# Marketing Management and International Trade


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Marketing Management and International Trade


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## Lesson 1

## CONCEPT OF MARKETING AND MARKETING MANAGEMENT PROCESS

### 1.1 Introduction

Marketing is a social and managerial process by which individuals and groups obtain what they need and want through creating, offering and freely exchanging products and services of values with others (Kotler *et al*. 2010). Management philosophy by which organizations' goals can be best achieved through identification and satisfaction of the customers' stated and unstated needs and wants is referred to as 'concept of marketing'. This emphasizes that the organization should analyze the needs of its customers and make decisions to satisfy these needs in a better way as compared to its competitors. Adam Smith, the well known economist, wrote in his 'Wealth of Nations' in 1776 that the needs of producers should be considered only with regard to meeting the needs of consumers. This philosophy is consistent with the marketing concept and would also be adopted by the organizations in future. Besides the Smithian concept, there are alternative marketing concepts that have prevailed during different historical time periods, some of which are relevant even today.

### 1.2 Concepts of Marketing

The major concepts that have guided and continue to guide the organizational activities are as follows:

### 1.2.1 The production concept

This is the oldest concept. According to this concept, consumers will choose those products which are relatively cheap and available at almost all places. The business organizations adopting this concept produces product on a mass scale and aim to produce products at low cost with higher production efficiency so as to keep the selling price low. This concept is adopted by firms for their expansion. Adoption of this concept is favourable in countries with higher population such as India, where a large population makes it possible to have cheap labour available. In organizations that practice this concept, production and technology dominate the thinking process of key managers. They think that marketing can be managed by managing production. The organizations which adopt this concept are able to obtain efficiency in production. Their assumption is that a decrease in cost of production due to maximization of output would bring all the patronage. But in real situations, customers are motivated by many factors apart from lower price. Thus, production concept is not able to act as a right marketing philosophy for the organization.

### 1.2.2 The product concept

This concept is based upon the assumption that consumers' purchase is strongly affected by quality, performance and novel features. The business organization adopting this concept produces high quality, superior products and continuously upgrades them. One of the limitations of this concept is that those who are associated with product development become so engrossed with the product that they do not pay attention to consumers' need.

### 1.2.3 The selling concept

This concept is based upon the assumption that consumers (individual as well as business) will not purchase products in sufficient quantity if left alone. Therefore, it is necessary for selling organizations to pursue aggressive efforts to promote and sale. This concept is favourable for unsought goods as well as for overcapacity plants.

### 1.2.4 The marketing concept

This concept gives priority to consumers' needs. Instead of producing the product and then trying to sell it, this concept relies on producing the product what is required by consumers. The concept emphasizes to become more efficient than competitors in all aspects of marketing mix.

### 1.2.5 The holistic marketing concept

The business environment has undergone substantial changes in the last few years. Responding to this change, the organizations are now adopting holistic marketing concept. According to this concept, everything matters in marketing and thus a broad integrated approach is required. This concept takes into consideration the four important activities i.e. relationship marketing, integrated marketing, internal marketing and performance marketing.

Relationship marketing aims at establishing and maintaining long-term, mutually satisfying relationship with key stakeholders of a business organization. The key stakeholders are customers, channel members, financers and employees.

Integrated marketing calls for adopting integrated approach with respect to four marketing mix elements viz., product, price, place and promotion.

The internal marketing emphasizes that the members of the organization and especially senior management are devoted towards marketing activity irrespective of their functional specialization.

Performance marketing is related with returns to the business from various marketing tasks and programmes. Apart from only monetary returns it also includes legal, ethical, social and environmental impacts of marketing activities.

### 1.3 Marketing Management Process

Marketing management is the process of knowing customer needs and wants, developing products and services and offering it to customers so as to satisfy their needs and wants. In the process, business organization earns profit. Thus, the first step of marketing is to identify a set of consumers whose unmet needs can be satisfied. It is necessary for marketing organization to identify opportunities in the market by analyzing and scanning macro environment and obtaining market related information through process of market research to get idea about current and future market demand. By selecting target marketing, organization finds out a homogenous set of consumers who will respond favorably to the marketing programmes offered by the organization. The analysis of competitors helps the marketing managers to devise programmes so as to differentiate it from competitors. While selecting a marketing strategy, the consumer decision making process and factors affecting the process needs to be dealt with. Identification and selection of target market and positioning strategy aids marketing organization in developing new products or service. A brand name is chosen and appropriate pricing policy is adopted for the new offer taking a long term view and competitors strategies. The awareness about the product or service is done adopting appropriate promotion policy. In short, the total marketing management process starts with identification of unmet consumer needs and ends with a satisfied customer. Table 1.1 shows the key steps of the marketing management process.

**Table 1.1 Key steps of the marketing management process**

| | Step | Activity |
|---|---|---|
| 1. | Market analysis | Finding out current position of the organization in respect of current market share, market power, the |

| | | |
|---|---|---|
| | | relevant strength, weakness, opportunities and threat for the organization |
| 2. | Market planning | Selecting a target market, selecting market strategy. |
| 3. | Implementation | Execution of the planned strategy and allocation of scarce resources to achieve optimum results. |
| 4. | Control | Evaluating the process and rectifying the deficiencies in terms of deviation from targets. |

# Lesson 2

# FUNCTIONS OF MARKETING

## 2.1 Introduction

Marketing activities lead to sale of goods from producer to consumer. In order to make the goods available to consumer, several marketing functions are carried out by marketing organizations. All this functions are categorized into several categories and are broadly divided into direct and indirect functions.

## 2.2 Direct Functions of Marketing

There are some basic direct functions to be carried out by marketing so as to facilitate the transfer of goods and services from producer to consumer. These direct basic marketing functions are divided into following three types.

a) Transactional functions: This function includes following marketing activities.

1. Buying: To purchase a particular good or service after evaluating alternatives and making choice amongst them.
2. Advertising: Impersonal presentation and promotion of goods and services through the mass media.
3. Personal selling: Person to person communication and presentation of goods and services for sale.
4. Sales promotion: Incentive tools, generally short term so as to stimulate quicker or greater purchase of particular good or service by individual or business consumers.

b) Logistic functions: This covers

1. Selecting a distribution channel.
2. Transportation storage and physical handling of goods.

c) Facilitating functions: This covers

1. Product financing by providing capital.
2. Risk taking by holding or taking ownership of title of goods.
3. Generating and providing market information.
4. Post sale activities: After sales service.

## 2.3 Indirect Functions of Marketing

The connectives, integrative and societal are indirect functions of marketing. Marketing has a connective function in society. It connects supply and demand or production and consumption of goods and services. At micro level, marketing develops and maintains the relationship between producer and consumer. The database of micro level helps for macro level planning at national level.

At organizational level marketing has an integrative function. It integrates all functions and parts of an organization to serve the markets. In organizations, activities of production, distribution, hiring of professionals, financial aspects etc. are carried out by respective departments. If all the departments act in their own pursuit without any relation with other department then in the long run it will prove detrimental for the whole organization. The main aim of any organization will be to sell their goods and services and earn profit. Thus, this aspect helps to integrate all the departments of the organization. Production department has to produce the goods and services as per customer demands and keep in mind the financial and other constraints.

In today's globalized world production and consumption are apart from each other. They are connected by marketing only. From the society view point marketing shows ways of developing and using effective production systems and leads to prosperity.

Traditionally, marketing is viewed as a link between production and consumption. Marketing evolved so as to consider demand factor in production planning. The function of marketing is to channelize information of consumer needs to the other departments of the organization. Marketing integrates the whole organization to effectively serve the demand.

## Lesson 3

## SCOPE OF MARKETING MANAGEMENT

Marketing is an ancient art. Marketing has passed through several stages. It started with barter trade. In very early stage of development of civilization till the evolution of many economies covering pre industrial revolution era was specifically dominated by barter trade. The items like corn, cotton, meat, butter; leather, hand tool etc were exchanged among nations. During the era of industrial revolution large number of goods was produced at lower cost due to mass production. The era of industrial revolution was succeeded by era of competition which compelled organizations to pursue different marketing techniques to increase sale of their products and services. At present scope of marketing is unlimited. Whatever mankind needs, can be marketed. The following are items illustrating the scope of marketing:

1. **Products:** We as a human being have unlimited wants. This is satisfied by consumption of different products in the form of physical goods. Just like individual, countries also need many products for their citizens which naturally or otherwise not available in a particular country. Thus there is scope for marketing all kinds of products required by mankind within and across the countries.
2. **Services:** The activities in which mainland industries are categorized as the primary (agriculture and allied), the secondary (industrial), the tertiary (service) sector. With the progress of nation, the proportion of service sector increases. Services are intangible physical goods and vary from pure intangible goods like that of a lawyer to one that consists of large number of physical goods viz., restaurant meal.
3. **Events/occasions:** Throughout the world several events/occasions occur which gives marketers to promote them. For e.g. various sports events like common wealth games, cricket or soccer world cup, Miss Universe or miss world events etc.
4. **Experiences:** As human wants are unlimited it is possible to market wide variety of experiences. For example in metro and big cities of India, many restaurants are there which provide an experience of taking food in a village like atmosphere. Such experiences are enjoyed by rich family members.
5. **People:** Celebrities of various fields like sports, cinema etc are being rightly used as brand ambassadors for a particular company. They then promote the products of respective company/organization.

6. **Locations/places:** A region in terms of a particular city/ town/ state/ country etc is marketed for various purposes. For tourism industry the location plays an important role. For example Gir lion sanctuary in Gujarat is an attractive tourism spot.
7. **Properties:** Intangible rights of ownership of either real property (stocks or bonds). Properties are purchased and sold which requires marketing.
8. **Institutions:** In the era of competition, institutions try to build everlasting favourable image in the minds of consumers through variety of marketing programmers.
9. **Knowledge:** Knowledge in the form of vital information is marketed by self financed educational institutions to their clients (students).
10. **Ideas:** There are many noble ideas which are marketed by organization to help mankind. For example ideas which increase awareness about some deadly diseases like AIDS, crimes like female infanticide, dowry, corruption etc.

This if can be said there is scope for marketing for everything on this global village.

