regular history of introduction, rapid growth, maturity and decline. A specific brand’slife-cycle can change quickly because of changing competitive attacks and responses. Forexample, although teeth-cleaning products (product class) and toothpaste (product form) haveenjoyed fairly long life-cycles, the life-cycles of specific brands have tended to be much shorter.

The PLC concept can also be applied to what are known as styles, fashions and fads.Their special life-cycles. A **style** is a basic and distinctive mode ofexpression. For example, styles appear in British homes (Edwardian, Victorian, Georgian),clothing (formal, casual), and art (realistic, surrealistic, abstract). Once a style is invented, itmay last for generations, coming in and out of vogue. A style has a cycle showing severalperiods of renewed interest.

A **fashion** is a currently accepted or popular style in a given field. For example, the moreformal ‘business attire’ look of corporate dress of the 1980s and early 1990s has now given wayto the ‘business casual look’ of today. Fashions tend to grow slowly, remain popular fora while, and then decline slowly.

**Fads** are fashions that enter quickly, are adopted with great zeal, peak early and declinevery fast. They last only a short time and tend to attract only a limited following. Fads often have a novel or quirky nature, as when people start buying Rubik’s cubes, ‘pet rocks’ or yoyos.

Fads appeal to people who are looking for excitement, a way to set themselves apart orsomething to talk about to others. Fads do not survive for long because they normally donot satisfy a strong or lasting need or satisfy it well.

The PLC concept can be applied by marketers as a useful framework for describing howproducts and markets work. But using the PLC concept for forecasting product performanceor for developing marketing strategies presents some practical problems. For example,managers may have trouble identifying which stage of the PLC the product is in, pinpointingwhen the product moves into the next stage and determining the factors that affect theproduct’s movement through the stages. In practice, it is difficult to forecast the sales levelat each PLC stage, the length of each stage and the shape of the PLC curve.

Using the PLC concept to develop marketing strategy can also be difficult because strategyis both a cause and a result of the product’s life-cycle. The product’s current PLC positionsuggests the best marketing strategies, and the resulting marketing strategies affect productperformance in later life-cycle stages. Yet when used carefully, the PLC concept can help indeveloping good marketing strategies for different stages in the product life-cycle. Now let us look at strategies for each of the other life-cycle stages.

**Introduction stage**

The **introduction stage** starts when the new product is first launched. Introduction takes time,and sales growth is apt to be slow. Well-known products such as instant coffee, personal computersand mobile telephones lingered for many years before they entered a stage of rapid growth.

In this stage, as compared to other stages, profits are negative or low because of the lowsales and high distribution and promotion expenses. Much money is needed to attractdistributors and build their inventories. Promotion spending is relatively high to informconsumers of the new product and get them to try it. Because the market is not generallyready for product refinements at this stage, the company and its few competitors producebasic versions of the product. These firms focus their selling on those buyers who are thereadiest to buy – usually the higher-income groups. For radical product technologies, suchas mobile telecommunications, business or professional users were the earliest targets.

A company might adopt one of several marketing strategies for introducing a newproduct. It can set a high or low level for each marketing variable, such as price, promotion,distribution and product quality. Considering only price and promotion, for example,management might *skim* the market *slowly* by launching the new product with a high priceand low promotion spending. The high price helps recover as much gross profit per unit aspossible, while the low promotion spending keeps marketing spending down. Such a strategymakes sense when the market is limited in size, when most consumers in the market knowabout the product and are willing to pay a high price (these consumers are typically called the‘innovators’), and when there is little immediate potential competition. If, however, mostconsumers in the limited market are unaware and know little about the innovation, andrequire educating and convincing, a high level of promotion spending is required. A highprice,high-promotion strategy also helps the firm to *skim rapidly* the price-insensitive endof the market in the early stages of the new product’s launch.

On the other hand, a company might introduce its new product with a low price and heavypromotion spending (a *rapid penetration* strategy). This strategy promises to bring the fastestmarket penetration and the largest market share, and it makes sense when the market is large,potential buyers are price sensitive and unaware of the product, there is strong potentialcompetition, and the company’s unit manufacturing costs fall with the scale of productionand accumulated manufacturing experience. A low-price but low-promotion spend (or *slowpenetration* strategy) may be chosen instead if buyers are price conscious, but the firm wantsto keep its launch costs down because of resource constraints.

A company, especially the *market pioneer*, must choose a launch strategy consistent with itsintended product positioning. It should realize that the initial strategy is just the first step ina grander marketing plan for the product’s entire life-cycle. If the pioneer chooses its launch strategy to make a ‘killing’, it will be sacrificing long-run revenue for the sake of short-rungain. As the pioneer moves through later stages of the life-cycle, it will have continuously toformulate new pricing, promotion and other marketing strategies. It has the best chance ofbuilding and retaining market leadership if it plays its cards correctly from the start.

**Growth stage**

If the new product meets market needs or stimulates previously untapped needs, it will entera **growth stage**, in which sales will start climbing quickly. The early adopters will continue tobuy, and later buyers will start following their lead, especially if they hear favorable word-of-mouth.

Attracted by the opportunities for profit, new competitors will enter the market. Theywill introduce new product features, improve on the pioneer’s product and expand the marketfor the product. The increase in competitors leads to an increase in the number of distributionoutlets, and sales jump just to build reseller inventories. Prices remain where they are or fallonly slightly. Companies keep their promotion spending at the same or a slightly higher level.

Educating the market remains a goal, but now the company must also meet the competition.Profits increase during the growth stage, as promotion costs are spread over a large volumeand as unit-manufacturing costs fall. The firm uses several strategies to sustain rapid marketgrowth as long as possible. It improves product quality and adds new product features andmodels. It enters new market segments and tries to grow sales further by selling through newdistribution channels. It shifts some advertising from building product awareness to buildingproduct conviction and purchase, and it lowers prices at the right time to attract more buyers.

In the growth stage, the firm faces a trade-off between high market share and high currentprofit. By spending a lot of money on product improvement, promotion and distribution,the company can capture a dominant position. In doing so, however, it gives up maximumcurrent profit, which it hopes to make up in the next stage.

**Maturity stage**

At some point, a product’s sales growth will slow down and the product will enter a **maturitystage**. This maturity stage normally lasts longer than the previous stages, and it poses strongchallenges to marketing management. Most products are in the maturity stage of the lifecycle,and, therefore, most of marketing management deals with the mature product.

The slowdown in sales growth results in many producers with many products to sell. In turn,this overcapacity leads to greater competition. Competitors begin to cut prices, increase theiradvertising and sales promotions, and raise their R&D budgets to find better versions of theproduct. These steps lead to a drop in profit. Some of the weaker competitors start droppingout of the industry, and the industry eventually contains only well-established competitors.

Although many products in the mature stage appear to remain unchanged for longperiods, most successful ones stay alive through continually evolving to meet changingconsumer needs. Product managers should do more than simply ride along with or defendtheir mature products – a good offensive is the best defense. They should stretch theirimagination and look for new ways to innovate in the market (market development), or tomodify the product (product development) and the marketing mix (marketing innovation).

**Market development**

Here, the company modifies the market in order to increase the consumption of the currentproduct. It repositions the brand and aims it at new users and market segments which thecompany is not currently serving. The company may want to reposition the brand to appeal to alarger or faster-growing segment. Thecompany must also look for ways to increase usage of the product among present customers.

**Product development**

The company might try to modify the product by changing characteristics, such as quality,features or style, to attract new users and to inspire more usage. It might improve the product’squality and performance – its durability, reliability, speed or taste. The firm might add new features that expand the product’s usefulness, safety or convenience.Finally, firms can improve the product’s styling and attractiveness.

