Marketing

This chapter deals with the basics of marketing, how a market segment is created and dealt with. It highlights different concepts of marketing used by the organisations. It highlights different marketing trends and tasks used by marketer to acquire and retain customer.

Introduction of Marketing

Marketing deals with identifying and meeting human and social needs. It is the communication of the value of a product or service to customers in order to sell that product or service.

According to **Kotler** and **Armstrong**, "Marketing is a societal process by which individuals and groups obtain what they need and want through creating, offering and freely exchanging products and services of value with others." It aims at the convergence of organisational objectives and customer needs.

According to American Marketing Association Board of Directors, "Marketing is an activity, set of institutions, and processes for creating, communicating, delivering and exchanging offerings that have value for customers, clients, partners and society at large".

Scope of Maketing

- Creating, promoting and delivering goods and services to customers.
- Decisions related to size, colour, design, packaging etc of the product and nature of the service.
- Customer satisfaction and after sales services.

Objectives of Marketing

- Create a demand of the product.
- Provide better quality product to the customers.
- Increased customer satisfaction.
- Create goodwill and positive brand image.
- Generate sales volume and profits.

Core Marketing Concepts

Target Markets and Segmentation The marketer needs to segment the target market based on behavioural, demographic and psychographic differences among buyers. The product or service is designed to meet the needs and wants of the target market.

Marketplace, Marketspace and Metamarket **Marketplace** is the physical (brick and mortar) outlet where the customer can visit. It can be shopping malls, retail outlets etc. **Marketspace** is the digital space which the customer can access using his laptop, mobile, desktop etc. Amazon and Flipkart are the examples of marketspace. **Metamarket** is used to describe the cluster of complementary products and services that are spread across a diverse set of industries but are closely related in the minds of consumers.

Marketers and Prospect Marketer is the individual/organisation that seeks the response from the prospect (customer).

Needs, Wants and Demands Needs are basic human requirements. Needs become wants when they are for a specific object. Demands are wants for which one can afford to pay.

Offering and Brand The intangible proposition made from a physical product is an offering. It is a combination of experiences, information, products and services. Brand is an offering of product or service from a known source.

Value and Satisfaction The functional and emotional benefits of an offering in relation to its cost are known as value. In simple words, it is the ratio of what customer gets in exchange of what he gives. Customer satisfaction is the degree to which the needs, wants and desires of the customers are fulfiled by the organisation.

Exchange and Transaction Exchange is the process of obtaining the desired offering in return of something (usually money). A transaction is when there is a trade of value between the two or more parties. The transactions do not necessarily involve money as one of the traded values.

Relationships and Networks Relationship building is an important aspect of marketing. It aims to build mutually satisfying long-term relations with the stakeholders. The focus is on building strong economic, social and technical ties.

A marketing network comprises of the organisation and the stakeholders. Stakeholders include the customers, consumers, employees, suppliers, distributors, retailers to name a few.

Marketing Channels These are means used by the marketer to reach its target market.

There are three kinds of channels namely

- ***Communication Channel*** It delivers and rece message from target buyers. e.g. Radio, television, and the internet.
- ***Distribution Channel*** It displays, sells or deliver offerings to the customer. Distributors, wholesal retailers and agents form a part of distribution chann
- ***Service Channel*** It is used to carry out transactions w the potential buyers. These include banks insurance companies, transportation companies warehouses.

Supply Chain It is the system of activities, informati people, organisations and resources involved in transfer product or service from the marketer to consumer. basically includes all the activities right from procurement of raw material till the product is delivered the consumer.

Competition It includes the actual and potential substitu of the offering. *On the basis of substitutability of a product, competition exists at four levels namely*

- ***Brand Competition*** Companies having the sa offerings for the same customers at the same price.
- ***Industry Competition*** Companies making the sa product or class of products.
- ***Form Competition*** Companies manufacturing t products that offer the same service.
- ***Generic Competition*** Companies compete for the sar money.

Marketing Environment It refers to the factors and forc that affect a firm's ability to build and maintain successf relationship with customers. It can be classified into task ar broad environment. Task environment includes immedia individuals/organisations involved in the productio distribution and promotion of the offering.

Broad environment includes demographic, economi natural, technological, political, legal and socio- cultur environment.

Marketing Program It includes multiple decisions that th organisation needs to take for the use of marketing tools The marketing mix includes almost everything that a firm uses to affect consumer's perceptions favourably towards it products or services, so that the consumer and organisationa objectives can be achieved. These include 4Ps of marketing fo goods, *i.e.* product, place, price, promotion, 7Ps of marketing fo services, *i.e.* product, place, price, promotion, people, process and physical evidence, 4Cs for customers, *i.e.* customer solution, customer cost, convenience and communication and 4Ss of web marketing mix, *i.e.* scope, site, synergy and system.