## Lesson 4

## ELEMENTS OF MARKETING MIX

### 4.1 Introduction

American marketing expert James Culliton coined the term ‘marketing mix’ which was later popularized by Neil H. Borden. American professor of marketing Jerome McCarthy described the marketing mix in term of four Ps i.e. product, place, price and promotion. Each P of marketing mix encompasses other sub-elements. The main purpose of all the organizations is to earn maximum profit and become market leader in this competitive world. This calls for proper management of all marketing mix elements. Each elements of marketing mix has its own importance and are equally important. But for an organization, to gain a competitive edge it is essential that the elements of marketing mix are chosen and mixed in right proportion to increase the attractiveness of product. The use of marketing mix varies from organization to organization. A large organization with more financial resources may spend more on promotion than a small firm. In general the use of marketing variables is depended upon a) environmental factor b) financial position of the organization c) objectives of firm d) organization structure and information system of the organization.

### 4.2 Product

A product is anything which is capable of satisfying a want. It is generic term which refers to all similar objects that provide same benefits to the consumer. In competitive market different firm sell their product under different brand name.

A product is the main focus of any marketing planning which determines the success or failure of the firm. A product is not a simply physical item but a mixture of tangible and intangible characteristics including packaging, colour and price. A product can be anything and ranges from goods (toothbrush), services (hospitals), experiences (waterpark), events (Marathon run), concepts (polio eradication), ideas (women empowerment) propositions (love for the country), places (Taj Mahal), nations (India), properties (textile, agricultural land), organizations (IIMs, IITs), information (websites). A product is any item of value offered to the customer for attention, purchase, use and disposal of consumers for satisfaction of their needs and wants.

A product is further categorized in to following categories.

**Table 4.1 Classification of product**

| | | |
|---|---|---|
| **Core benefit** | The reason for purchasing a product | The text book is purchased to gain knowledge |
| **Basic product** | It includes tangible elements of product. | A textbook includes written pages, arranged properly and available in a bound form. |
| **Expected product** | Normal expectation of consumer from the product. | From the text book, a purchaser (generally student) expects colorful pages, easy explanations, case studies, question answer etc. |
| **Augmented product** | Features which exceeds customer expectations. | In addition to book, a CD containing power point presentations, a facility to use other links provided in the book through unique password provided with the book. |
| **Potential product** | All possible changes in the product in future to increase its attractiveness. | |

## 4.3 Price

Pricing is the secret component of marketing mix. Price is the only component of marketing mix which provides revenue to the firms. For all other Ps of marketing mix, organization has to spend money. Price is referred by many terms such as rent, tuition, fare, rate, interest, due, premium, honorarium, bribe etc. The key factor to be considered in determining products price depends upon the value placed by consumer on the products which is derived from consumer's perception of the total satisfaction provided by the product. If the price is higher than the perceived value, the exchange between buyer and seller does not result.

Price setting by the firm involves following steps.

1. Selecting the pricing objective: It may be survival, maximum current profit, maximum market share, maximum market skimming, product quality leadership or other objectives.
2. Determining demand: It employs various methods of demand estimation and takes into consideration price elasticity.
3. Estimating cost: It aims at finding out the cost of production and segregating it into fixed and variable cost.
4. Analyzing competitors, cost, price and offers.
5. Selecting a pricing method: Different methods are adopted by firms based upon marketing objectives and competitive scenario. This includes mark up pricing, target return pricing, perceived value pricing, value pricing, going rate pricing, auction type pricing.
6. Deciding the final price: Considering its impact on other marketing activities and based upon company pricing policy, a final price for the product is selected.

## 4.4 Place

Place is third P of marketing mix. This involves network of distribution channel through which product reach the final consumer. It is essential that finished goods are made available at customer points, of desired quality in sufficient numbers at right time. This is made possible through marketing channels. A marketing channel is a system of relationship among participating members which make the final product available to the consumer.

The distribution process of any marketing organization consists of two basic parts.

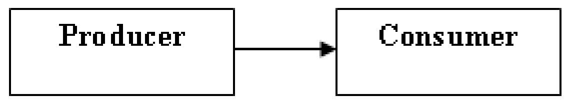
i. The channel of distribution through which goods and services are made available to the consumers.
ii. Physical distribution which involves actual transportation of goods from the origin point to consumption point. Organizations employ different channels for distributing their products. Industrial goods and some services have limited clientele and thus often marketed directly to the consumer eliminating the middlemen. Consumer goods and mass consumption items are distributed with the help of many middlemen such as distributors, stockiest, whole sellers, dealers, agents and retailers as it is not possible to reach large number of consumer directly. Each of these intermediaries forms a separate link in the distribution chain.

When the goods are distributed without involving any middleman, the process is called zero level or direct distribution. If the goods pass through different middleman before reaching the final consumer, it may be referred to one, two or more level distribution channel. Depending upon number of levels, a channel may be categorized as long or short. Use of long or short chain depends upon quantity of output, number of consumers and their frequency of buying, nature of product, shelf-life of product, geographic spread of market etc. A long chain increases the cost and time of distribution. A short channel limits the market penetration of product. The marketing organization faces a tradeoff between the long chain and short chain of distribution.

There are various types of marketing channels as shown below:

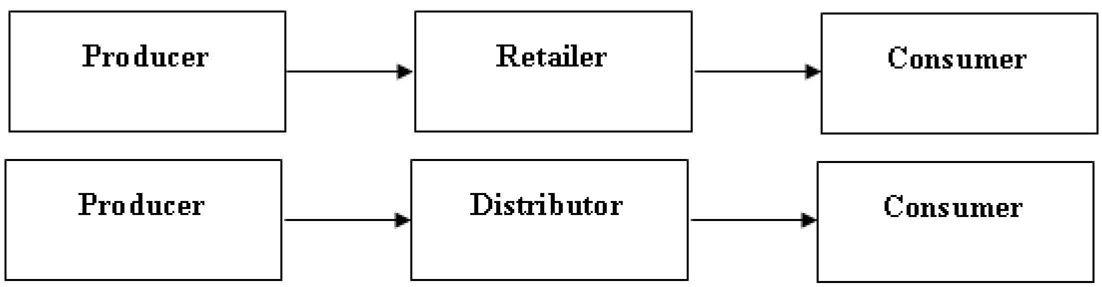
a) Direct marketing channel

i) Zero-level channel: No market intermediary

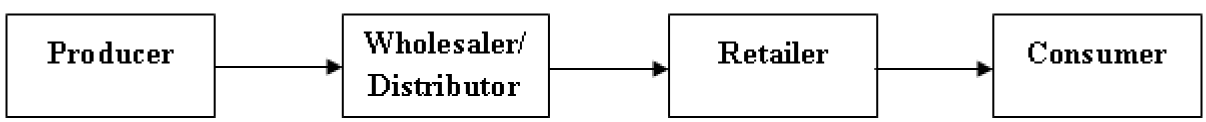



b) Indirect marketing channel

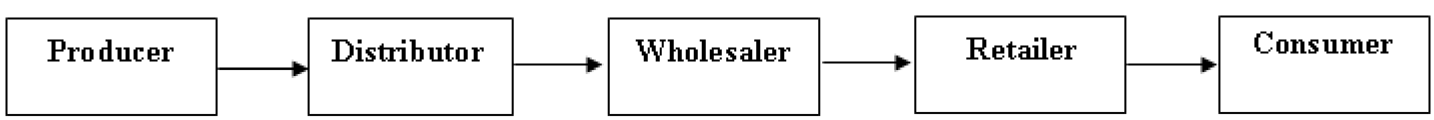
i) One-level channel: One market intermediary




ii) Two-level channel: Two market intermediaries




iii) Three-level channel: Three market intermediaries




iv) Four-level channel: Four market intermediaries

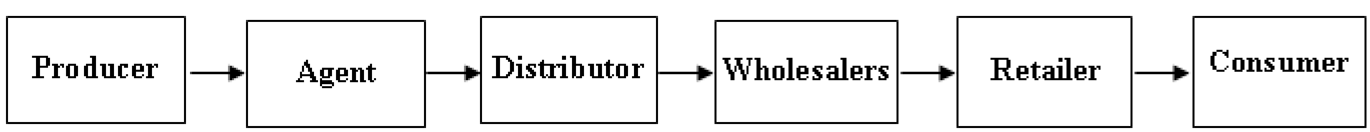



**Fig. 4.1 Types of marketing channel**

## 4.5 Promotion

It is the face of the company. It refers to tools of communicating message to the customer. It includes advertising, sales promotion, personnel selling, public relations, publicity, events & experiences, direct marketing, interactive marketing, word of mouth marketing.

Advertising is any paid form of non personal presentation and promotion of ideas, goods or services by an identified sponsor. Sales promotion includes a variety of short term incentives to encourage trial or purchase of a product or service. Personal selling is a face to face interaction with one or more prospective consumers. So as to make presentation, solve their queries and take the purchase orders.

Different types of programmes designed to promote or protect firm's image and its products are referred to as public relations and publicity.

Activities and programmes sponsored by firms to create daily or special brand related interactions are referred to as events and experiences.

The vehicles used to communicate directly with the customer and prospects are referred to as direct marketing tools viz., mail, telephone, fax, email, and internet.

Online activities and programmes which involve customers and prospects directly and indirectly and aim at raising awareness, improve image and lead to sale of goods or services are referred to as interactive marketing.

Oral, written or electronic communication between two persons with regards to advantages or experiences of purchasing or using products or services is called word of mouth marketing.

### 4.6 Important Decisions of Marketing Mix

The four Ps are to be controlled by the marketing manager subject to internal and external constraints of the marketing environment. The goals should be, to make the decisions that center around the four Ps of the customers in the target market so as to create perceived value and generate a positive response. The important decisions to be made with each of the four Ps are shown in Table 4.2.

**Table 4.2 Important decision parameters of four Ps**

| Product | Price | Place | Promotion |
|---|---|---|---|
| Brand name<br>Styling | Pricing Strategy | Distribution Channels | Strategy (Pull Push) |

| | | | |
|---|---|---|---|
| Functionality<br>Safety<br>Quality<br>Warranty<br>Packaging<br>Accessories & Services | Volume discount & wholesale pricing<br>Seasonal pricing<br>Cash & early payment discount<br>Price flexibility<br>Bundling | Market Coverage<br>Inventory Management<br>Specific Channel Members<br>Distribution Centers<br>Warehousing<br>Order Processing<br>Transportation<br>Reverse Logistics | Advertising<br>Personnel Selling and Sales force<br>Public Relations & Publicity<br>Marketing communication on budget. |

With marketing more integrated into organizations and with a wider variety of products and markets, some authors have also proposed fifth & such as packaging, people, processes etc., however, even today the marketing mix most commonly remains based on the four Ps.