**Marketing innovation**

Marketers can also try to modify the marketing mix – improving sales by changing one ormore marketing-mix elements. Price cuts attract new users and competitors’ customers.Marketers can launch a better advertising campaign or use aggressive sales promotions –trade deals, discounts, premiums and contests. The company can also move into larger market channels. Or they can use mass merchandisers, if these channels are growing.Finally, the company can offer new or improved services to buyers or create unique anddistinctive value propositions that deliver superior benefits to users.

**Decline stage**

The sales of most product forms and brands eventually dip. This is the **decline stage**. Thedecline may be slow, as in the case of oatmeal cereal, or rapid, as in the case of gramophonerecords. Sales may plunge to zero, or they may drop to a low level where they continue formany years.Sales decline for many reasons, including technological advances, shifts in consumertastes and increased competition. As sales and profits decline, some firms withdraw from themarket. Those remaining may reduce the number of their product offerings. They may dropsmaller market segments and marginal trade channels, or they may cut the promotion budgetand reduce their prices further.

Carrying a weak product can be very costly to a firm, and not just in profit terms. Thereare many hidden costs. A weak product may take up too much of management’s time. It oftenrequires frequent price and inventory adjustments. It requires advertising and sales forceattention that might be better used to make ‘healthy’ products more profitable or to create new ones. A product’s failing reputation can cause customer concerns about the company andits other products. The biggest cost may well lie in the future. Keeping weak products delaysthe search for replacements, creates a lopsided product mix, hurts current profits and weakensthe company’s foothold on the future.

For these reasons, companies need to pay more attention to their ageing products. The firm should identify those products in the decline stage by regularly reviewing sales, market shares, costs and profit trends. Then management must decide whether to maintain, harvest for cash or drop each of these declining products.

Management may decide to *maintain* its brand without change in the hope that competitors will leave the industry. Alternatively, management may decide to reposition the brand in the hope of moving it back into the growth stage of the product life-cycle. Or management may find new ways to revitalize the business.

Management may decide to harvest the product, which means reducing various costs (plant and equipment, maintenance, R&D, advertising, sales force) and hoping that sales hold up. If successful, harvesting will release cash and increase the company’s profits in the short run. Or management may decide to drop the product from the line. It can sell it to another firm or simply liquidate it at salvage value. If the company plans to find a buyer for the declining product-business, it will not want to run down the product through harvesting.

Importantly, before divesting an old product, management should carefully consider whether the product or technology can be revived at all. As some firms have found, ditching old technologies completely can be a mistake, because technologies dismissed as yesterday’s habit may turn out to be not such old hat after all.

## 5.9 Discussion Questions

* 1. Define product and describe the major classifications of products and service
  2. Describe the decisions companiesmake regarding their individualproducts and services, product lines, and product mixes
  3. What is a brand? Describe the brand sponsorship options available to marketers and provide an example of each.
  4. Explain how companies find and develop new product ideas.
  5. List and define the steps in the new product development process and the major considerations in managing this process
  6. Describe the stages of the product life cycle and how marketing strategies change during a product’s life cycle.
  7. What is the purpose and the importance of the business-analysis stage in the process of developing a new product? What happens after this vital stage?
  8. What options are open to a business when their product or service reaches the decline stage? Explain

# CHAPTER SIX

# 6. PRICING DECISIONS

**Chapter Objectives**

After reading this chapter, you should be able to:

* Answer the question “What is a price?” and discuss the importance of pricing in today’s  
  fast-changing environment.
* Identify the three major pricing strategies and
* Discuss the importance of understanding customer-value perceptions, company costs, and competitor strategies when setting prices
* Identify and define the other important external and internal factors affecting a firm’s pricing  
  decisions.
* Describe the major strategies for pricing new products
* Explain how companies find a set of prices that maximizes the profits from the total  
  product mix
* Discuss how companies adjust their prices to take into account different types of customers  
  and situations
* Discuss the key issues related to initiating and responding to price changes.

**Introduction**

In the narrowest sense, price is the amount of money charged for a product or service. More broadly, price is the sum of all the values that consumers exchange for the benefits of having or using the product or service. Historically, prices were usually set by buyers and sellers bargaining with each other. Sellers would ask for a higher price than they expected to get and buyers would offer less than they expected to pay. Through bargaining, they would arrive at an acceptable price. Individual buyers paid different prices for the same products, depending on their needs and bargaining skills.

Historically, price has been the most significant factor affecting buyer choice. This is still true in poorer nations, among poorer groups and with commodity products. However, non-price factors have become more important in buyer choice behaviour in recent decades.

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

## 6.1. Factors affecting price decisions

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Figure 6.1: Factors affecting price decisions

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

1. **Internal Factors Affecting Pricing Decisions**

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

* 1. **Marketing Objectives**

Before setting price, the company must decide on its strategy for the product, if the company has selected its target market and positioning carefully, then its marketing-mix strategy, including price, will be fairly straightforward.

The clearer a firm is about its objectives, the easier it is to set price. Examples of common objectives are survived, current profit maximization, market-share maximization and product-quality leadership. Companies set survival as their fundamental objective if they are troubled by too much capacity, heavy competition or changing consumer wants. To keep a plant going, a company may set a low price, hoping to increase demand. In this case, profits are less important than survival. As long as their prices cover variable costs and some fixed costs, they can stay in business. However, survival is only a short term objective.

Many companies use current profit maximization as their pricing goal. They estimate what demand and costs will be at different prices and choose the price that will produce the maximum current profit, cash flow or return on investment. A variation of this objective is to pursue a specific market-share gain. A company might decide that it wants to achieve product-quality leadership. This normally calls for charging a high price to cover such quality and the high cost of R&D.

A company might also use price to attain other more specific objectives. It can set prices low to prevent competition from entering the market or set prices at competitors' levels to stabilize the market.Prices can be set to keep the loyalty and support of resellers or to avoid government intervention. Prices can be reduced temporarily to create excitement for a product or to draw more customers into a retail store.

* 1. **Marketing-Mix Strategy**

Price is only one of the marketing-mix tools that a company uses to achieve its marketing objectives. Price decisions must be co-ordinated with product design, distribution and promotion decisions to form a consistent and effective marketing programme. Decisions made for other marketing-mix variables may affect pricing decisions.

* 1. **Costs**

Costs set the floor for the price that the company can charge for its product. The company wants to charge a price that both covers all its costs for producing, distributing and selling the product, and delivers a fair rate of return for its effort and risk. A company's costs may be an important element in its pricing strategy. Many companies work to become the 'low-cost producers' in their industries. Companies with lower costs can set lower prices that result in greater sales and Profits.

* 1. **Organizational Considerations**

Management must decide who within the organization should set prices. Companies handle pricing in a variety of ways. In small companies, prices are often set by top management rather than by the marketing or sales departments. In large companies, pricing is typically handled by divisional or product line managers. In industrial markets, salespeople may be allowed to negotiate with customers within certain price ranges. Others who have an influence on pricing include sales managers, production managers, finance managers and accountants.

1. **External Factors Affecting Pricing Decisions**

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

* 1. **The Nature of the Market and Demand**

Whereas costs set the lower limit of prices, the market and demand set the upper limit. Both consumer and industrial buyers balance the price of a product or service against the benefits of owning it. Thus, before setting prices, the marketer must understand the relationship between price and demand for its product.

* 1. **Competition**

Another external factor affecting the company's pricing decisions is competitors' costs, prices and offers, and possible competitor reactions to the company's own pricing moves.