Company's Orientations towards the Marketplace

Production Concept Consumers prefer the products that are widely available and inexpensive. Products produced in a great volume at a low unit cost are supported by the consumers. This concept makes sense at places where the focus is more on obtaining the product and not its features.

Product Concept The focus of this concept is on the quality of the product. Good quality and innovative products are preferred by the consumers. The organisations following this concept focus on building innovative and superior products. Such organisations believe in improvising their products on the basis of advancement in technology and customer feedback etc.

Selling Concept The concept focuses on doing away with the buying inertia of the customer by coaxing him to buy the offering. Large sales promotion is believed to maximise the selling. Organisations resort to aggressive advertising, high power personal selling. The customer is pushed to purchase a product. This is most commonly used for selling of unsought goods.

Marketing Concept As a part of this concept, the organisation needs to be more effective than competitors in creating, delivering and communicating value to its customers. The concept is based on the philosophy of building the 'right product for your customer'. It is important to study and differentiate among the needs, wants and desires of the target market.

Customer Concept The individual customer should be the focus of an organisation. The organisation needs to meet the needs, wants and demands of the customer. The organisation believes in one-on-one marketing integration. It seeks to have a profitable growth by capturing the customer share and loyalty for lifetime.

Societal Marketing Concept The organisation needs to study the target market thoroughly in order to meet its needs, wants and desires. The offering needs to be delivered while taking the social and ethical considerations into picture. There must be a balance between the customer wants, profits and pubic interests.

Holistic Marketing Concept A holistic marketing concept is based on the development, design and implementation of marketing programs, processes and activities that recognise the breadth and inter-dependencies. Holistic marketing recognises that 'everything matters' with marketing and that a broad, integrated perspective is necessary to attain the best solution.

There are four main components of holistic marketing

- Relationship marketing
- Intergrated marketing
- Internal marketing
- Socially responsible marketing

Trends and Tasks in Marketing

- Marketing environment is dynamic in nature and this is the reason that organisations need to constantly evolve their marketing strategies. The marketers need to focus on relationship building with the customers. They need to use different forms of marketing to acquire, engage and retain their customers.
- The different forms of marketing that have gained momentum in today's time involve internet marketing, digital marketing and green marketing etc.

Market Segmentation

A market is the aggregate of consumers of a given product. These consumers vary in their characteristics and buying behaviour. It is thus natural that many different segments occur within a market. Marketers usually divide the heterogenous market for any product into different segments of relatively homogeneous characteristics. The process of fragmenting whole market into sub-markets is known as market segmentation.

Benefits of Market Segmentation

- Segmentation helps the marketer to distinguish one customer group from another within a given market and thereby enables him to decide which segment should form his target market.
- It enables the marketer to identify the real needs of the target buyers and to develop marketing offers that are most suited to each group.
- It makes the marketing effort more focused, more efficient and economic by concentrating on segments that are most profitable and will be the customers of the market offer.
- It benefits the customer and they can buy specialised products that cater to their specific needs and wants.
- When segmentation attains high sophistication, customers and companies can choose each other and stay together for mutual benefits.

Bases of Segmentation

Geographic Segmentation Segmenting market on the basis of factors like region, state, district, urban/rural, climate etc.

Demographic Segmentation Segmenting customers on the basis of factors like age, sex, marital status, family size and structure, race, religion, community, language, occupation, income, education etc.

Psychographic Segmentation Segmenting customers on the basis of psychological factors like personality traits, lifestyle, socio-economic classes, value systems etc. The marketing researcher, Emanuel Denby coined the term psychographics.

Behavioural Segmentation Markets can be segmented on the basis of buyer's behaviour as well. *Buying behaviour includes*

- ***User Status*** Non-user, ex-user, potential user, first time user, regular user.
- ***Usage Rate*** Bulk buyers, small scale buyers, moderate buyers.
- ***Benefits*** Quality, service, economy, speed.
- ***Occasions*** Regular, special.
- ***Loyalty Status*** Hardcore loyals, split loyals (two or more brands), shifting loyals, switchers.
- ***Readiness Stage*** Unaware, aware, informed, interested, desirous, intending to buy.
- ***Attitude*** Enthusiastic, positive, indifferent, negative, hostile.