# Lesson 5

# MARKETING ENVIRONMENT: MICRO AND MACRO ENVIRONMENTS

## 5.1 Introduction

The organization is an open system. It obtains raw materials from the outside system, converts them into products and provides it in the system to be sold. The organization is impacted by many environment factors. Some factors exist in the immediate environment which is referred as micro environmental factors over which organizations have some control. At the same time organization are also impacted by external macro environmental factors over which they have no control.

Marketing environment is made up of all the factors and forces that influence marketing. Marketing environment is generally understood as external factors which will affect the organizations. This is further classified as macro or micro factors. Macro factors affect the economy and industry as a whole. Micro factors are within an industry. Micro environmental factors are also called task environment which is closest environment of the organization. The micro environmental factors have a direct influence on the organization. It includes factors like consumers, competitors, suppliers, labour market, industry and financial resources. The macro environment is also referred to as remote environment and its elements have indirect influence on the organization. It includes factors such as demographic, economic, socio-cultural, technological, natural, political, legal factors.

## 5.2 Micro Environmental Factors

The microenvironment consists of individuals and organizations that are close to the company and directly impact the customer experience. It includes the company itself, its suppliers, other marketing input from agencies, the markets and segments in which the firm trades, firm's competition and also those around the firm (which public relations would call publics) who are not paying customers but still have an interest in firms business. The Micro environment is relatively controllable since the actions of the business may influence such stakeholders.

For example Gujarat Cooperative milk marketing federation's (GCMMF) micro environment would be very much focused on immediate local issues. It would consider how to recruit, retain and extend products and services to customers. It would pay close attention to the actions and reactions of direct competitors. GCMMF would build and nurture close relationships with key suppliers. The business would need to communicate and liaise with its publics such as neighbors which are close to its stores, or other road users. There will be other intermediaries as well including advertising agencies and trade unions amongst others.

## 5.3 Macro Environmental Factors

### 5.3.1 The demographic environment

This is the study of population and its characteristics such as size and growth rate in different geographic locations across the world, age distribution and ethnic mix, educational level, household patterns, regional characteristics and movements. Growth in population provides an opportunity for selling more products. Population age mix decides the purchasing pattern. Each population segment has its own needs. Young children need toys, youngsters may need bikes and old age persons have their own needs e.g. related with health.

Education level of population also decides purchasing patterns. A drastic difference is visible between purchasing pattern of educated elite urban consumer and uneducated rural consumer. The probiotics dairy foods are specifically meant for health conscious population. Examples: Seeing the large market for gearless scooters Hero Honda launched 'PLEASURE 'the gearless scooter made exclusive for women with the tagline 'Why should Boys Have all the fun' Yoga, & dances like Salsa, Samba & western are increasingly gaining popularity in metros as a means of fitness & stress busters.

### 5.3.2 Economic environment

Economic factors like income distribution, level of saving, debt, credit facility for consumers and stage in business cycle etc. may act as opportunity or threat for an organization. The available purchasing power of consumers is dependent upon economic factors. Economy of a country also passes through cycle of recession, depression, recovery and prosperity. Each phase of this cycle has associated impact on purchasing power on citizens of that country. Each business organization has to relate their business strategies in accordance with these phases of business cycles. After adopting liberalization policies in 1991, the economic conditions of India has drastically changed and has consequently affected the marketing decisions. On an average economy has shown progress, per capita income and purchasing power has increased. Examples: The Indian Railways Launched '*Garib Rath*' (Vehicle for the poor), A.C trains with fare almost half the normal train fare. The Tata launched its low price car '*Nano*' to give the economically weaker sections the privilege of owning a car.

### 5.3.3 Cultural environment

Culture is a complex set of knowledge, belief, art, morals, laws, custom and other capabilities and habits learned by individuals as a member of society. Culture is reflected by habits and habits influences the consumption patterns. Culture varies from country to country. Within the country also culture exhibits cultural variations. Organizations have to provide products/services in the market according to cultural shifts.

In present times, the Indian culture seems to be influenced to a great extent by western culture. A change in life style is visible especially in urban younger generations. Supermalls have taken a strong foothold in all the major towns of the country. Food habits, clothing patterns and other consumption patterns are seen influenced totally by western culture. It can be seen that different types of traditional dairy products are liked by consumers based upon cultural influences. Examples: *Shrikhand* in Gujarat and *Rasgulla* in West Bengal. Similarly, people in southern states like cooked flavor of ghee.

India is increasingly influenced by western culture hence organizations have changed their strategies accordingly. Shopping is done in 'malls' like 'Big Bazars', 'D-Marts'. The concept of 'Multiplexes' is gaining popularity and this has lead to the rise of many brands of Multiplxes like 'Fame', 'PVR cinemas' & ' INOX'.

### 5.3.4 The social environment

Man is a social animal. Social forces and society has profound impact on purchasing pattern of individuals. Social customs determines the acceptance or rejection of a particular good. The food, dress and life style are influenced by social norms. India exhibits a heterogeneous social environment due to large geographic and social variance. Gender discrimination is also one of the social phenomena. In a traditional society strict role differentiation exists between man and women, specific dress codes are dictated for each gender such differences may generate different marketing opportunities. The organization should have idea about how the consumer reacts to various marketing offers in a social setting. Example: The food retail chains like KFC, Subway, Dominos, MacDonald's are on high demand due to changing consumer preferences.

### 5.3.5 Politico-legal environment

Different types of political systems exist in different countries of the world. Business organizations are controlled to lesser or greater extent by each of this system. Business organizations aim is to earn profit. Government's main aim is to seek welfare of the mass/ society. Thus in order to achieve this objective, large number of laws is enacted by government and business organizations are to abide by this rules. Each business organization has to have complete knowledge about all the legal rules. In India since 1991 liberalization polices are adopted and many rigid rules governing the business organizations has been dismantled. Example: The government of India recently proposed foreign direct investment in retail sector but it was opposed by many stakeholders including opposition parties.

### 5.3.6 Technological environment

This is one of the most important driving forces affecting the lives of people today. The technological changes are occurring very fast. In all the fields due to fast technological up gradation we see that new products are continuously coming in the market. Internet has dramatically changed the lives of people today. All the knowledge is available at the click of a mouse. This distribution of e-course is also a relevant example highlighting the use of internet. Examples: The social networking sites like 'twitter', 'Orkut' & ' Face book' have gained widespread popularity among all age groups. The 'e-store' like 'e-bay' is stores where goods can be purchased online.

### 5.3.7 Natural environment

The people all over the world have become more conscious about environment. Business organizations are required to adopt good business practices which do not spoil the environment. World is also facing the energy crisis. The non renewable energy sources like crude oil products are limited and their unscrupulous use put heavy pressure and leads to price rise. People are now concerned with all types of pollution (air, water, noise etc). The business organizations are to adopt pollution practices in the larger interest of the society. Reduced use of plastics, less use of fossil fuels, increased use of renewable energy sources like solar and wind energy etc are to be adopted by present day organizations. Examples: The concept of 'green Building' is being promoted where energy efficient buildings are constructed. The 'NDTV Greenathon' concept supported by TOYOTA.

Fig. 5.1 illustrates environment of business.

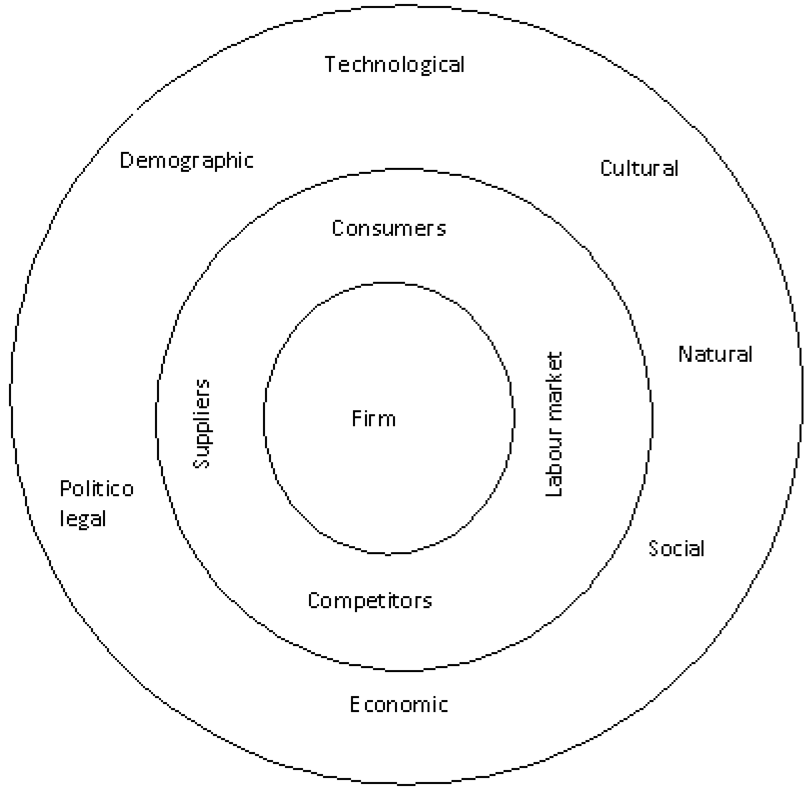



**Fig. 5.1 Environment of business**

The key questions to be asked by each marketing organization with respect to each type of marketing organization are described in Table- 5.1

**Table 5.1 Key questions for each marketing organization**

| Type of environment | Key questions |
|---|---|
| Demographic | What are likely major demographic changes in near future?<br>Whether these demographic changes will act as opportunity or threat to the organization? |
| Culture | What are the cultural features/ characteristics of the region?<br>What cultural changes are evident in near future? |
| Social | What are predominant social values of the society?<br>What visible changes are evident in society? |
| Politico legal | What types of political system does the region hold?<br>What are important laws relating to operation of business houses? |
| Technology | What is the pace of technological development in major industries?<br>What type of technological developments is affecting one's own business industry? |
| Natural | What are the specific laws to protect the natural environment of the region? |

| | |
|---|---|
| Economic | In which phase of economy the country is passing?<br>How is the economy of region?<br>(developed, developing, under developed etc) |

## Lesson 6

## CONSUMER BUYING BEHAVIOR

### 6.1 Introduction

Consumer behaviour is defined as a decision process and physical activity in which individual engage in when evaluating, acquiring, using or disposing of goods and services. Consumer behavior is seen to involve a mental decision process as well as physical activity. Consumer behavior is seen to involve a mental decision process as well as physical activity. The actual purchasing activity is one among a number of physical and mental activities. Some activities occur prior to actual purchase and some after the purchase. Consumer behavior is actually a subset of human behavior. Thus, the factors which affect the human behavior (individuals) in normal course of life also influence the behavior of consumers.