* 1. **Other External Factors**

When setting prices, the company must also consider other factors in its external environment. Economic conditions can have a strong impact on the firm's pricing strategies. Economic factors such as boom or recession, inflation and interest rate affect pricing decisions because they affect both the costs of producing a product and consumer perception of the product's price and value. The company must also consider what impact its prices will have on other parties in its environment.

How will resellers react to various prices? The company should set prices that give resellers a fair profit, encourage their support and help them to sell the product effectively. The government is another important external influence on pricing decisions.

## 6.2. General Pricing Approaches

Companies set prices by selecting a general pricing approach that includes one or more of these three sets of factors - costs, consumer perception and competitors' prices. We will examine the following approaches:

1. Cost-based approach (cost-plus pricing and break-even analysis)
2. The buyer-based approach (perceived-value pricing); and
3. The competition-based approach (going-rate and sealed-bid pricing).
4. **Cost-Based Pricing**
   1. **Cost-Plus Pricing**

The simplest pricing method is cost-plus pricing - adding a standard mark-up to the cost of the product.

Example, to illustrate mark-up pricing, suppose a toy manufacturer had the following costs and expected sales:

Variable cost $10

Fixed cost $300,000

Expected unit sales 50,000

Then the manufacturer'scost per toy is given by;



Now suppose the manufacturer wants to earn a 20 per cent mark-up on sales. The manufacturer's mark-up price is given by:



The manufacturer would charge dealers $20 a toy and make a profit of 4 per unit. The dealers, in turn, will mark up the toy.

* 1. **Break-Even Analysis**

Another cost-oriented pricing approach is break-even pricing or a variation called target profit pricing. The firm tries to determine the price at which it will break even or make the target profit it is seeking.

Target pricing uses the concept of a break-even chart. A break-even chart shows the total cost and total revenue expected at different sales volume levels.

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**Example:**

Fixed Cost = $300,000

Variable Cost = $10

Price = $ 20

**Solution:** Fixed cost = $ 300,000 = $30,000

Break – even volume = (Price-variable cost) ($20-$10)

If the company wants to make a target profit, it must sell more than 30,000 units at $20 each.

1. **Value-Based Pricing**

An increasing number of companies are basing their prices on the product's perceived value. Value-based pricing uses buyers' perceptions of value, not the seller's cost, as the key to pricing. The company sets its target price based on customer perceptions of the product value. As a result, pricing begins with analyzing consumer needs and value perceptions and a price is set to match consumers’ perceived value.

1. **Competition-Based Pricing**

Consumers will base their judgements of a product's value on the prices that competitors charge for similar products. Here, we discuss two forms of competition-based pricing:

1. Going-rate pricing and
2. Sealed-bid pricing.
3. **Going-Rate Pricing**

In going-rate pricing, the firm bases its price largely on competitors' prices, with less attention paid to its own costs or to demand. The firm might charge the same as, more, or less than its chief competitors.

1. **Sealed-bid Pricing**

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

## 6.3. Pricing Strategy

**6.3.1. New-Product Pricing Strategies**

Pricing strategies usually change as the product passes through its life cycle. The introductory stage is especially challenging. We can distinguish between pricing a product that imitates existing products and pricing an innovative product that is patent protected.Companies bringing out an innovative, patent-protected product face the challenge of setting prices for the first time. They can choose between two strategies:

* Market-shimming pricing and
* Market-penetration pricing.

1. **Market-Skimming Pricing**

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

1. **Market-Penetration Pricing**

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

## 6.4 Product-mix pricing strategies

The strategy for setting a product’s price often has to be changed when the product is part of a product mix. In this case, the firm looks for a set of prices that maximizes the profits on the total product mix. Pricing is difficult because the various products have related demand and costs, and face different degrees of competition.

1. **Product line pricing**: Setting the price steps between various products in a product line based on cost differences between the products, customer evaluations of different features, and competitors’ prices.
2. **Optional-product pricing**: The pricing of optional or accessory products along with a main product.
3. **Captive-product pricing**: Setting a price for products that must be used along with a main product, such as blades for a razor and film for a camera.
4. **By-product pricing**: Setting a price for by-products in order to make the main product’s price more competitive.
5. **Product-bundle pricing**: Combining several products and offering the bundle at a reduced price.

**6.3.2. Price-Adjustment Strategies**

Companies usually adjust their basic prices to account for various customer differences and changing situations. There are seven price-adjustment strategies:

1. Discount and allowance pricing
2. Segmented pricing
3. Psychological pricing
4. Promotional pricing
5. Value pricing
6. Geographical pricing and
7. International pricing.
8. **Discount and Allowance Pricing**

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

* A cash discount is a price reduction to buyers who pay their bills promptly, a typical example is '2/10, net 30'.
* A quantity discount is a price reduction to buyers who buy large volumes.
* A trade discount (also called a functional discount) is offered by the seller to trade channel members that perform certain functions, such as selling, storing and record keeping.
* A seasonal discount is a price discount to buyers who buy merchandise or services out of season.

1. **Segmented Pricing**

Companies will often adjust their basic prices to allow for differences in customers, products and locations. In segmented pricing, the company sells product or service at two or more prices, even though the difference in prices is not based on differences in costs. Segmented pricing takes several forms:

* Customer-segment pricing: Different customers pay different prices for the same product or service. Museums, for example, will charge a lower admission for young people, the unwaged, students and senior citizens. In many parts of the world, tourists pay more to see museums, shows and national monuments than do locals.
* Product-form pricing. Different versions of the product are priced differently, but not according to differences in their costs.
* Location pricing. Different locations are priced differently, even though the cost of offering each location is the same.
* Time pricing. Prices vary by the season, the month, the day and even the hour. Public utilities vary their prices to commercial users by time of day and weekend versus weekday. The telephone company offers lower 'off-peak' charges and resorts give seasonal discounts.

1. **Psychological Pricing**

Price says something about the product. For example, many consumers use price to judge quality.

1. **Promotional Pricing**

Temporarily pricing products below the list price, and sometimes even below cost, to increase short-run sales.

1. **Value Pricing**

More and more, marketers have adopted value-pricing strategies - offering just the right combination of quality and good service at a fair price. In many cases, this has involved the introduction of less expensive versions of established, brand name products.

1. **Geographical Pricing**

A company must also decide how to price its products to customers located in different parts of the country or the world. Should the company risk losing the business of more distant customers by charging them higher prices to cover the higher shipping costs? Or should the company charge all customers the same prices regardless of location?

1. **International Pricing**

Companies that market their products internationally must decide what prices to charge in the different countries in which they operate. In some cases, a company can set a uniform worldwide price.

The price that a company should charge in a specific country depends on many factors, including economic conditions, competitive situations, laws and regulations, and development of the wholesaling and retailing system. Consumer perceptions and preferences may also vary from country to country, calling for different prices.

## 6.4 Price Changes

1. ***Initiating Price Changes:***

In some cases, the company may find it desirable to initiate either a price cut or a price increase. In both cases, it must anticipate possible buyer and competitor reactions.

1. ***Initiating Price Cuts***:

Several situations may lead a firm to consider cutting its price. One such circumstance is excess capacity. Another is falling demand in the face of strong price competition or a weakened economy. In such cases, the firm may aggressively cut prices to boost sales and market share. A company may also cut prices in a drive to dominate the market through lower costs. Either the company starts with lower costs than its competitors, or it cuts prices in the hope of gaining market share that will further cut costs through larger volume.