Properties of an Effective Segment

- Segments must be distinguishable from one another.
- Potential demand of the segment should be measurable.
- Segment should be easily accessible and servable.
- Segment should have an appropriate size, *i.e.* significant number of buyers.
- Segment should be growing.
- It should be profitable.
- Segment's needs should be compatible with the marketers product utility.

Market Targeting

Once the firm has identified its market segments, it must decide on how many and which ones to target. *In targeting different segments, the firm must look at two factors*

- Segment's overall attractiveness in terms of size, growth and profit.
- Company's objectives and resources.

In choosing a target market, the firm basically examines alternative possibilities whether the whole market has to be choosen for tapping or only a few segments are to be targeted. It must look at each segment as a distinct marketing opportunity.

Five Patterns of Target Market Selection

Single Segment Concentration *(One product, one market)* In concentrated marketing, a firm tries to achieve strong presence. One segment is selected for serving only product. *e.g.* Zodiac for men's formal shirts and ties $[P_1$

Selective Specialisation *(Different products for different markets)* firm selects two or more segments. Even if the two are not related, each promises to be a money maker. It helps to diversify the risk. $[P_2 - M_1, P_3 - M_2, P_1 - M_3]$.

Product Specialisation *(One product for all markets)* The makes a certain product that it sells to several different segments $[P_1 - M_1, M_2, M_3]$.

Market Segmentation *(All products for one market)* The concentrates on serving many needs of a particular se $[P_1, P_2, P_3 - M_1]$.

Full Market Coverage *(All products for all markets)* The attempts to serve all customer groups with all the pr they can provide $[P_1, P_2, P_3, - M_1, M_2, M_3]$.

Product Positioning

Positioning is the act of fixing the locus of the product in the minds of the target customers. In positioning, the decides how and around what parameters, the product is to be placed before the target customers. It facilitates the to get through the mind of target customer. The re positioning is the successful creation of a customer fo value preposition.

Product Differentiation

Positioning a product can be possible by way of pr differentiation. There are certain Points of Difference and certain Points of Parity (PoP) of each product. PoD attributes or benefits, a customer strongly associates w brand and believe they could not find to the same exte a competitive brand. Creating identifiable and unique Po a real challenge in terms of competitive brand posi PoPs are associations that are not necessarily unique t brand but may in fact, be shared with other brands.

Features of Positioning

- Positioning means putting the product in a predete orbit.
- Positioning connects product offering with segment.
- Positioning is a continuous never ending process.
- Positioning can be h...

Product Decisions

Product

These are goods offered to the consumer in exchange of a price. The products can be classified on the basis of their durability, tangibility and use. The product attributes that are to be considered are product variety, quality, design, features, brand name, packaging, sizes, services, warranties and returns. *The products can be classified on the basis of the following characteristics*

Based on Durability and Tangibility

1. Durable Goods

The tangible products which are used for a long period *e.g.* Refrigerator, car, washing machine etc. These require a higher margin, seller guarantee and more personal selling and service.

2. Non-durable Goods

The tangible products that are normally consumed in one go or last for a few uses. *e.g.* Soap, salt, pickles, sauce etc. These require heavy advertisements and should be available in many locations.

3. Services

These are intangible, inseparable, variable and perishable products. These require a stringent quality control, supplier credibility and adaptability. *e.g.* Hair cuts and repairs.

Based on Use

1. Consumer Goods

Products that are purchased for personal consumption by the households or ultimate consumers are known as 'consumer goods'. *e.g.* Clothing, food, automobiles and jewellery. *These can be further classified into*

- ***Convenience Goods*** Goods which are bought frequently without much planning or shopping effort.
- ***Shopping Goods*** These are goods which are purchased less frequently and are used very slowly. The choice for these products are made considering its suitability, price, style, quality and products of competitors and substitutes. *e.g.* Clothes, shoes, household appliances.
- ***Speciality Goods*** These goods have particularly unique characteristic and brand identification for which a significant group of buyers are willing to put special efforts to buy them. *e.g.* A luxury car.
- ***Unsought Goods*** The goods about which a consumer is unaware and he doesn't want to buy

2. Industrial Goods

These goods are meant for use as inputs in production of other products or provision of some service and include raw materials, machinery, components and operating supplies. These are meant for non-personal and commercial use. *They can be further classified into*

Material and Parts The goods that are completely used in the manufacturer's product. These include raw materials and manufactured materials and parts.

Capital Items These are long lasting goods that facilitate development or management of the finished product.

Supplies and Business Service These are short lasting goods and services that facilitate development or management of the finished product.