### 6.2 The Consumer Buying Process

Consumers actual purchase procedure consist of four major steps 1) Problem recognition 2) Information search and evaluation 3) Purchasing process 4) Post purchase behavior

A model consumer buying process is shown in the Fig. 6.1 below.

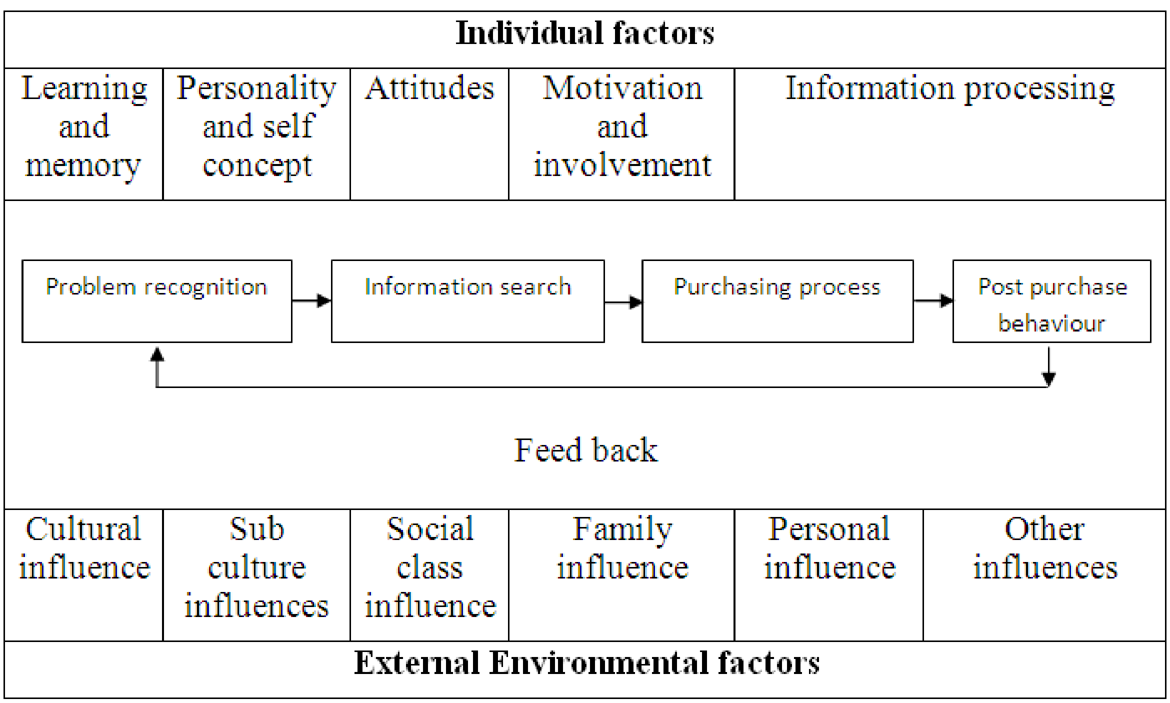



**Fig. 6.1 Consumer buying process and factors affecting the same**

### 6.2.1 Problem recognition

Problem recognition refers to a condition in which the consumer recognizes a difference of sufficient magnitude between what is perceived as actual and desired state of affairs. Consumers are faced with following decision questions while making a purchase. What to buy, how much to buy, where to buy, when to buy and how to buy. Consumer's decision process differs in complexity based on type of purchase. For routine items of daily use, consumer does not undergo elaborate decision making process but for durable items of higher price, they do undergo elaborate decision making process. The consumer's problem solving approaches are classified in to three types.

a) Routine problem solving (RPS)-While purchasing products of known brand, consumers being brand loyal, regularly purchase the products of the same brand.

b) Limited problem solving: when consumers purchase familiar products from a new brand, it generally requires moderate amount of time and information processing.

c) Extensive problem solving: When consumers make a purchase of unfamiliar product, it generally requires more information and longer time to arrive at decision. Consumer problem solving approaches at each stage of consumer buying process is shown in the table below.

**Table 6.1 Type of consumer problem solving approach**

| Consumer buying stage | Routine problem solving | Limited problem solving | Extensive problem solving |
|---|---|---|---|
| Purchase involvement level | Minimum | Moderate | More |
| Problem recognition | Automatic | Semiautomatic | Complex |
| Information search and evaluation | Less | Limited | More |
| Purchase orientation | Habitual, brand loyal | Resistance to repurchase, brand switching if dissatisfied | If satisfied then loyal otherwise compliant on dissatisfaction |

### 6.2.2 Information Search

After problem recognition and identification of need to purchase a product or service to satisfy it, consumer obtains information and evaluates it to make a right optimal decision. This information is classified as follows.

1) Pre purchase or ongoing based upon purpose of search
2) External or internal based upon its source

If the search is carried out to make a better purchase decision in present times, it is categorized as pre purchase information search. If the search is carried out to create a data bank for future use, it is called ongoing search.

After problem recognition consumer first of all try to retrieve the information stored in the mind. This is called internal search. Based upon internal search consumer may make a purchase decision or may feel that there is limited information, and then they go for external search. In internal search, information is obtained from sources like friends, sales person, advertisements, store displays etc. the available information is then evaluated by the consumer on certain criteria so as to arrive at purchase decision.

### 6.2.3 Purchasing process

Based upon evaluation of information, consumer actually makes a purchase of product or service.

### 6.2.4 Post-purchase behaviour

Consumer decision to purchase a particular product or service cannot be considered as a final step in the consumer buying behavior because on using the product or services, consumer have either a favourable or unfavourble experience based upon product/service characteristics and after sales service.

## 6.3 Determinants of Consumer Behaviour

### 6.3.1 External factors

Culture is defined as a complex whole which encompass knowledge, belief, art, morals, laws, customs, and any other capabilities acquired by human beings as a society member. In short culture is everything which is socially learned and shared by all the member of the society. Culture is composed of material and non material components. Word used by the people, their ideas, customs, beliefs and habits are all components of non material culture. All physical substances which are used by people such as automobiles are part of material component of culture. Although all consumers may be biologically same but their views of the world, what they value and how they act vary based upon their cultural backgrounds.

All segments of society do not exhibit same cultural patterns. Thus, it is essential to further divide heterogeneous society into smaller homogenous subgroups. These homogenous subgroups may be referred to as subculture. Sub culture has similar value, customs, traditions and other ways of behaving. Thus, within a broad national culture, it is possible to find out small subcultures of college students, folk music lovers, professional club members etc. There is no strict division of person in to a particular subculture only. There is always possibility of overlap and inclusion of one member into more than one culture. Thus, it is necessary that marketing organizations know who constitutes the most relevant subculture for their product or service. By understanding the characteristics and behavioral patterns of a specific segment, it is possible for marketing organization to refine their marketing mix to satisfy the target segment in a better way.

Although all human beings are created equal, it is seen that some people stand high in the society than others. This difference in status is referred to as social status or class. Social stratification is a term indicating that people in society are ranked by other society members into higher and lower social positions producing hierarchy of respect or prestige. A social class is defined as group of people enjoying almost equal position in society. There are various ways of categorizing various social classes. One of them is for example upper; lower upper, upper middle, middle class, working class, upper lower, lower class etc. The importance of social stratification for the marketing organization is that there exist differences in values, attitudes and behaviors of each of this social class. This difference helps to segment the market and get deep understanding of behavior of consumers.

A group consists of people who are related to each other due to interaction. Groups are classified according to function, degree of personal involvement and degree of organization.

The term family refers to a group of two or more persons related by blood, marriage or adoption residing together as household. Family passes through different lifecycle stages. The bachelor stage, newly married couple, young married couples with younger child less than six years, young married couples with youngestchild above six years, older married couples with dependent children, older couples living alone, older single people etc. Each lifestyle has its own special needs. Marketers' strategy is influenced at almost every turn by the nature of family role and decision making patterns.

Personal influence is dependent upon the process of communication. Personal influence is mostly considered same as word mouth publicity. The marketing organizations create a synthetic or simulated word of mouth programme by using celebrities in advertising campaigns. Consumer buying behavior is strongly affected by such word of mouth programmes.

Opinion leader are those persons, who in a given situation are able to exert personal influence. People look at them for advice and information. Opinion leaders can informally affect the behavior of others towards products in a positive or negative way.

All this external environmental factors have an influence on consumer buying behavior. Apart from this following individual factors also affect the process.

### 6.3.2 Individual factors

Personality and self concept are the two psychological aspects affecting consumer buying behavior. Many research studies have been undertaken to analyze their influence. Such research findings provide clue to the marketers. Instead of using personality attributes singly, they are combined with information on demographics, opinion, interest etc so as to measure consumer profile. Self concept (self image) deals with how individual perceive themselves and how do they exhibit themselves as consumers. Such a self perception has a strong impact as a buyer behavior. Individual perception of different products has relations with one's self image. Preference for certain brands may develop as consumer perceives it as reflecting its own self image. Products of some other brands may be derived as consumer perceive it to be projecting an image which consumer aspires but do not have at present. Motives are inner states that mobilize and direct body energy to goal objects.

Motivations arouse and direct the behavior of consumers. The arousal component activates body energy to be used for mental and physical activity. Consumers are influenced by motives to develop and identify their basic aspects of safety, affiliation, achievements etc. They provide a guiding path in a general way across a wide variety of decisions and activities. Motives guide consumers in developing criteria for evaluating products. Motives affect the individual determinants of perception. Learning, personality attitude and how people process information.

Consumer act as problem solvers who use information to satisfy their consumption goals. Consumers information processing is a process of acquisition of stimulus inputs, the manipulation of these inputs to arrive at some meaning and use of this information to think about products or services.

Consumer's learning is important component of their behavior. Consumers learning occur both intentionally and unintentionally. Learning is a relatively permanent change in consumers behavior from consumers basic likes and dislikes to typical methods of shopping.

Consumer buying behavior is also influenced by one's attitudes. There are many definitions of attitudes. One definition indicates that attitude is how positive or negative, favourable or unfavorable, pro or con a individual feel towards an object. This definition sees attitude of consumer as a feeling or an evaluative reaction to objects (products or services).