1. ***Initiating Price increases:***

A major factor in price increases is cost *inflation*. Rising costs of raw materials will raise the cost of production. Inflation may also increase cost of distribution, promotion and other related costs. These factors will squeeze profit margins and lead companies to pass cost increases along to customers. Another factor leading to price increases is over demand. When a company cannot supply all that its customers need, it may raise its prices, ration products to customers, or both. Consider today’s worldwide oil and gas industry.

***Buyer Reactions to Price Changes:***

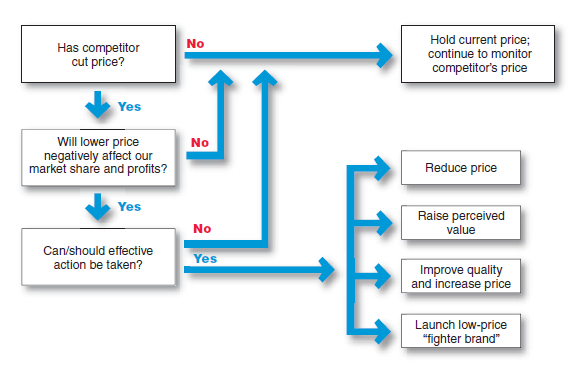
Customers do not always interpret price changes in a straightforward way. A price increase, which would normally lower sales, may have some positive meanings for buyers. They may perceive that the price is increased as a result of some value added. Similarly price cut seems to result in a positive perception in the mind of customers; but not always. There might be customers that perceive that the price cut results due to decrease in its value and vice versa.

A firm considering a price change must worry about the reactions of its competitors as well as those of its customers. Competitors are most likely to react when the number of firms involved is small, when the product is uniform, and when the buyers are well informed about products and prices. Price changes may result in price war, which is very dangerous for the industry.

1. ***Responding to Price Changes:***

In this section we will deal with how we should respond if competitors initiate the price change. The firm needs to consider several issues: Why did the competitor change the price? Is the price change temporary or permanent? What will happen to the company’s market share and profits if it does not respond? Are other competitors going to respond? Besides these issues, the company must also consider its own situation and strategy and possible customer reactions to price changes.

The following figure shows how we can respond if competitors initiate price change.



## 6.5 Discussion Questions

1. Discuss the importance of pricing in today’s fast-changing environment.
2. Identify and define the other important external and internal factors affecting a firm’s pricing decisions.
3. Name and describe the types of costs marketers must consider when setting prices.
4. Describe the types of cost based pricing and the methods of implementing each.
5. List common pricing objectives. Also, identify the various factors that price decisions must be coordinated with.

# CHAPER SEVEN

# 7. PROMOTION DECISIONS

**Chapter Objectives**

Upon completion of this chapter youwill be able to:

* Define the roles of advertising, sales promotion, personal selling, publicity, and direct marketing.
* Outline the common communication platforms of advertising and describe the various types of advertising.
* Identify the most important variables in setting the advertising objectives
* Outline the common communication platforms of sales promotion and discuss the objectives of sales promotion.
* Outline the common communication platform of personal selling and describe the various types of personal selling.
* Discuss the objectives of personal selling.
* Define direct marketing and outline the common communication platforms of direct marketing.

**Introduction**

Modern marketing calls for more than just developing a good product, pricing it attractively, and making it available to target customers. Companies must also communicate with their customers and there should be controlled direction to those communications. Promotion provides the primary communication function. As one of the four major elements of the marketing mix, promotion uses advertising, sales promotion, public relations, direct marketing, and personal selling to achieve the company's communication objectives.

## 7.1 Promotion Mix

Promotion is a technique of communication related to the selling effort in order to express the merits of a product to enhance sales. Promotion, also called marketing communication, is defined as the element of marketing mix that assists and/or persuades a prospective customer to buy a product or to act favourably up on and that has commercial significance to the seller .Companies must also communicate with their present and potential customers, retailers, suppliers, other stockholders, and the general public. For most companies, the question is not whether to communicate but rather what to say, to whom and how often.

The marketing communication mix (also called the promotion mix) consists of five major modes of communication.

1. **Advertising.** Any paid form of non-personal presentation and promotion of ideas, goods or services by an identified sponsor.
2. **Sales promotion.** A variety of short-term incentives to encourage trial or purchase of a product or service.
3. **Public relations and publicity.** A variety of programs designed to promote and/or protect a company’s image or its individual products.
4. **Personal selling.** Face-to-face interaction with one or more prospective purchasers for the purpose of making presentations answering questions, and procuring orders.
5. **Direct marketing.** Use of mail, telephone, fax, e-mail, and other non personal contact tools to communicate directly with or solicit a direct response from specific customers and prospects.

Each category in the promotions mix involves specific tools. For example, advertising includes print, radio and television broadcast, outdoor and other forms. Personal selling includes sales presentations, fairs and trade shows, and incentive programmes. Sales promotion includes activities such as point-of-purchase displays, premiums, discounts, coupons, competitions, specialty advertising and demonstrations. Direct marketing includes catalogues, telephone marketing, fax, kiosks, the Internet and more. Thanks to technological breakthroughs, people can now communicate through traditional media (newspapers, radio, telephone, television) as well as through newer types of media (fax machines, mobile phones, and computers).

The new technologies have encouraged more companies to move from mass communication to more targeted communication and one-to-one dialogue. At the same time, communication goes beyond these specific promotion tools. The product’s design, its price, the shape and colour of its package, and the stores that sell it – *all* communicate something to buyers. Thus, although the promotion mix is the company’s primary communication activity, the entire marketing mix – promotion *and* product, price and place – must be coordinated for greatest communication impact.

**Integrated marketing communications**

During the past several decades, companies around the world have perfected the art of mass marketing – selling highly standardized products to masses of customers. In the process, they have developed effective mass-media advertising techniques to support their mass-marketing strategies.

These companies routinely invest huge sums of money in the mass media, reaching tens of millions of customers with a single ad. However, in the twenty-first century, marketing managers face some new marketing communications realities.

**The changing communications environment**

Two major factors are changing the face of today’s marketing communications. First, as mass markets have fragmented, marketers are shifting away from mass marketing. More and more, they are developing focused marketing programmes designed to build closer relationships with customers in more narrowly defined micro markets. Second, vast improvements in information technology are speeding the movement towards segmented marketing. Today’s information technology helps marketers to keep closer track of customer needs – more information is available about customers at the individual and household levels than ever before. New technologies also provide new communications avenues for reaching smaller customer segments with more tailored messages.

The shift from mass marketing to segmented marketing has had a dramatic impact on marketing communications. Just as mass marketing gave rise to a new generation of mass media communications, so the shift towards one-to-one marketing is spawning a new generation of more specialised and highly targeted communications efforts.