Product Mix/Product Assortment

It is a set of all offerings that are available for sale. Each organisation's product mix has certain width, length, depth and consistency. *Each of these is explained below*

Product Width The total number of products lines offered by the company.

Product Length The total number of products offered by the company.

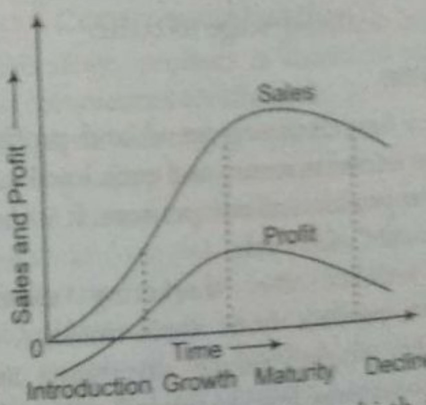
Product Depth The number of variants of each product.

Product Consistency It refers to how closely the different product lines are related to each other. This can be in terms of product use, distribution channels, production requirements.

Product Life Cycle (PLC)

Just as customers have their life cycle, products are also mortal, they flourish for a time, then decline and die. *To say that a product has a life cycle is to assert that*

- Products have a limited life.
- Products sales pass through distinct phases, each posing different challenges, opportunities and problems to the marketer.
- Profits rise and fall at different stages of PLC.
- Products require different marketing, financial and human resource strategies in each stage of it's life cycle.



The product has a life cycle starting from its birth, it passes through

These stages are

Stage 1 Introduction

- It can be considered as the birth stage in which the product evolves out of production and is launched in the market for the customers to buy it for the first time.
- It is a period of slow sales growth, profits are non-existent because of heavy expenditure on advertisement and selling. The profits will be very low or negative as part of the investment is to be recouped in other selling and logistic expenditures.

Stage 2 Growth

- This is the period of rapid market acceptance and substantial profit improvement. Sales start increasing and brand awareness is on a high. It is here that similar other new products begin to appear in the market and offer competition.
- Prices remain where they are or fall slightly, depending on how fast demand increases. Companies maintain their promotional expenditures at the same or at a slightly increased level to maintain position in the market.
- Firms must watch for a change from an accelerating to a decelerating rate of growth in order to prepare new strategies.

Stage 3 Maturity

- This stage faces slowdown in sales growth because the product has achieved acceptance by most potential buyers. Profits stabilise or decline because of increased competition. Sales flatten because of market saturation.
- During this stage, the manufacturers introduce new models of product or bring discounts or freebies to promote their brands with a view to retaining their position in the market.
- In economic terms, it is a stage where supply exceeds demand. Some of promotional efforts and selling tactics may lengthen the span of this stage, but they will not avoid declining stage to come.

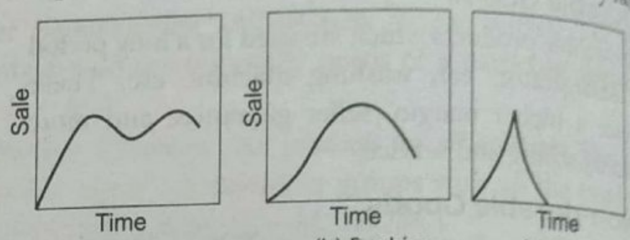
tage 4 Decline

- Sales show a fast declining trend and profits erode. Competition becomes severe and even loyal customers switch to new products of competitors. It is the ending phase of product's life cycle.
- Company reduces the marketing expenditure, liquidate the product from weak markets, cut the prices to clear stocks, reduce advertising and sales promotion to minimal level to retain hardcore loyals. A product should be eliminated when it does not find a proper place in a firm's product line.

Categories of Product Life Cycle

There are three special categories of product life cycles namely styles, fashions and fads. *These are explained below*

- A style is a basic and distinctive mode of expression appearing in a field of human endeavour. Styles appear in homes, clothing and art. A style can last for generations.
- A fashion is currently accepted or popular style in a given field. Fashion pass through four stages Distinctiveness, emulation, mass fashion and decline.
- Fads are fashions that come quickly in public view, are adopted with great zeal, peak early and decline very fast.



(a) Style (b) Fashion (c) Fad

New Product Development

In today's dynamic changing environment with tough competition, a company can survive through product expansion, diversification and innovation. Companies are spending crores of rupees on research and development work in order to keep its existing products afresh in an enhanced version to fit the changing needs of the buyers and also to bring new innovative products to remain a leader in the market. Product planning is the activity charged with the responsibility of providing new and profitable products for management to evaluate. It also involves weeding out the matured products which are no more in demand.