**Lesson 7**

# MARKET DEMAND ASSESSMENT- PRESENT AND FUTURE DEMAND

## 7.1 Introduction

Demand forecasting and sales forecasting are important for any marketing planning and control as it serves the basis for comparison over a period of time. Forecasting helps in identifying and solving marketing and sales problems. Further, they are also used for setting performance standards. If the market knows the different tools and their application and is familiar with the market forces, most often, 90 to 95% of the forecast is good.

Sales forecasts are used by finance department to raise the required cash for investment and operations, by production departments to establish capacity and output levels, by purchasing department to procure right amount of supplies in quantity and quality terms, by human resource department to hire the required number of manpower. Marketing is responsible for preparing sales forecasts. If its sales forecasts are far off the mark the organization will face excess or inadequate inventory. Sales forecasts are based upon estimates of demand.

Sales forecasting serves as the starting point for all actions of the organization and provides direction to all activities. It helps organization to decide which products are to be continued, which are to be dropped, which are to be added and which needs modifications. Sales forecasting forms backbone of marketing. It not only provides the numbers regarding sales but also provides vital clues about tastes, preferences and needs. Based upon proper sales forecasting, the organization can properly handle its marketing planning and marketing strategy formulations. It also helps the organization to know its precise position in the market which then facilitates optimum utilization of resources, optimum penetration of markets and optimum gains from marketing opportunities.

The sales forecast is the foundation for all marketing activities for all organisations. For organization handling milk and milk products, the sales forecasting function assumes higher importance owing to perishable nature of the product, fluctuation in supply due to flush and lean season of milk production, large number of milk products, geographical variations in tastes and preferences of milk products etc.

Demand forecasting is one of the most important aspects of managing a business. Finding the right balance of supply and demand allows a organization to produce enough to meet the demand of its customers. If the organization overestimates demand, it runs the risk of producing too much, leaving it with unsold merchandise. If the organization produces too little, it runs the risk of not meeting demand and losing sales.

## 7.2 Common Marketing Terms Used in Market Forecasting

### 7.2.1 Market

Traditionally market was considered as a place/location/area where buyers and sellers come together and exchange goods and services and money transfer takes place between them. In modern era of internet this traditional concept of market does not hold. In today’s competitive world, market is considered as a set of existing and potential buyers of a product/service.

### 7.2.2 Potential market

It consists of all the consumers who show interest in a specific product/service of an organization.

### 7.2.3 Available market

This consist of all the consumers who show interest, have sufficient income to purchase the product/service of an organization

### 7.2.4 Qualified available market

This consist consumers from available markets who fulfill all the qualifications laid down or stipulated by laws or as social norms. For example, sale of tobacco products is banned for consumers below 18 years of age. Thus only those consumers who are above 18 years from available market will be part of qualified available market.

### 7.2.5 Target market

This is part of qualified available market to which the organization intends to sale their products.

### 7.2.6 Penetrated market

This consists of consumers who are already purchasing organizations products.

### 7.2.7 Market demand

It is the total quantity of products or services that is bought by a specified customer group in a specific geographical area in a specified time period in a specified marketing environment under a specified marketing programme.

### 7.2.8 Company demand

It is share of company in total market demand.

### 7.2.9 Market forecast

At a particular point of time, only one level of marketing expenditure will be incurred. The market demand corresponding to this level is referred to as market forecast.

### 7.2.10 Company forecast

This is estimated company's sales corresponding to a particular marketing expenditure by the company.

### 7.2.11 Market potential

This is the maximum limit of market demand which can be achieved in a particular marketing environment corresponding to a particular level of marketing expenditure.

### 7.2.12 Company sales potential

It is the maximum limit of company demand in comparison to its competitor with increase in company's marketing expenditure.

Characteristics and examples of various demand states are described in Table - 7.1

**Table 7.1 Various demand states**

| Sr. No. | Demand state | Characteristic | Example |
|---|---|---|---|

| | | | |
|---|---|---|---|
| 1. | Negative demand | Consumer does not like the product and even prepared to pay a price to avoid it. | A strict vegetarian person will not take non vegetarian food and may even skip the meal and remain hungry. |
| 2. | No demand | Consumers are not interested in the product or not aware about the product. | A farmer may not be interested to adopt new farming technique for one or the other reason or might not be aware about the same. |
| 3. | Latent demand | A strong need which cannot be satisfied by existing products. | A single dose of drug which cure deadly disease like AIDS or cancer. |
| 4. | Declining demand | Reduction in demand of organizations product/service due to less purchase. | All organizations may face such a situation for their products or services. |
| 5. | Irregular demand | Variation in demand is observed on a seasonal, monthly, weekly, daily, or hourly basis. | Demand of ice cream. |
| 6. | Full demand | Market demand is in accordance with | Many organizations experience such |

| | | | |
|---|---|---|---|
| | | organizations capacity. | a demand state. Cooperative dairy plants of Gujrat have full demand. |
| 7. | Overfull demand | Demand for organizations product are more than which it can handle. | Some religious places experience more devotees on some particular day then on other days. |
| 8. | Unwholesome demand | Demand of products undesirable from societies point of view | Drugs e.g. marijuana |

## 7.3 Methods of Estimating Current Demand

For estimating current demand, marketing professionals desire to estimate total market potential, area market potential and total industry sales and market shares.

### 7.3.1 Total market potential

This refers to maximum total aggregate sale of all the organizations in an industry for a specified time period, for a specified geographical area and under organizations specific marketing expenditure and environmental conditions.

Total market potential = (Total number of potential consumers) x (Average quantity of products/services purchased by a consumer) x (The price paid by the consumer)

A variation of this approach is the chain ratio method.

#### *7.3.1.1 Chain ratio method*

This method employs multiplying several proportions by a base number. For example, a dairy marketing federation is interested to know the market potential of probiotics ice creams among rural people between 20-30 years.

Potential for probiotic ice-cream among rural people between 20-30 years = A x B x C x D x E x F

A = Rural population between 20-30years.
B = Per capita personal discrenary income of rural people between 20-30 years.
C = Average percentage of discretionary income spent on food.
D = Average percentage of amount spent on food that is spent on frozen foods.

E = Average percentage amount spent frozen foods that is spent on ice cream from total amount spent on frozen food.

F = Expected percentage amount spent on ice creams that will be spent on probiotic ice cream

### 7.3.2 Area market potential

For appropriate allocation of marketing resources to different geographical territories so that maximum profit can be earned, it is essential to know the individual market potential of different areas. Area market potential can be known by following three methods.

#### *7.3.2.1 Market build up method*

This method involves finding out all the potential consumers in each market area and knowing their potential purchases. For example, if an organization producing overhead projector for classrooms wants to estimate its market potential in Ahmadabad city of Gujarat, it will first of all determine the list of all educational institutes in Ahmadabad city which have adopted and which may adopt the teaching method through overhead projector. Then it will estimate the number of overhead projector each educational institute will purchase based upon number of classrooms.

#### *7.3.2.2 Multiple factor index*

This method is most suitable for consumer goods. For consumer goods many consumers are there and it is difficult to list them all. In this method certain weights are assigned to factors affecting sales of consumer goods. It is mainly dependent upon population of the geographic area, average personal income of people of that area, number of retail outlets in the area etc. For example, a pharmaceutical company may assume that potential for drugs in a particular geographical market will be a function of, say, (i) population of the area, (ii) per capita income, and (iii) number of physicians in the market. Using econometric methods the company can develop a multi-factor index for estimating potential for drugs as shown here: The drug-buying index (i.e., percent of national drug sales that might be expected) for, say, Mumbai = a x population of Mumbai as a percentage of national population + b x Per capita income of Mumbai as a percentage of national per capita income + c x number of physicians in Mumbai as a percentage of the number of physicians in India.

**Note:** a, b, and c, are determined using past sales and other data. (Source: Marketing Management: A south Asian Perspective by Philip Kotler et.al, 13 th edition Pearson education)

#### *7.3.2.3 Brand development index*

Percentage of brand sales in particular area in relation to the percentage of country's population in that area. It indicates where significant groups of brands customer live and helps direct marketing efforts. Suppose a brand has 10 percent of sales in an area where the country's 20 percent of population live than is brand development index will be (10/20) x 100 = 50.

### 7.3.3 Industry sale and market share

Apart from estimating market demand for one's own marketing organization, it is also essential to know the sale and market share of competitors in the same industry. Secondary data sources are used to obtain and know industry sale and market share.

## 7.4 Estimating Future Demand

The methods of estimating future demand are divided into qualitative and quantitative methods.

### 7.4.1 Survey of buyers

Under this method buyers are asked about their future purchase intentions for a product. The answers are suitably arranged on a scale indicating options from complete certainty to not at all and in between them.

### 7.4.2 Aggregate sales force opinion

When it is difficult to estimate market demand based upon buyers survey, the organizations may resort to sales force estimation. In this method, salespersons are asked to give future sales estimate in their territory. Although simple, but the method is not widely used as there are possibility of providing very pessimistic or optimistic estimate by salesperson without considering company policies and larger economic trends.

### 7.4.3 Expert opinion

Expert's opinion may be obtained in number of ways. They can be interviewed separately or called at one place and opinion asked for in the form of a group discussion, (focus group) or may be sent as a questionnaire and then responses are revised by moderator (Delphi method). In Delphi method anonymity of experts is maintained wherein one or two rounds of sending questionnaires may be undertaken until a final common figure is obtained. Under these method dealers, large buyers, marketing consultants and persons from trade associations may be considered as experts.

### 7.4.4 Quantitative techniques

This includes many mathematical and statistical techniques which take in to consideration past data combine them and by using suitable formulas, future estimates are worked out. The major quantitative methods are exponential smoothing, time series analysis, correlation, econometric models etc.

*Module 2. Consumer behaviour and market intelligence*

# Lesson 8

# MARKET PLANNING

## 8.1 Introduction

Success or failure of a business organization depends upon market planning. Market planning process is the interface between organization and its market/customers. It consists of following five steps:

1. Searching for business opportunities by market environment scanning.
2. Scanning of internal environment/system.
3. Framing marketing objectives of the business.
4. Developing marketing strategy of the business unit.
5. Establishing detail functional plans and programmes.

### 8.1.1 Searching for business opportunities by market environment scanning

The market planning process starts with scanning marketing environment so as to identify favourable and unfavourable factors in the environment and thereby identify attractive business opportunities for the organization. At this stage business organization gathers the information on marketing opportunities as well as threats in the environment, it carries out customer sensing, it studies customer reaction towards their products, it tries to find out motives of customer and find out reasons for customer liking for a particular brand, tries to know customers loyalty or association with different brands over a period of time thereby finding the most trustworthy and favourable brands.