## 7.2 The Need for Integrated Marketing Communications

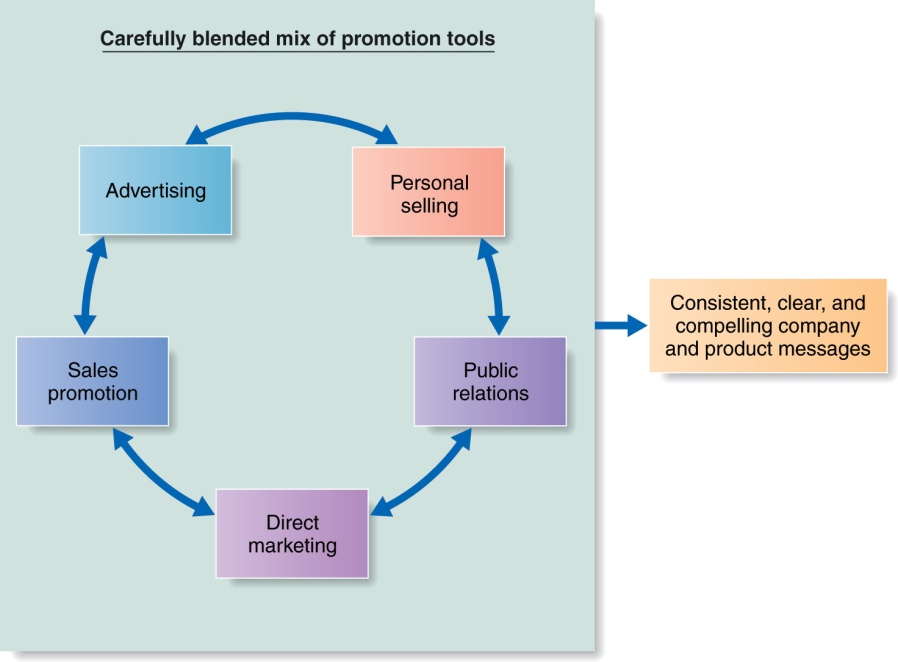
The shift from mass marketing to targeted marketing, and the corresponding use of a richer mixture of communication channels and promotion tools, poses a problem for marketers.

Customers do not distinguish between message sources the way marketers do. In the consumer’s mind, advertising messages from different media such as television, magazines or online sources blur into one. Messages delivered via different promotional approaches all become part of a single overall message about the company. Conflicting messages from these different sources can result in confused company images and brand positions.

All too often, companies fail to integrate their various communications channels. The result is a hodgepodge of communications to consumers. Mass-media advertisements say one thing, a price promotion sends a different signal, a product label creates still another message, company sales literature says something altogether different, and the company’s website seems out of sync with everything else.

In the past, no one person was responsible for thinking through the communication roles of the various promotion tools and coordinating the promotion mix. Members of various departments often differ in their views on how to split the promotion budget. The sales manager would rather hire a few more salespeople than spend a few hundred thousand Euros more on a single television commercial. The public relations manager feels that he or she can do wonders with some money shifted from advertising to public relations. Today, however, more companies are adopting the concept of **integrated marketing communications** (IMC).

Under this concept, the company carefully integrates and coordinates its many communications channels to deliver a clear, consistent and compelling message about the organization and its products. It builds a strong brand identity in the marketplace by tying together and reinforcing all the company’s messages, positioning and images, and identity, coordinating these across all its marketing communications venues. It means that your PR materials say the same thing as your direct mail campaign, and your advertising has the same ‘look and feel’ as your website.



IMC calls for recognizing all contact points where the customer may encounter the company, its products and its brands. Each *brand contact* will deliver a message, whether good, bad or indifferent. The company works out the roles that the various promotional tools will play and the extent to which each will be used to deliver a consistent and positive message at all contact points. It carefully coordinates the promotional activities and the timing of when major campaigns take place. It keeps track of its promotional expenditures by product, promotional tool, product life-cycle stage and observed effect in order to improve future use of the promotion-mix tools.

Finally, to implement integrated marketing communications, some companies appoint a marketing communications director – or *marcom manager* – who has overall responsibility for the company’s communications efforts. Essentially, in order for the firm’s external communications to be integrated effectively, it must first integrate its internal communications activities.

Integrated marketing communications produce better communications consistency and greater sales impact. They place the responsibility in someone’s hands – where none existed before – to unify the company’s image as it is shaped by thousands of company activities. They lead to a total marketing communication strategy aimed at showing how the company and its products can help customers solve their problems.

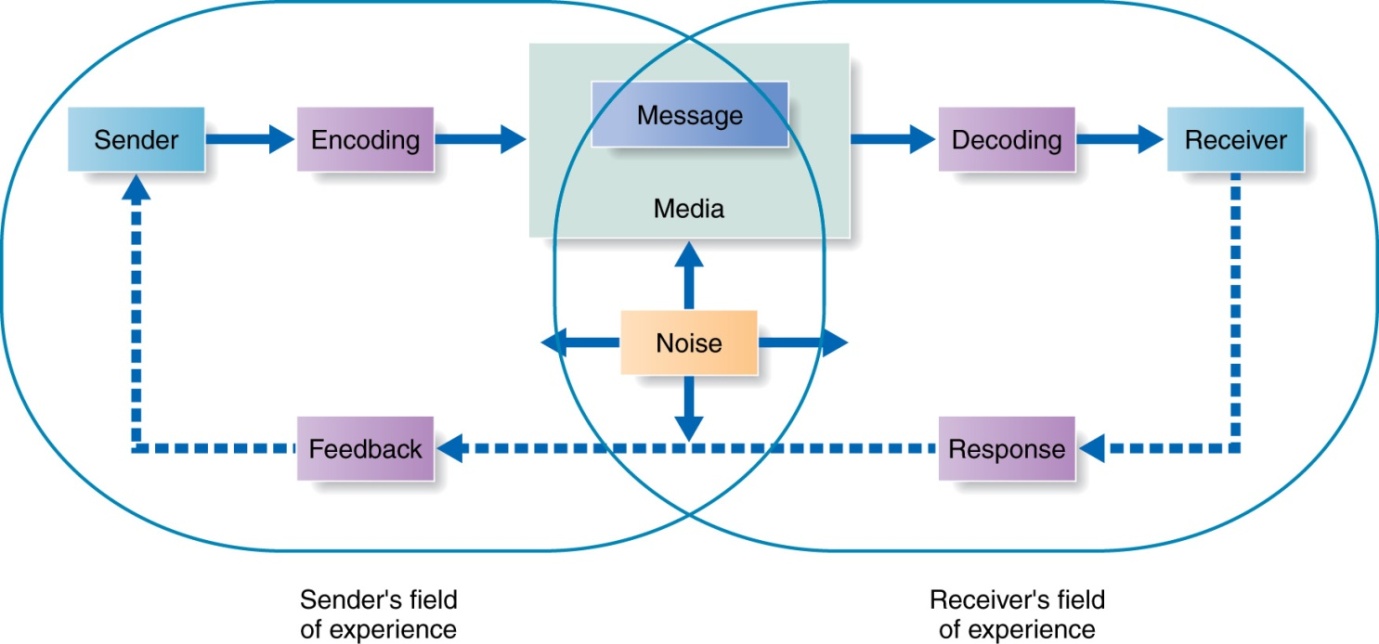
## 7.3 A view of the communication process

Integrated marketing communications involve identifying the target audience and shaping a well-coordinated promotional programme to elicit the desired audience response. Too often, marketing communications focus on overcoming immediate awareness, image or preference problems in the target market. This approach to communication is too shortsighted. Today, marketers are moving towards viewing communications as *managing the customer relationshipover time*, that is, during the pre-selling, selling, consumption and post-consumption stages.

Because customers differ, communications programmes need to be developed for specific segments, niches and even individuals. Importantly, given the new interactive communications technologies, companies must ask not only ‘How can we reach our customers?’ but also ‘How can we find ways to let our customers reach us?’.

Thus, the communication process should start with an audit of all the potential interactions that target customers may have with the product and company. For example, someone buying a new personal computer may talk to others, see television commercials, read articles and advertisements in newspapers and magazines, visit various websites and try out computers in one or more stores. The marketer needs to assess the influence that each of these communications experiences will have at different stages of the buying process. This understanding helps marketers to allocate their communication budget more effectively and efficiently.

To communicate effectively, marketers need to understand how communication works. Communication involves the nine elements shown in Figure 17.3. Two of these elements are the major parties in a communication – the *sender* and the *receiver*. Another two are the major



**Figure 17.3** Elements in the communication process

communication tools – the *message* and the *media*. Four more are primary communication functions – *encoding*, *decoding*, *response* and *feedback*. The last element is *noise* in the system. We will explain each of these elements using an ad for Ericsson mobile phones.