Factors to be Considered in New Product Development

Introducing new products is difficult as it involves long range planning. *The following factors are considered in this regard*

- Customer's needs should be identified which are still unmet with existing products.
- Competing and products substitute should be evaluated
- Strength of the company should be examined in terms of money, material and time for deciding new product development.
- Scope of product line and profitability should be considered in terms of cost and price.
- Expected demands should be forecasted in order to estimate the market size and production volume to be started.
- The company should review its technical backup, R & D department costs, available manpower.

Steps in New Product Development

Step 1 Idea Generation

The new product development process starts with the search for ideas that are new and innovative and that can help in fulfiling the unmet needs of the customers. *New ideas can be generated from the following sources*

- Brainstorming with customers.
- Evaluating competitors' product.
- Talking to distributors and retailers.
- Advice from professional research specialists.
- Websites for getting new ideas from customers and feedback on existing products.

Companies have started of involving customers in product designing in order to make a product which actually appeals to the customer and is quickly adopted in the market. Customers and business experts are the greatest source of new and productive ideas.

Step 2 Idea Screening

All the ideas collected are evaluated in depth to eliminate those inconsistent with the product policies and objectives of the firm. Some ideas may be good and profitable but cannot be considered because of the lack of resources of stage production. The main intention of this phase is only to eliminate unsuitable ideas as quickly as possible. *This stage involves*

- Visualising idea into a product concept.
- Collecting facts and views to decide if this concept is a feasible business proposal.
- Assessing each idea in terms of production cost, utility to the customer and expected demand for it in the market.

Step 3 Business Analysis

is the extension of idea screening. Management needs to prepare sales, cost and profit projections to determine whether the product satisfies the company's objectives. If it does, only then the concept can move to the development stage. Company uses Break-even analysis and risk analysis to find out the optimum cost, price and expected profits.

Step 4 Concept Development

During this stage, the 'idea on the paper' is converted into a 'product in hand'. Here, the idea is converted into a product which is tangible. It is during this period that all developments of the product take place. The job of translating customer attributes generated by market research into a working prototype is helped by a set of methods known as Quality Function Deployment. The methodology measures the trade-offs and costs of meeting customer requirements. It establishes development plans, arrange research and development work to bring out a workable prototype that can be put to use for testing.

Step 5 Testing

It is the step in which one can testify the accuracy and reality of the ideas generated on the basis of which product is developed. These commercial experiments are necessary to verify earlier business judgements. Thus, the objective of testing is to assess whether the product meets the technical and commercial objectives envisaged in the original proposals. *There are three types of tests conducted usually*

Concept Testing It involves measuring the customer's reactions to the idea or concept before any money, time and labour are spent on making the prototype products. The product concept is made known to the customers either verbally or through use of suitable blue prints. If the response of customers is found positive, then the development of product prototype is take-up. Concept testing tells whether the product is likely to be a future success or not.

Product Testing In this test, product is put into few selected markets. This test will prove whether the product performs as expected or whether it lives up to the promise of the concept. Such a test enables the management to pick out the likes and dislikes of the consumers towards the product. It also gives the buyer an opportunity to compare the product with the competitive products. It helps in minimising the risks attached to full scale launching of a new product.

Test Marketing It involves exposing product to the realistic competitive conditions by launching the product in few selected cities. It not only tests the product, but also the tests company's marketing mix-to evaluate a complete marketing plan including advertising, distribution, price, media mix, repeat sales, competitor's reaction to the product. It is a costly and time-consuming affair. On the basis of the findings changes will have to be incorporated before the product is finally launched in the market.

Step 6 Commercialisation

In this stage, product is launched market wide and thus, commences its life-cycle. It involves completing final plans for mass production and marketing, initiating selling programmes, making advertisement to make customer awareness of the product, checking results at regular intervals. In first instance introduction may be restricted to a few regions to avoid short supply of the product. This is to avoid short supply of the product due to initial gaps in production and distribution.

Pricing Decisions

Price is the only element of marketing mix that generates revenue and it is also the most important determinant of the profitability of business by way of sales volume. It is competition that contributes the maximum to the importance of pricing. Customers compare prices of various products to decide a particular brand to purchase.

Factors Influencing Pricing

There can be two set of factors influencing the pricing decisions of any enterprise. These factors can be economic, psychological, quantitative or qualitative in nature. *The two set of factors are*

Internal Factors It is related to the firm. *It include*

- Corporate objectives of the firm.
- Image sought by the firm through pricing.
- Price elasticity of demand of the product.
- Costs of manufacturing and marketing.
- Stage of the product in its life cycle.
- Intensity of competition.
- The characteristics of the product.
- Volume of production and economies of scale.