Analysis of the competitors is carried out by a suitable framework just like that suggested by porter.

### 8.1.2 Scanning of internal environment/ system

In this stage, the business organization finds out its own strength and weakness in relation to environment by conducting SWOT analysis.

### 8.1.3 Framing marketing objectives

While framing the marketing objectives, the information available from the environmental scanning and internal scanning is used i.e. opportunities and threats from the environment, competitive forces, the resources and capabilities of the organization. Marketing objectives of a business organization is also drawn from corporate objectives. The objectives provide a clear guide line for future course of action, thus the objective should be specific, measurable, and achievable, result oriented and time bound. The objectives are to be framed for all products and all functions of the business viz., profit, sales volume, market share, productivity, research and development etc.

### 8.1.4 Developing marketing strategy of business unit

Marketing strategy is a properly formulated game plan. It consist of two main steps (i) Selecting the target market (ii) Assembling the marketing mix. The different market segment differs in terms of profitability, risk, growth, potential etc. Thus, selection of target market is of crucial importance. Marketing mix is the visible part of the marketing strategy. This aspect is useful for understanding competitors marketing mix strategies.

### 8.1.5 Establishing detailed functional plans and programmes

Marketing strategy is a overall broad game plan. In order to achieve the results, this game plan is required to be broken down into smaller achievable targets in the form of specific detail functional plans and programmes. The various functional plans with regard to sales forecast, physical distribution, channels, sales force, advertising and sales promotion etc is required to be prepared.

## 8.2 Requirements to Make Market Planning Successful

### 8.2.1 Participation

It is necessary to decide and fix responsibilities for developing market planning. Apart from internal staff, if external resources in the form of consultants and market research agencies are to be used, then it should be clearly mentioned.

### 8.2.2 Scheduling

This refers to the time period of carrying out the planning activity. In today’s competitive global environment, it is necessary to schedule planning activities at shorter intervals instead of annual loans.

The frequency and persons to be reviewed are to be decided.

### 8.2.3 Monitoring

This relates to establishing continuous monitoring system throughout the plan period for its success. Monitoring involves actions, measurements and controls. It starts with developing action plan. An action plan is core to the marketing process – a constantly evolving document which is cascaded to the relevant people and monitored regularly. Generally, most action plans are relatively short term documents focusing on the coming year, but longer term implications should also be considered. Action planning involves following stepwise activities: (i) Clarify goals, and ensure they are SMART (ii) Link back to objectives and tactics (iii) Set criteria for success (iv) Prioritize (v) Set timings (vi) Assigning responsibility for completion of each action point (vii) Monitor the progress of the plan and review regularly. The final stage of the action plan is the implementation of measurements and controls and reporting results. Many models for monitoring the performance of businesses have emerged, many of which address the needs of key stakeholders and allow them to evaluate the overall success of a company. This models can be used by the companies based upon their need and suitability. One of such approach is balanced score card approach. The balanced scorecard approach is a widely used method of monitoring overall performance and ensuring daily work is focused on the strategic objectives. The scorecard is a "strategic planning and management system which is used to align business activities to the vision and strategy of the organization, improve internal and external communications, and monitor organization performance against strategic goals". This approach promotes open communication throughout the business and allows tracking of performance throughout the year. Traditionally, financial results have been mostly used by business organizations to track success The scorecard system views the business from four external perspectives (Learning & growth, business process, customer perspective, financial perspective) to gain a more relevant approach to performance metrics.

## Lesson 9

## MARKET SEGMENTATION, TARGETING AND POSITIONING

### 9.1 Introduction

Market segmentation is a process of dividing customers into different groups or segments having similar wants. By doing so, each can be targeted and reached with a distinct marketing mix.

Segmentation helps to satisfy customer needs more closely and thereby creates competitive advantage for the organization. Segmentation process helps to identify new opportunities in terms of products and markets.

### 9.2 Bases of Market Segmentation

The common bases for market segmentation are

#### 9.2.1 Geographic segmentation

In this method the market is divided on the bases of different geographic regions. This is useful for organizations which intend to slowly grow and enter different regions/ market in sequences. This is usually the starting point for segmentation. It is believed that each geographic area has similar preferences and consumption patterns. One of the most common geographic segmentation in India is about urban and rural areas. Urban and rural areas show differences in education level, income and spending patterns, socio cultural aspects etc.

**Table 9.1 Types of geographic variables**

| Geographic variable | Classes/segments |
|---|---|
| 1. Region | North India, South India, Western India, Eastern India |
| 2. Size of a city | It is based upon population, e.g. <10,000, 10,000-25,000, 25,000 – 50,000, 50,000-1, 00, 000, >1, 00,000. |
| 3. Density of population | High, Low, Medium |
| 4. Weather conditions | Hot, Cold, Humid |

#### 9.2.2 Demographic segmentation

It is easy to segment the market based upon geographic segmentation. But a geographic area also may show large variation in term of different demographic variables. Age, gender, family size, family life cycle, income, education, occupation, marital status, race, religion, generation, nationality, language and social class. It is easy to measure this variable and consumer's needs, wants and demands are directly linked with the demographic patterns and hence this segmentation criterion is more popular.

Age and life cycle is one of the most important demographic variables. Persons needs and consumption pattern changes with age and life cycle. Each person passes through life cycle stages of childhood, young age, unmarried youth, early stage of married life without children, old couples with dependent children, old age etc.

Needs and wants of male and female population also differ and hence gender differentiation is also used by marketers. Income of person has direct influence on purchasing pattern. Individuals in similar income slab are likely to buy similar products and services. Person's social status is generally associated with income. Each generation has its own identical specific characteristics visible in the choice patterns of music, politics etc. consumption patterns are also seen similar among consumers of same social class.

Thus marketers try to segment the market based upon this demographic characteristics.

**Table 9.2 Type of demographic variables**

| Demographic variable | Characteristics | Example |
|---|---|---|
| ʌge | <5 years, 5 to 10 years, 10 to 20, 20-30, 30-45, 45-60, >60 | Toys, garments, Magazines, T.V. channels. |
| ʟife cycle stage | Bachelor, Young Married couples without children, married couples with varying ages of children, older and single parents | Food items, necessary items for starting a household, children's need like school, clothes etc. |
| ʻamily size | Single, two members, 2-4 members, more than 4 members | Food, clothes, housing |
| ʝender | Male & female | Beauty products, automobiles |
| ɛducation | Junior K.G., Senior K. G., 1 to 5 class, 5-10 class, 10-12$^{th}$ class | Relevant teaching aids. |
| ʀeligion | Hindu, Muslim, Sikh, Christian, Buddhism, Jainism | Materials for religious ritual |

| | | |
|---|---|---|
| Nationality | Indian, British, Germans | Products specific to socio cultural conditions of country. |
| Race | Aryans, Non Aryans, Tribals, Non tribals, Black, White | Products specific to each race. e.g. Tribals in India have a specific food habits, dress code etc. |
| Income | < Rs. 5000/month, Rs 5000-10,000/month, Rs. 10,000-25,000/month, Rs. 25,000-50,000/month, > Rs. 50,000/month | Automobiles, electronic goods, luxury items. |
| Occupation | Government employee employed in non government sector, unemployed, working class, working in agriculture sector, non agricultural sector. | Various household necessary items. |
| Generation | Young generation, old generation, Baby boomers | Fashion products. |
| Social class | Lower, upper and middle class and combination thereof | Automobiles, Garments, food items. |

### 9.2.3 Psychographic segmentation

This method uses life style of individuals as segmenting criteria. Each individual has its own lifestyles. People of same age, social class, living in same geographical area which has different lifestyles. Lifestyle represents person's entire way of living and this also determines his/her marketing needs. Marketing organizations uses some readymade models which differentiate lifestyles of individuals into different categories. Out of such models is VALS (Values and life styles) which classifies people into innovators, thinkers, achievers, experiences, believers, strivers, makers, survivors. Automobile manufacturers, Garments (suiting and shirting) industry etc use such segmentation.

### 9.2.4 Behavioural segmentation

In this method, the market is segmented based upon consumers' knowledge, attitude, use and response to a product. Individuals as consumers play different roles such as an initiator, influencers, decider, buyer and user. This knowledge is useful in formulating promotional strategy. The examples of behavioural segmentation are:

#### *9.2.4.1 Decision maker*

In India, students pursue higher education. But promoters of self financed institutions try to convince their parents to woo the students.

#### *9.2.4.2 Occasions*

Individuals celebrate many occasions of happiness, e.g. birthday, wedding anniversary, some special days of life. Throughout the world, large numbers of religious and non religious festivals are celebrated. Such special occasions provide opportunity for marketers to sell their products. For e.g. In India, *Raksha bandan*is celebrated as a festival of bond between brother and sister. Many marketing organizations communicate their products as special gift article.

### 9.2.5 Benefit segmentation

Consumers are also segmented on the basis of benefit they seek from the product e.g. consumers might be purchasing two wheelers either as a economic vehicle (fuel efficient) or as a status symbol (additional features in the vehicle). Tooth paste users might be purchasing it to enhance the teeth appearance or to prevent decay. Its examples are as under.

#### *9.2.5.1 User status*

All consumers of a product can be classified as non user, first time user, ex-user, regular user or potential user. The marketing organization can adopt different marketing strategies for each class.

#### *9.2.5.2 Usage rate*

Based upon quantity of purchase, the user can be segmented as heavy, medium or light user. For example, a soft drink supplier company may segment the young college students of a particular geographic area into heavy, medium and light based upon their consumption. It may then try to convert light users to medium or heavy type by special promotion schemes.

## 9.3 Industrial Market Segmentation

Industrial markets can also use the segmentation criteria used for consumer markets. The industrial segmentation criteria along with relevant questions to be asked by organization are given below:

1. *Industry:* To which industry the firm should supply?
2. *Firm size:* Which size firms should the organization target?
3. *Location:* Which geographical region should be targeted?
4. *Technology:* Which customer technology should be focused on?
5. *User status:* Which user status customer from heavy, medium, light etc. should be served?
6. *Customer capability:* What kind of customer is to be served, one requiring few or one requiring all services?
7. *Purchasing function:* Which kinds of firms are served, one with centralized purchasing system or one with decentralized purchasing system?
8. *Power structure:* Which kind of firm is to be served, one with marketing domination or financial domination or engineering domination?
9. *Size of order:* Which type of order is to be focused on, small or large?
10. *Similarity among buyer-seller:* Which kind of firm is to be targeted, one having similar or different values?
11. *Risk attitude:* Whether risk averse or risk taking attitude firm is to be selected?
12. *Loyalty:* Whether the firm showing high loyalty to their customer is to be targeted or not?