**Sender: The**party sending the message to another party – in this case, Ericsson.

**Encoding:** The process of putting the intended message or thought into symbolic form – Ericsson’s advertising agency assembles words and illustrations into an advertisement that will convey the intended message.

**Message:** The set of words pictures or symbols that the sender transmits – the actual Ericsson mobile phone ad.

**Media:** The communication channels through which the message moves from sender to receiver – in this case, the specific magazines that Ericsson selects.

**Decoding:**The process by which the receiver assigns meaning to the symbols encoded by the sender. A consumer reads the Ericsson mobile phone ad and interprets the words and illustrations it contains.

**Receiver:** The party receiving the message sent by another party – the consumer or business customer who reads the Ericsson mobile phone ad.

**Response :**The reactions of the receiver after being exposed to the message – any of hundreds of possible responses, such as the customer is more aware of the attributes of the Ericsson mobile phone, actually buys the mobile phone advertised, or does nothing.

**Feedback: The** part of the receiver’s response communicated back to the sender – Ericsson’s research shows that consumers like and remember the ad, or consumers write or call the company praising or criticizing the ad or its products.

**Noise:** The unplanned static or distortion during the communication process, which results in the receiver getting a different message from the one the sender sent – for example, the customer is distracted while reading the magazine and misses the Ericsson mobile phone ad or its key points.

For a message to be effective, the sender’s encoding process must mesh with the receiver’s decoding process. Thus, the best messages consist of words and other symbols that are familiar to the receiver. The more the sender’s field of experience overlaps with that of the receiver, the more effective the message is likely to be. Marketing communicators may not always *share* their consumers’ field of experience. For example, an advertising copywriter from one social stratum might create an ad for consumers from another stratum – say, blue-collar workers or wealthy business executives. However, to communicate effectively, the marketing communicator must understand the consumer’s field of experience.

This model points out the key factors in good communication. Senders need to know what audiences they want to reach and what responses they want. They must be good at encoding messages that take into account how the target audience decodes them. They must send messages through media that reach target audiences and they must develop feedback channels so that they can assess the audience’s response to the message.

## 7.4 The Nature of Each Promotion Tool

Each promotion tool has unique characteristics and costs. Marketers must understand these characteristics in selecting the promotion mix. Let us examine each of the major tools.

**Advertising**

The many forms of advertising make it hard to generalise about its unique qualities. However, several qualities can be noted:

* Advertising can reach masses of geographically dispersed buyers at a low cost per exposure. For example, TV advertising can reach huge audiences.
* Beyond its reach, large-scale advertising by a seller says something positive about the seller’s size, popularity and success.
* Because of advertising’s public nature, consumers tend to view advertised products as standard and legitimate – buyers know that purchasing the product will be understood and accepted publicly.
* Advertising enables the seller to repeat a message many times, and lets the buyer receive and compare the messages of various competitors.
* Advertising is also very expressive, allowing the company to dramatize its products through the artful use of visuals, print, sound and color.
* On the one hand, advertising can be used to build up a long-term image for a product (such as Mercedes-Benz car ads). On the other hand, advertising can trigger quick sales (as when department stores like Debenhams and Selfridges advertise a weekend sale).

Advertising also has some shortcomings:

* Although it reaches many people quickly, advertising is impersonal and cannot be as persuasive as company salespeople.
* Advertising is only able to carry on a one-way communication with the audience, and the audience does not feel that it has to pay attention or respond.
* In addition, advertising can be very costly. Although some advertising forms, such as newspaper and radio advertising, can be done on smaller budgets, other forms, such as network TV advertising, require very large budgets.

**Personal selling**

Personal selling is the most effective tool at certain stages of the buying process, particularly in building up buyers’ preferences, convictions and actions. Compared to advertising, personal selling has several unique qualities:

* It involves personal interaction between two or more people, so each person can observe the other’s needs and characteristics and make quick adjustments.
* Personal selling also allows all kinds of relationships to spring up, ranging from a matter of- fact selling relationship to a deep personal friendship. The effective salesperson keeps the customer’s interests at heart in order to build a long-term relationship.
* Finally, with personal selling the buyer usually feels a greater need to listen and respond, even if the response is a polite ‘no thank you’.

These unique qualities come at a cost, however. A sales force requires a longer-term commitment than does advertising – advertising can be turned on and off, but sales force size is harder to change. Personal selling is also the company’s most expensive promotion tool, costing companies several hundred Euros on average per sales call.

**Sales promotion**

Sales promotion includes a wide assortment of tools – coupons, contests, price reductions, premium offers, free goods and others – all of which have many unique qualities:

They attract consumer attention and provide information that may lead to a purchase.

* They offer strong incentives to purchase by providing inducements or contributions that give additional value to consumers.
* Moreover, sales promotions invite and reward quick response. Whereas advertising says ‘buy our product’, sales promotion offers incentives to consumers to ‘buy it now’.

Companies use sales promotion tools to create a stronger and quicker response. Sales promotion can be used to dramatize product offers and to boost sagging sales. Sales promotion effects are usually short-lived, however, and are often not as effective as advertising or personal selling in building long-run brand preference. To be effective, marketers must carefully plan the sales promotion campaign and offer target customers genuine value.

**Public relations**

Public relations or PR offers several unique qualities. It is all those activities that the organization does to communicate with target audiences which are not directly paid for.

* PR is very believable: news stories, features, sponsorships and events seem more real and believable to readers than ads do.
* Public relations can reach many prospects who avoid salespeople and advertisements, since the message gets to the buyers as ‘news’ rather than as a sales-directed communication.
* Like advertising, PR can dramatise a company or product. The Body Shop is one of the few international companies that have used public relations as a more effective alternative to mass TV advertising.

Marketers tend to underuse public relations or to use it as an afterthought. Yet a well thought- out public relations campaign used with other promotion-mix elements can be very effective and economical.

***Direct marketing***

Although there are many forms of direct marketing – direct mail, telemarketing, electronic marketing, online marketing and others – they all share four distinctive characteristics.

* Direct marketing is non-public as the message is normally addressed to a specific person.
* Direct marketing is immediate as messages can be prepared very quickly.
* Direct marketing can be customised, so messages can be tailored to appeal to specific customers.
* Direct marketing is interactive: it allows a dialogue between the communicator and the consumer, and messages can be altered depending on the consumer’s response.

Thus, direct marketing is well suited to highly targeted marketing efforts and to building one to-one customer relationships.

**Promotion mix strategies**

Marketers can choose from two basic promotion mix strategies – *push* promotion or *pull* promotion. The relative emphasis is on the specificpromotion tools differs for push and pull strategies. A **push strategy** involves ‘pushing’ theproduct through distribution channels to final consumers. The firm directs its marketingactivities (primarily personal selling and trade promotion) towards channel members toinduce them to carry the product and to promote it to final consumers. Using a **pull strategy**,the producer directs its marketing activities (primarily advertising and consumer promotion)towards final consumers to induce them to buy the product. If the pull strategy is effective,consumers will then demand the product from channel members, who will in turn demand itfrom producers. Thus under a pull strategy, consumer demand ‘pulls’ the product throughthe channels.

Some small industrial-goods companies’ use only push strategies; some direct-marketing companies use only pull. However, most large companies use some combination of both. For example, Lever Brothers uses mass-media advertising to pull consumers to its products and a large sales force and trade promotions to push its products through the channels.