External Factors It is related to the macro-environment of the firm. *These are*

- Market composition.
- Buyer's attitude towards product.
- Bargaining power of customers.
- Competitor's pricing policy.
- General state of economy.
- Government controls and regulations.
- Societal considerations.

Pricing Objectives

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

Any firm, while setting its price, wants to achieve one or more of hese objectives

Maximum Current Profit Companies estimate the costs and emands associated with various prices and choose the price hat produces maximum sales, cash flows and return on vestment.

Maximum Long-term Profit Firms set the price in order to pture the largest market share by beating competition. To nfirm the long-term sales, an appropriate price should be ed, keeping in mind customers's purchasing power and mpetitor's reactions.

mpanies Survival In case companies are facing over pacity, lower sales, intense competition or changing long as the prices cover variable and fixed costs, the company stays in business.

Maximum Market Penetration Some companies believe that by lowering prices, higher sales volume and large market share can be achieved. This will lead to lower unit costs and higher long run profits. A low price stimulates market growth.

Maximum Market Skimming Companies introducing a high tech innovative product set high prices to maximise market skimming. Sony is the frequent practitioner of market skimming pricing.

Product Quality Leadership A company might aim to be the quality leader in the market. Their products are characterised by high quality, taste, status and luxury with aprice just high enough not to be out of consumer's reach.

Steps in Pricing Procedure

Step 1 Setting the pricing objective.

Step 2 Determining the demand elasticity for price, estimating the total demand in the market.

Step 3 Estimating costs of manufacturing and marketing.

The different costs involved in the production are

Fixed Costs/Overhead These costs do not vary with the production or sales revenue. These include monthly rents, interest, salaries etc.

Variable Costs These costs are directly related to the level of production. These costs are constant in terms of per unit produced. These are variable costs as there is a variation with the number of units produced.

Total Costs This is the sum of fixed and variable costs at a given level of production.

Average Costs It is the cost of per unit at the production stage.

Step 4 Analysing competitor's costs, prices and offers.

Step 5 Selecting a pricing method, keeping in mind the market share, price image for brand, type of customer segment, life cycle stage of the product.

Step 6 Selecting the final price.

Step 7 Periodical review of sales as well as adjusting price to the demand.

Pricing Methods

Pricing method is a route to achieve the desired pricing objectives. *There are several methods of pricing which are classified into various groups*

1. Cost Based Pricing

Mark-up Pricing It is the most elementary pricing method. It cost. Suppose the manufacturer wants to earn a 15% on sales, the manufacturer's mark-up price is given by adding it to the cost of manufacturing. Mark-ups are generally higher on seasonal items, speciality items, items with high storage and handling costs and demand inelastic items like life saving drugs. This method is applicable where costs are known but demand cannot be known accurately. Usually traders who are not manufacturers use this pricing method.

$$\text{Manufacturer's cost} = \text{Variable cost} + \frac{\text{Fixed cost}}{\text{Unit sales}}$$

Target Rate of Return Pricing The firm determines the price that would yield its target RoI rate.

Target return pricing

$$= \text{Unit cost} + \frac{\text{Desired return} \times \text{invested capital}}{\text{Number of unit sales}}$$

This can be calculated only when the firm has estimated its unit costs and estimated sales and demand are accurately known. It uses a rational approach to arrive at mark-up.

Going Rate Pricing The firm bases its price mainly on competitor's prices, charging the same, more or less than the prices of major competitors or market leaders. The smaller firms follow the leader, and change their prices only when the market leader's price change. It is quite popular in oil, gas, fertilizer, petrol industry.

2. Demand/Market based Pricing

Skimming Pricing Firm wants to skim the high value customers by selling the product at high prices in the beginning, especially luxury products or status products. Once the sale has saturated, it lowers the price to skim second layer of middle income group. It gives high profits in the early stage of market introduction for product.

Penetration Pricing Firm, by way of penetration pricing, seeks to achieve greater market penetration through relatively lower prices so that more and more customers can be reached and larger market share, long-term profits can be achieved. It is effective in price sensitive market segment with highly elastic price demand. It is practiced at the time of product launch to get maximum sales and to keep competition out for quite sometime.

Competition Oriented Pricing

This policy considers competitor's price as the reference point. It can decide on premium pricing (price higher than that of competitor) discount pricing (pricing below competitor's price) and parity pricing (matching competitor's price). Where a market leader has established a market price, with the intention of stabilising the price, the smaller firms in the industry may have to go in for parity pricing.