### 9.4 Stepwise Process of Market Segmentation

1. Preparing a primary list and standard profile of the various groups where segmentation is to occur.
2. Finding out what is bought, where, when and how it is bought. A list of all similar competitive product/service, channels of distribution, frequencies and purchase methods.
3. Who buys what, where and how? The data obtained from first two steps are combined to obtain various micro segments.
4. Why purchase is made? Trying to know what exactly consumer in each micro segment try to get from their purchase.
5. Segmentation: Forming segments of consumers having similarities.
6. Segment examination: The segment tested for size, differentiation, reach and compatibility with organization.
7. Defining attractiveness criteria: The various factors which make a segment attractive are identified, and tested in terms of their relative importance to organization.

8. Deciding criteria parameter: Low, medium and high scores are set for chosen criteria of attractiveness.
9. Rank the segments: The segments are ranked considering overall attractiveness of each segment.
10. Deciding target segment: Based upon organizations strengths and weaknesses, a target segment is finally selected.

## 9.5 Targeting

Target market means the market segment to which a particular good or service is marketed. It is mainly defined by age, gender, geography, socio economic grouping, or any other demographic combination. In general, it is studied and mapped by an organization through lists and reports containing demographic information that may have effect on the marketing of key products or services. Target marketing involves breaking a market into segments and then selectively putting all marketing efforts on one or a few key segments. Target marketing provides focus to all the marketing activities of the organization and thus makes promotion, pricing and distribution of organization's goods / services easier and economical. Segmentation divides the market into different segments. Target market signifies only those segments that the organization wants to adopt it it as market. For selecting target market, organization performs evaluation of different segments on criteria of relevant, accessible, sizable, profitable etc and selects the most appropriate segments.

Attractiveness of the segment and the fit between the segment and the firms objectives, resources and capabilities are the important factors to be considered for target market selection. The attractiveness of segment is decided upon following factors: size of the segment (number), growth rate and competition in the segment, attainable market share depending upon promotional budget and competitors expenditure, brand loyalty of present customers in the segment, break even market share, sales potential and expected profit margin in segment.

Suitability of market segment depends upon: organization's capacity in offering superior value to the customers in the segment, impact of serving the segment on the firm's image, access to distribution channels, firm's resources in relation to capital investment required to serve the segment.

There are several target market strategies as follows:

### 9.5.1 Single segment strategy

Serving one market segment with one marketing mix. This strategy is adopted by smaller companies with limited resources.

### 9.5.2 Selective specialization

Different marketing mixes are offered to different segments.

### 9.5.3 Product specialization

The organization specializes in a particular product and tailors it to different market segments.

### 9.5.4 Market specialization

The organization specializes in serving a particular market segment and provides different products in the segments.

### 9.5.5 Full market coverage

Serving the entire market either by a man market strategy in which a single undifferentiated marketing mix is offered to the entire market or by differentiated marketing strategy in which differentiated marketing mix is offered to each segment.

## 9.6 Positioning

The position of a Product is the aggregate of all the qualities ascribed to it by the consumers. A product's potential is how potential buyers see the product and is expressed relative to the position of the competitors. Positioning is a platform for the brand. It facilitates the brand to get through the mind of target consumers. Three types of positioning concepts are used by marketing organization.

1. Functional Positioning: Provide benefits, solve problems, obtain favorable perception from financial Stockholders.
2. Symbolic Positioning: ego identification, self image enhancement, belongingness and social meaningfulness.
3. Experimental Positioning: Provide sensory and cognitive stimulations.

### 9.6.1 Approaches of Positioning

Organization uses following different approaches for positioning.

1. Customer Benefit Approach: Putting the brand above competitors based upon specific brand attributes and customer benefit. e.g. shampoos.
2. Price Quality Approach: Brands offer more in terms of services, feature, quality or performance and also charge higher price to cover additional cost and communicate that they are of high quality. e.g. Watches
3. Use and Application Approach: Product is positioned with a use or application approach. e.g. Mobiles.
4. Product user Approach: Brand identifies and determines the target segment for positioning the product e.g.*Chyavanprash.*
5. Product Class Approach: In this approach, brand is associated with a particular product category e.g. Toilet Soaps.
6. Cultural Symbol Approach: This approach is based upon deeply entrenched cultural symbol e.g. cigarettes
7. Competitor Approach: In this approach, brand uses competitor as a dominant plank in their campaign.

## Lesson 10

## MARKETING INFORMATION SYSTEM

### 10.1 Introduction

The successful marketing activities depend upon the careful analysis of the marketing environment i.e. the external and internal focus affecting various marketing activities. The marketing opportunities need to be analyzed and captured for earning the profits. It is therefore required to gather the marketing information or forming a marketing information system for analysis of marketing environment The marketing environment consists of all actors and factors which affect the firm's ability to maintain successful and sustained relationships with its customers. The marketing environment can be divided into micro and macro environment. The components of micro environment are the company, suppliers, marketing channel firms (intermediaries), customers, competitors and public. The macro-environment factors are demographic, economic, technological, political and cultural. The marketing information is a critical element in effective marketing of products and services. Though most of the firms operate with some form of marketing information system but the systems vary in terms of their sophistication.Well designedmarketing information systems helps in gathering and analyzing the desired marketing information for efficient coordination of marketing plans.

### 10.2 What is Marketing Information System (MkIS)?

Kotler has defined MkIS as a system that consists of people, equipment and procedure to gather, sort, analyze, evaluate and distribute marketing information. The marketing information system encompasses the analysis, planning, implementation and control function of marketing management. The overall objective of MkIS is to provide input from targets markets, marketing channels, competitors, consumers and other forces for creating, changing and improving the marketing decisions and formulating marketing strategies.

In a broader sense, the Marketing information system creates an organized and timely flow of information required by the decision makers for effective and efficient marketing. It involves the equipments, software, databases, procedures, methodologies and people necessary for the system to meet its organizational objectives.

A MkIS is a computerized system that is designed to provide an organized flow of information to enable and support the marketing activities of an organization. The MkIS serves collaborative, analytical and operational needs. In the collaborative mode, the MkIS enables managers to share information and work together virtually. In addition, the MkIS can enable the marketing firms to collaborate with customers on product attributes and customer requirements.

The well designed MkIS begins and ends with the user. MkIS assesses the information needs by interviewing marketing managers and surveying the marketing environment to determine that which information is needed, designed and feasible to offer. The desired information set is developed and distributed to managers for effective decision making.

### 10.3 Dimensions of MkIS

The information systems could be understood in terms of the quality and quantity of information they possess. It is important that the marketing information systems possess and provide relevant information. Therefore, it is important to give emphasis not only to generation, storage and retrieval of the relevant information to fill in the existing gaps but attention should also be paid to elimination of irrelevant data. The benefits from a marketing information system could be ascertained by the following:

1. **Information Accessibility:** The ease and speed with which the particular information could be obtained. Faster and easier access will be valuable to the decision makers in making effective and efficient decisions.
2. **Comprehensiveness**: It is completeness of the information and indicates about the usefulness of the marketing information.
3. **Accuracy:** It means the exactness of the information.
4. **Timeliness Information:** This indicates the readiness of the information for timely decision making and how it is made available to the user manager.
5. **Authenticity:** This indicates the mechanisms used for generating the information. If the information is generated from a scientific and formal information system, it can be treated as authentic and could be measurable.

### 10.4 Steps in Design of Marketing Information System

#### 10.4.1 Defining the system

There is need to define the system and its elements for which design is to be made. This involves defining the elements and their inter-linkages in the system. For example, a firm may be interested in the MkIS on the sales and prices of various types of dairy products in a particular locality.

### 10.4.2 Source of information and frequency

After deciding the information needs, the sources and the frequency of information have to be decided. The information can be obtained from the internal as well as external sources. The internal records and databases of the company will serve as the internal sources. For example, the competitors' information on dairy products' sales and prices would be obtained from local dealers and distributors.

### 10.4.3 MkIS Formats

There are basically two formats which are important for MkIS, viz., the Research Assessment Sheet, and Marketing Activity Evaluation Sheet. The Research Assessment Sheet contains information like marketing decisions, parameters, frequency, source and the format code, whereas the Marketing Activity Evaluation Sheet will contain the items, relationship, standard, actual, variance and reason. The first format is useful from the information point of view while the second format could be used for control. For example, the Research Assessment Sheet may contain the marketing decision like introducing different size variants (paneer in 200 g, 400 g, 500 g and one kg packs) and the quantity bought at different time periods ( may be a day, week or fortnight). The Marketing Activity Evaluation Sheet must contain the impact of introducing the size variants on the sales of that product.

### 10.4.4 MkIS Implementation

Once the system, source's frequency and MkIS formats have been defined, the MkIS needs to be implemented. For this, the training of research staff is required. The information schedules are to be developed and the information needs to be collected.

## 10.5 Benefits of the Marketing Information System

The Marketing information system increases the number of options available to decision-makers and supports every element of marketing strategy. It affects marketing interfaces with customers, suppliers and other partners. The primary benefits of the MkIS are given below:

### 10.5.1 Monitoring of the market

The marketing information system can enable the identification of emerging market segments, and the monitoring of the market environment for changes in consumer behavior, competitor activities, new technologies, economic conditions and governmental policies.

### 10.5.2 Development of marketing strategies

The marketing information system provides the information necessary to develop the marketing strategies for development of new products, product positioning, marketing communications, pricing, personal selling, distribution, customer service and partnerships and alliances.

### 10.5.3 Implementation of marketing strategies

The marketing information system provides support for product launches, enables the coordination of marketing strategies, and is an integral part of customer relationship management and customer service systems implementations. It enables the decision makers to effectively manage the sales force as well as customer relationships. This has become increasingly important as many marketers are choosing to outsource important marketing functions and form strategic alliances to address new markets.

### 10.5.4 Integration of functional areas

The MkIS enables the coordination of activities within the marketing department and other organizational functions such as engineering, product management, production, finance, manufacturing, logistics, and customer service.