## 7.5 Factors in Designing Promotion Mix Strategies

Companies consider many factors when designing their promotion mix strategies, including the type of product/market, buyer-readiness stage and the product life-cycle stage.

**Type of product/market**

The importance of different promotional tools varies between consumer and business markets Consumer-goods companies usually put more of their funds into advertising, followed by sales promotion, personal selling and then public relations.

Advertising is relatively more important in consumer markets because there are a larger number of buyers, purchases tend to be routine, and emotions play a more important role in the purchase-decision process. In contrast, industrial-goods companies put most of their funds into personal selling, followed by sales promotion, advertising and public relations.

In general, personal selling is used more heavily with expensive and risky purchases, and in markets with fewer and larger sellers. Although advertising is less important than sales calls in business markets, it still plays an important role. Advertising can build product awareness and knowledge, develop sales leads and reassure buyers. Similarly, personal selling can add a lot to consumer-goods marketing efforts. It is simply not the case that ‘salespeople put products on shelves and advertising takes them off’. Well-trained consumer-goods salespeople can sign up more dealers to carry a particular brand, convince them to give more shelf space and urge them to use special displays and promotions.

**Buyer-readiness stage**

The effects of the promotional tools vary for the different buyer-readiness stages. Advertising, along with public relations, plays the leading role in the awareness and knowledge stages, more important than that played by ‘cold calls’ from salespeople. Customer liking, preference and conviction are more affected by personal selling, which is closely followed by advertising.

Finally, closing the sale is mostly done with sales calls and sales promotion. Clearly, advertising and public relations are the most cost-effective at the early stages of the buyer decision process, while personal selling, given its high costs, should focus on the later stages of the customer buying process.

**Product life-cycle stage**

The effects of different promotion tools also vary with stages of the product life-cycle. In the introduction stage, advertising and public relations are good for producing high awareness, and sales promotion is useful in getting early trial. Personal selling efforts must be geared to persuading the trade to carry the product. In the growth stage, advertising and public relations continue to be powerful influences, whereas sales promotion can be reduced because fewer incentives are needed. In the mature stage, sales promotion again becomes important relative to advertising. Buyers know the brands and advertising is needed only to remind them of the product. In the decline stage, advertising is kept at a reminder level, a public relations is dropped and salespeople give the product only a little attention. Sales promotion, however, might continue strong in order to stimulate trade and prop up sales.

## 7.6 Discussion Questions

1. Define the five promotion mix tools forcommunicating customer value.
2. Outline the communication processand the steps in developing effectivemarketing communications
3. Discuss the changing communicationslandscape and the need for integratedmarketing communications
4. Name and describe the two basic promotion mix strategies. In which strategy is advertising more important
5. Identify the promotion mix tools used for immediate response from customers.

# CHAPER EGHT

# 8. MANAGING MARKETING CHANNELS

**Chapter Objectives**

Upon completion of this chapter you should be able to:

* Explain why companies use marketing channels and discuss the functions these channels perform.
* Discuss the nature and importance of retailers, wholesalers and physical distribution.
* Identify the major channel alternatives open to a company and how companies select,motivate and evaluate channel members.

**Introduction**

Distribution consists of all major activities of the manufacturer and all of the intervening institutions and operations that move the goods along toward the ultimate consumer or industrial user. Distribution, as a part of marketing system, is required to give the kinds of goods and services one wants when and where he/she wants them and at what price he/she is willing to pay. In addition, it saves time both for the producer and the consumer. It is undertaken thought marketing channels. Distribution channel is the path traced in the direct or indirect transfer of the title of the product as it moves from producers to the ultimate users (consumer market and business market).

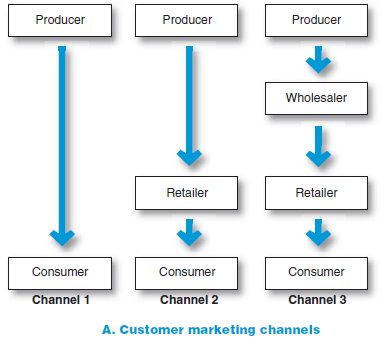
## 8.1 The Nature and Importance of Marketing Channels

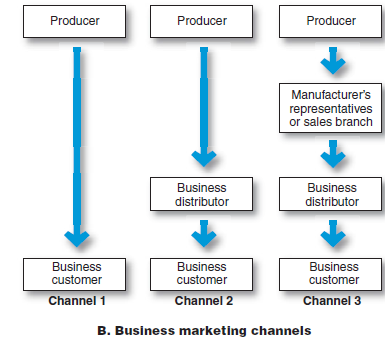
Few producers sell their goods directly to final users. Instead, most use intermediaries tobring their products to market. They try to forge a **marketing channel** (or **distributionchannel**): a set of interdependent organizations that help make a product or service available for use or consumption by the consumer or business user.

A company’s channel decisions directly affect every other marketing decision. Pricingdepends on whether the company works with national discount chains, uses high-qualityspecialty stores, or sells directly to consumers online. The firm’s sales force and communications decisions depend on how much persuasion, training, motivation, and supportits channel partners need. Whether a company develops or acquires certain new productsmay depend on how well those products fit the capabilities of its channel members.  
Companies often pay too little attention to their distribution channels—sometimeswith damaging results. In contrast, many companies have used imaginative distribution systems to gain a competitive advantage.

Distribution channels may be *direct* or *indirect*. A distribution channel is called ***direct distribution channel***if there is no marketing intermediary between the producer and the ultimate consumer. If there are one or more marketing intermediaries, the distribution channel is called ***indirect distribution channel***. ***Marketing Intermediaries*** are people or institutions who specialize in performing operations which are involved directly in the transfer of goods from producer to users. These marketing intermediaries may be retailers or wholesalers. *Retailers* are businesses whose activities are involved in selling goods or services directly to the final consumers for their personal (non-business) consumption. But *wholesalers* are businesses who are involved in selling goods and services to those buying for resale or business use.

The major levels of distribution channels for consumer market and business market





## 8.2 Selecting Channels of Distribution

Distribution channel decisions are determined by the market, the product, the middlemen (marketing intermediary) and the company itself. When selecting a channel, a firm should consider three important elements: channel control, market coverage, and cost that are consistent with the desired level of customer service.

1. **Market considerations**:

A channel of distribution should be determined by customer buying patterns because the nature of the market is the key factor influencing a firm’s choice of channels. The significant market variables are described below:

* ***Number of potential customers***. With relatively few potential buyers, a manufacturer may use its own sales force to sell *directly* to consumers or industrial users. For a large number of customers, the manufacturer would more likely use *marketing intermediaries*. Besides, consumer needs including store locations and hours, width of assortment, sales help, credit and other services should be considered in channel decisions.
* ***Geographic concentration of the market***- A *direct* channel is most feasible if buyers are highly concentrated in a few geographic areas. An *indirect* channel, use of intermediaries, used if there were many buyers dispersed in a wider area.
* ***Order size***- A food product manufacturer would sell *directly* to large groceries because the large order size and total volume of business make this channel economically desirable. An *indirect* channel would be used if there are many customers who spend little on each purchase.

1. **Product Considerations:**

Four product attributes affect channel selection; these are *unit value, pershability, complexity or technical nature of the product, and bulk*. Items with high unit value, like gold and jewellery art, tend to utilize short channels; items with low unit value like ball point pens and matches, tend to use longer channels. Products subject to physical and fashion pershability like milk and medical products must be speeded through their short channels. Complex industrial products, like jet, air craft, are often distributed directly to users; simpler items like alarm clocks and attach cases require shorter channels. The producer’s sales force must provide considerable presale and post-sale service in selling products of high technical nature. Bulky merchandise, such as pianos and refrigerators, use short channels in order to minimize the number of physical movements of the items.