4. Perceived Value Pricing

Perceived value is made up of several elements such as buyer's image of the product performance, quality, customer support, warranty, firm's reputation and brand equity. The purpose of pricing is not only to cover the costs, but to capture the value of the product perceived by the customers. Company tries to price its product such that its price is a little higher or equal to value of the product which in turn is greater than the cost.

[Price ≥ Value > Costs]

5. Psychological Pricing

Marketers often try to get around consumer's psychological barrier in respect of price through the psychological price. In earlier days, in India, this kind of pricing was known as Bata pricing, since Bata used to price most of its footwear in this fashion. *e.g.* A pair of shoe can costs you ₹ 499 rather than ₹ 500 or above.

Price Adaptation Strategies

An organisation usually do not set a single pricing, instead has a pricing structure that varies with geographical demand and costs, market segments, purchase timing, order levels, delivery frequency, guarantees, service contracts. *The different price adaptation strategies are*

1. Geographical Pricing

The organisation decides the price of product on the basis of locations and countries. *This includes*

Compensation Deals The seller receives some percentage of the payment in cash and the rest in products.

Barter There is direct exchange of goods without involvement of any money or third party.

Buyback Arrangement The seller sells a plant, equipment or technology to the other country and agrees to accept partial payment products manufactured with the supplied equipment.

Offset The seller receives full payment in cash but it agrees to spend a substantial amount of money in that country within a state to spend time period.

2. Price Discounts and Allowances

In case of bulk purchases and early payment, the organisations offer discounts. *This includes*

Cash Discount In case, the buyer pays the bill promptly, he is given a price reduction, the customers in given discount.

Quantity Discount In case of purchasing large quantities of products, the customer is given discount.

Functional Discount/Trade Discount Discounts by a manufacturer to the members of channel, in case they

Functions of Advertising

- To inform new product, improved quality, price changes, new variants, new brand to the customer.
- To persuade customer to buy now, aid sales force, build brand preference, try to offset competitor's advertisement.
- To keep the awareness intact, remind users when they actually buy, maintain image during off seasons.

Elements of Advertising

- Non-personal salesmanship.
- Paid communication by identified sponsor.
- It exposes large customer group at low cost per prospect.
- It is a unique form of non-personal mass communication.
- It can be emotional or scientific in nature.

The 5 Ms of Advertising

These are helpful to the marketing managers while developing an advertising program. *These are*

1. ***Mission*** The objectives of advertising.
2. ***Money*** The amount of money to be spent.
3. ***Message*** The information to be sent across to the target audience.
4. ***Media*** The form of media to be used.
5. ***Measurement*** The parameters to evaluate the result.

Developing and Managing an Advertising Program

The marketing managers need to design the advertising program meticulously. *The different steps that are to be followed are*

1. Setting the Advertising Objective

These are based on the decisions of target market, market positioning and marketing mix. The organisation must study the market thoroughly. *On the basis of stages of hierarchy of effects, the advertisement is classified as follows*

Informative Advertising Its aim is to create awareness and knowledge of new products or new features of existing products.

Persuasive Advertising Its aim is to create liking, preference, conviction, and purchase of an offering.

Reminder Advertising Its aim is to stimulate the repeat purchase of the products.

Reinforcement Advertising Its aim is to convince the consumers that they made a right choice by purchasing the offering.

2. Deciding the Advertising Budget

Advertising is a form of long-term investment. It goes a long way in building the brand equity.

The five basic factors based on which the advertising budget is decided are as following

- Stage in the Product Life Cycle (PLC).
- Market share and consumer base.
- Competition in the market.
- Advertising frequency.
- Product sustainability.

The different advertising expenditure models are Vidale and Wolfe's model. They are used for large advertising budget.

John Little model is an adaptive-control model for setting the budget.

3. Choosing the Advertising Message

The advertisement needs to deliver an innovative message to the audience in which facts are combined with creativity. There are four steps to develop a creative strategy which include message generation, message and evaluation selection, message execution and social responsibility.

4. Deciding on Media and Measuring Effectiveness

The marketing team needs to narrow down the available options based on the following factors

- Desired reach
- Frequency and impact
- Selecting specific media vehicles
- Deciding media timing and geographical location
- Evaluating advertising effectiveness

The different media available with the marketers are newspapers, televisions, direct mail, radio, magazines, outdoor, yellow pages, newsletters, brochures, telephone and internet.

Some Important Terms Related to Advertising

Surrogate Advertising It is prominently seen in case where advertising a particular product is banned by law. Advertising for products like cigarettes or alcohol which are injurious to health are prohibited by law in several countries.