1. **Marketing Intermediaries (Middle Men):**

Distribution channels must also be studied to determine the alternatives, their services, their availability, and their attitude toward manufacturers’ policies. Each producer should select middlemen (marketing intermediary) that will provide those marketing services that the producer either is *unable* to provide or *cannot* economically perform. The middlemen whom a firm desires should be available and able to control the channel. Before producers choose a certain channel, they should make sure that the intermediaries are ready to accept and practice the manufacturers’ policies.

1. **Company Considerations:**

Company considerations consist of financial resource, expertise, desire for channel control, and services provided by the seller. A firm with limited resource and/or managerial expertise will almost be required to use an indirect channel and rely on middlemen to carry out many distribution activities, where as a firm with large resources may have the financial and managerial ability to accomplish more activities on its own.

By controlling the channel, producers can achieve more aggressive promotion and better control the product’s audience, price and image. Thus, firms may desire to control the distribution of their products even though the cost of the more direct channel may be higher. Finally, products channel decisions are influenced by the marketing services they can provide in relation to those demanded by middlemen.

## 8.3 Determining the Intensity of Distribution

In conjunction with the choice of a distribution channel, manufacturers should decide in intensity of distribution. Intensity refers to the number of intermediaries to be employed in transferring the goods from producers to consumers. Three possible strategies are available: intensive, selective, and exclusive distributions.

* ***Intensive distribution***

The strategy of intensive distribution is used by firms who try their best to get *maximum* exposure for their products by having it sold in every outlet where final consumers might possibly look for it. It is widely employed by firms manufacturing consumer goods. With this class of products consumers demand immediate satisfaction and will not defer/postpone purchases to find a *particular brand*. It may also be suitable for highly standardized industrial products such as *operating supplies*. Intensive distribution places most of the burden of advertising and promotion on the shoulders of the manufacturer. The objectives of intensive distribution are to obtain widespread market coverage, channel acceptance, and high volume sales. Channel strategy that aims at the mass market, particularly at consumers interested in ***convenience***.

* ***Selective distribution***

Selective distribution is a strategy whereby a manufacturer selects a moderate number of intermediaries in a given geographical area. It covers a wide range of intensity distribution.

Selective distribution is more suitable for consumer ***shopping*** and specialty goods and industrial accessory equipment for which most customers have a *brand preference*. The firm retains some channel control and brand image by selling through stores that meet certain standards such as store image, location, and personnel. The marketing emphasis is on a mix of promotional tools, pleasant shopping conditions, and good service.

* ***Exclusive distribution***

Exclusive distribution strategy is whereby the supplier enters into agreement with a particular intermediary in a given market. The producer’s *goals* are to enhance the product’s image, secure channel control and loyalty, and maintain stable prices. With exclusive distribution, usually the best and *most-reputable* intermediaries utilized. It is frequently used in the marketing of consumer ***specialty*** products, such as expensive suits. It can also be used in industrial products such as installations and other goods that require presale and post-sale service (such as farm machinery and construction equipment.

## 8.4 Channel Design Decisions

Channel Design is the process of designing effective marketing channels by analyzing customer needs, setting channel objectives, identifying major channel alternatives, and evaluating those alternatives.

1. ***Analysing Customer Needs***:

As noted previously, marketing channels are part of the overall customer-value delivery network. Each channel member and level adds value for the customer. Thus, designing the marketing channel starts with finding out what target consumers want from the channel. Do consumers want to buy from nearby locations or are they willing to travel to more distant and centralized locations? Would customers rather buy in person, by phone, or online? Their need should be known.

1. ***Setting Channel Objectives:***

Companies should state their marketing channel objectives in terms of targeted levels of customer service. Usually, a company can identify several segments wanting different levels of service. The company should decide which segments to serve and the best channels to use in each case. In each segment, the company wants to minimize the total channel cost of meeting customer-service requirements.

The company’s channel objectives are also influenced by the nature of the company, its products, its marketing intermediaries, its competitors, and the environment. For example, the company’s size and financial situation determine which marketing functions it can handle itself and which it must give to intermediaries. Companies selling perishable products may require more direct marketing to avoid delays and too much handling.

Finally, environmental factors such as economic conditions and legal constraints may affect channel objectives and design. For example, in a depressed economy, producers want to distribute their goods in the most economical way, using shorter channels and dropping unneeded services that add to the final price of the goods.

1. ***Identifying Major Alternatives:***

When the company has defined its channel objectives, it should next identify its major channel alternatives in terms of the types of intermediaries, the number of intermediaries, and the responsibilities of each channel member

1. ***Evaluating Major Alternatives:***

Suppose a company has identified several channel alternatives and wants to select the one that will best satisfy its long-run objectives. Each alternative should be evaluated against economic, control, and adaptability criteria.

Using economic criteria, a company compares the likely sales, costs, and profitability of different channel alternatives. What will be the investment required by each channel alternative, and what returns will result? The company must also consider control issues. Using intermediaries usually means giving them some control over the marketing of the product, and some intermediaries take more control than others. Other things being equal, the company prefers to keep as much control as possible. Finally, the company must apply adaptability criteria. Channels often involve long-term commitments, yet the company wants to keep the channel flexible so that it can adapt to environmental changes. Thus to be considered, a channel involving long-term commitments should be greatly superior on economic and control grounds.

## 8.5 Channel Management Decisions

Once the company has reviewed its channel alternatives and determined the best channel design, it must implement and manage the chosen channel. Channel management decision is the process of selecting, managing, and motivating individual channel members and evaluating their performance over time.

* ***Selecting Channel Members***:

Producers vary in their ability to attract qualified marketing intermediaries. Some producers have no trouble signing up channel members. At the other extreme are producers who have to work hard to line up enough qualified Intermediaries. Even established brands may have difficulty gaining and keeping desired distribution, especially when dealing with powerful resellers. When selecting intermediaries, the company should determine what characteristics distinguish the better ones. It will want to evaluate each channel member’s years in business, other lines carried, growth and profit record, cooperativeness, and reputation. If the intermediaries are sales agents, the company will want to evaluate the number and character of other lines carried and the size and quality of the sales force. If the intermediary is a retail store that wants exclusive or selective distribution, the company will want to evaluate the store’s customers, location, and future growth potential.

* ***Managing and Motivating Channel Members***:

Once selected, channel members must be continuously managed and motivated to do their best. The company must sell not only through the intermediaries but also to and with them. Most companies see their intermediaries as first-line customers and partners. They practice strong partner relationship management to forge long-term partnerships with channel members. This creates a value delivery system that meets the needs of both the company and its marketing partners. In managing its channels, a company must convince distributors that they can succeed better by working together as a part of a cohesive value delivery system.

* ***Evaluating ChannelMembers***:

The company must regularly check channel member performance against standards such as sales quotas, average inventory levels, customer delivery time, and treatment of damaged and lost goods, cooperation in company promotion and training programs, and services to the customer. The company should recognize and reward intermediaries who are performing well and adding good value for consumers. Those who are performing poorly should be assisted or, as a last resort, replaced.

Finally, companies need to be sensitive to their channel partners. Those who treat their partners poorly risk not only losing their support but also causing some legal problems. The next section describes various rights and duties pertaining to companies and other channel members.

## 8.6 Discussion Questions

* + 1. Discuss factors affecting channel selection.
    2. List and clearly explain channel design decisions process.
    3. Briefly discus the types of distribution strategy.

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