Industrial Advertising It is a type of advertising which is directed at commercial business customers. The advertised products are raw materials, components or equipments needed in the production or distribution of other goods and services.

Sandwich Board Advertising A sandwich board is a type of advertisement composed of two boards with a message or graphic. It is carried by a person, with one board in front and one behind, creating a sandwich effect.

Advertising Frequency The number of repetitions needed to put the brand's message across to consumers has an obvious impact on the advertising budget.

Sales Promotion

These are short term incentive tools which help to get quicker or greater purchase of the offering from the consumers. It is most effective when it is coupled with advertising.

Sales promotion is faster and yields measurable response in comparison to advertising. However, it doesn't yield new long-term buyers as most of the customers are the ones who switch among the brands because of deals on them.

Objectives of Sales Promotion

Information to Customers Sales promotion activities inform the potential buyers about the availability, features, use, etc of the product. Thus, it offers additional support to promotional activities like advertising, publicity and personal selling.

Persuades Customers Sales promotion activities aim at arousing customer's interest in the products and persuades them to buy the products.

Increase in Sales Volume The sales promotion schemes are a big help in boosting off season sales and also in tempting the buyers to make quick decisions to purchase.

Incentive to Retailers The main objective of sales promotional activities is to offer promotional support to retailers. Incentive schemes help product in getting shelf space for them in new retail outlets.

Create Product Identity Under sales promotion programme, product identity is established by offering additional features and incentives for that particular product. This helps in building consumer's preference for the specific products and brands.

Tools of Sales Promotion

Samples A small offering is delivered to the customer free of cost.

Cash Refund Offers A price reduction is given to the customer after he has purchased the product.

Price Packs In this, a single package of the product is sold to the customer at a reduced price(Multiple products at the price of one). Also, two related products can be sold to the customers together at the price of one.

Premiums (Gifts) These are the products that are offered at a low cost or free, in order to incentivise the customer to purchase a product.

Frequency Programs Customer is rewarded based on his frequency and intensity of purchasing the offering.

Prizes These are awards in the form of cash, trips or merchandise as a result of purchasing something.

Patronage Awards Values in cash or in other forms that are proportional to patronage of a certain vendor or group of vendors.

Free Trials Prospective buyers are invited to try the product without cost with a hope that they will buy.

Product Warranties It is a written guarantee, issued to the purchaser of an article by its manufacturer, promising to repair or replace it if necessary within a specified period of time.

Tie-in Promotions Two or more brands tie up with each other for coupons, contests and refunds.

Cross Promotions One brand can be used for the advertisement of the non-competing brand.

Point of Purchase Displays and Demonstrations It is the marketing material or advertising placed next to the merchandise it is promoting.

Difference between Advertising and Sales Promotion

Basis	Advertising	Sales Promotion
Objective	Advertising create a favourable consideration for the product	Sales promotion stimulate customers to buy the product
Effect	Long-term	Short-term
Nature	Recurring	Non-recurring and one time communication
Cost	Expensive	Cheap/not very expensive
Companies	Medium to large	Small to large
Examples	Giving advertisement in newspaper	Free products, coupons etc

Personal Selling

Personal selling is a personal form of communictaion where direct face to face conversation takes place between the buyer and the seller for the purpose of exchanging goods and services. Sales persons are appointed by the companies to create awareness and develop preference among the customers about their products with the eventual aim of making sale.

In other words, personal selling is the most traditional method, devised by manufacturers, for promotion of the sales of their products. Prior to the development of the advertising technique, personal selling was used to be the only method used by manufacturers for promotion of sales.

Importance of Personal Selling in Business

- It is the best tool for two-way communication.
- It focuses on personal problems of consumers as it gives personal attention.

- Salesman can provide a detailed demonstration and can supervise the customer in making the actual use of products.
- Personal selling can support advertising, sales promotion and publicity.
- This is the only market promotion technique that provides an immediate feedback.
- It can meet personal expectations of buyers.
- Sales talks and presentation can be adjusted according to situation to suit individual nature, motives and problems.
- It increases customer's faith in company and its offers.
- It benefits all parties, including customer, salesman and company.

Publicity and Public Relations

Public relations involves with the management of internal and external communications of a organisation to create and maintain a positive image.

Publicity, a function of public relations is a communication about an organisation and/or its products to the public.

Publicity may have both positive or negative impacts. Organisation can minimise the effects of bad publicity by providing people with accurate information and giving classifications, taking safety measures, effective quality control measures, inspections, etc.