## 10.6 The Sub-Systems of MkIS

The inputs for the MkIS are provided through the following:

### 10.6.1 Internal record system

The information gathered from sources within the company to evaluate the marketing performance and analyze marketing problems and opportunities. The marketing managers use internal records and reports for day-to-day planning, implementation and control decisions. Internal records consist of information gathered from the sources within the company. The companies maintain their internal records and these are available on intranet (only for internal users). The internal record system provide current data on costs, sales, inventories, cash-flows and accounts receivable and payable. The companies have now developed advanced software based internal record system to allow for speedy and comprehensive information. The information from internal records is quicker and cheaper as compared other sources. But, it might lead to misleading inferences when the information collected for some other purpose is used for making marketing decisions.

### 10.6.2 Marketing intelligence system

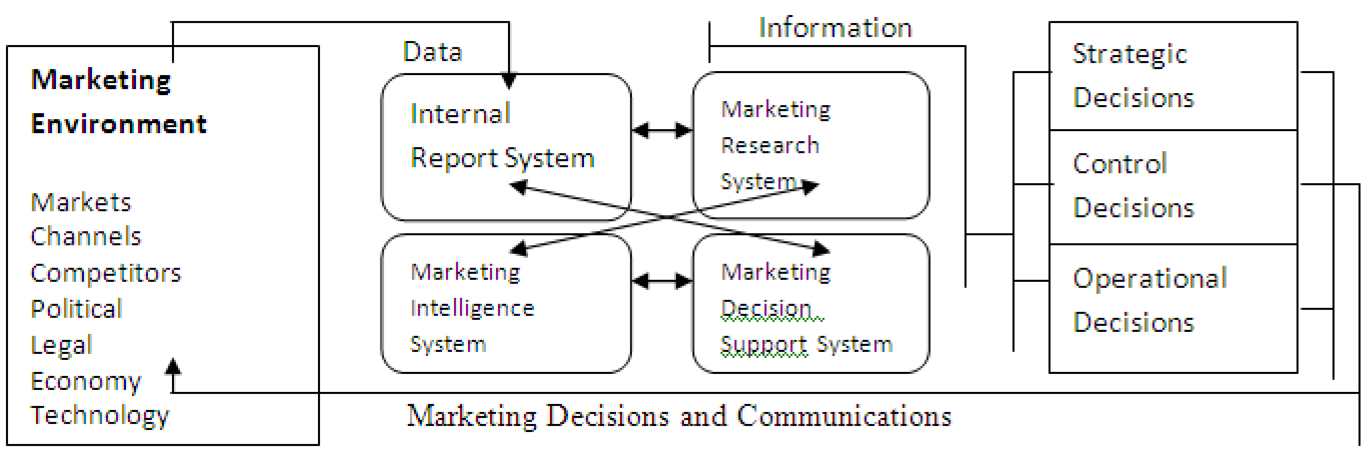
It supplies the marketing managers with everyday information and developments in the external marketing environment based on scientific methods. The everyday information about developments in changing marketing environment helps the marketing managers prepare marketing plans. This system determines the intelligence needed, collects it and delivers it to marketing managers. The marketing intelligence comes from many sources like company's personnel and executives, marketing agents and the sales force. Marketing intelligence is generally publicly available information. The information can be scanned from annual reports, press releases, advertisements and other business publications. The marketing intelligence staff scans relevant publications, summarize important news and sends important information to marketing managers. The intelligence services greatly improve the decision making.

### 10.6.3 Marketing research

It involves collecting information which is relevant to specific marketing situation facing the company. The marketing research process involves a number of steps like formulation of research problem and objectives, developing the research plan, collecting and analyzing the information, and making the final report.

### 10.6.4 Marketing decision support system (MDSS)

It consists of statistical and decision tools to assist marketing managers in making better decisions. It is a coordinated collection of data and data systems, tools, techniques with supporting software and hardware. The organizations use MDSS software and decision models, gather and interpret relevant and reliable information and turn it into a marketing action




*Source:* Adopted from FAO

**Fig. 10.1**

## 10.7 Use of Marketing Information Systems

1. Identifying market segments, analyzing economic trends
2. Analyze the market shares and the factors affect ting market share
3. Analyzing the market structure, competitors' market positions and marketing strategies
4. Understanding consumer behavior and the factors affecting it
5. Identifying and analyzing the factors affecting price determination and demand analysis
6. Studying a firm's overall cost structure and its impact on production cost
7. Analyzing the firm's sales by region, product, brand, territory, etc
8. Developing estimates of sales potential

## 10.8 An Example of AGMARKNET (NICNET Based Agricultural Marketing Information System Network)

### 10.8.1 Justification for the project

Indian agricultural marketing is undergoing a significant change because of economic liberalization and globalisation. The market information is an important aspect of Agricultural Marketing. To boost up the agricultural production, it becomes necessary on the part of regulatory agencies to ensure remunerative prices to the farmers. The Government has taken a number of measures to protect and safeguard the interests of farmers. Some of these are regulation of markets, grading of agricultural produce, cooperative marketing etc. Recently, a number of other schemes like Rural Godown Scheme were also started for creating more storage facilities at farmers' fields. But, it is being felt that the benefits are not percolating down to the farmers and they are unable to plan their strategies for sale of their produce at remunerative prices.

### 10.8.2 Steps in designing AGMARKNET

***1. Defining the System of AGMARKNET***

Majority of the States in India are providing market information to the market participants like producers, traders and consumers. The information is collected by different agencies and disseminated by use of conventional methods and the information does not reach timely. Therefore, it was realized that the present market information system should be improved. For that, it is required to link all Agricultural Produce Wholesale markets, the State Agricultural

Marketing Boards and State Directorates of Agricultural Marketing, with the Directorate of Marketing & Inspection of the Ministry of Agriculture, for providing effective and efficient market information to the users. Considering this, the Department of Agriculture & Cooperation has sanctioned a Central Sector Scheme on "**NICNET Based Agricultural Marketing Information Network (AGMARK-NET)**". The address of the portal is www.agmarket.nic.in.


**Fig. 10.2**

### *2. Sources of information and frequency*

This scheme has networked around 3000 agricultural/regulated markets of the country and covers almost all agricultural commodities. The markets have been networked by providing the personal computers and internet facilities.

All regulated markets maintain the information on daily prices and arrivals of various agricultural commodities. Each market network provides the market information on the market arrival and prices to the NIC. Every day, the market information provided by all networks is uploaded on the AGMARKNET by NIC. Sometimes, the networks are not able to provide information due to power failure and connectivity problems.

### *3. Format of AGMARKNET*

The project covers information on two key parameters i.e. prices and arrivals of all agricultural commodities in major markets. The central designing part is done by NIC with support from DMI and the information provided by networks is fed in the designed network

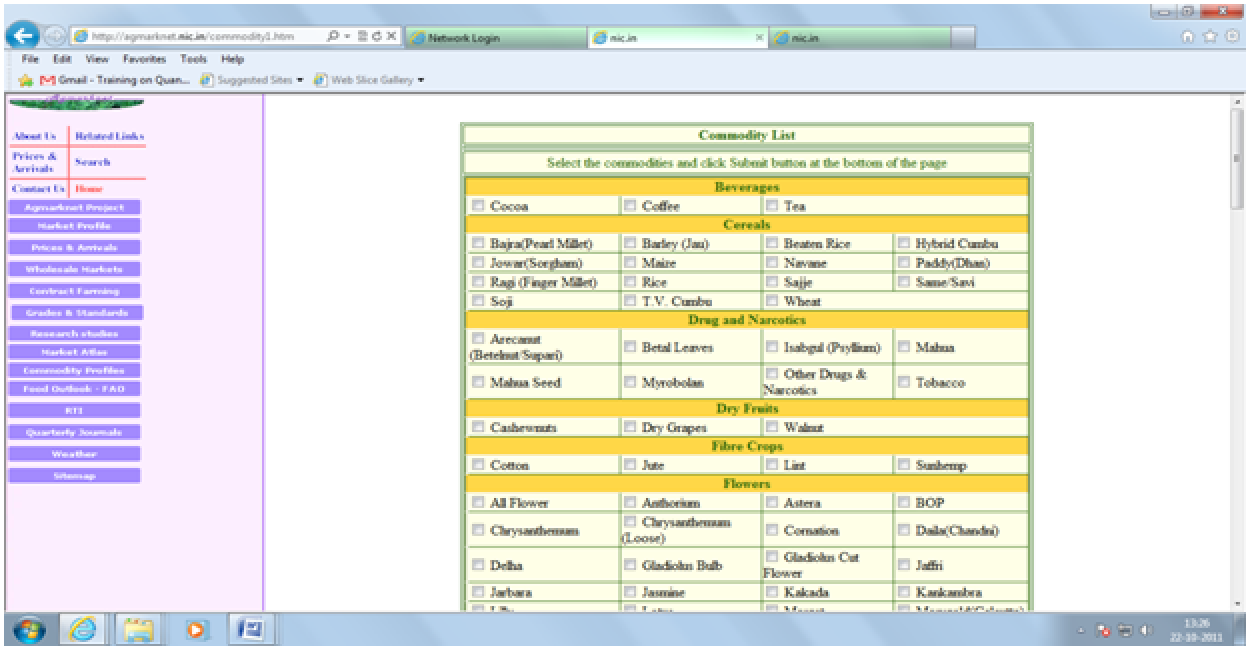



**Fig. 10.3**

### *4. Implementation of AGMARKNET*

National Informatics Centre (NIC), Ministry of Communications & Information Technology is responsible for implementing the project throughout the country. The organization is provided with all required softwares and infrastructure for project implementation. The Directorate of Marketing and Inspection (DMI), headed by Agricultural Marketing Advisor to the Government of India (AMA) maintains a close liaison between the Central and State Governments and helps in effective implementation of this scheme. DMI has 11 regional offices and various sub-offices spread all over the country. With the help of this portal, the farmers and traders can analyze the prices prevailing in different markets and have choices to sell their produce in the lucrative markets.

## Lesson 11

## MARKETING RESEARCH AND ITS APPLICATIONS

### 11.1 Introduction

In today's modern era, when tastes and preferences are fast changing and the sellers' markets being converted to buyers' markets, it is very important to assess the needs and preferences of a customer. The marketing research plays a very important role in identifying the needs of customers and fulfilling them in best possible way.

The *American Marketing Association* has defined Marketing Research as the function that links the consumer, customer and public to the marketer through information i.e. the information used to identify and define marketing opportunities and problems, generate, refine and evaluate marketing actions; monitor marketing performance; and improve understanding of marketing as a process. It is a systematic problem analysis, model building and fact finding for the purpose of important decision making and control in the marketing of goods and services.

Marketing research is based on scientific methods and a well-planned and systematic process which implies that it needs planning at all the stages. It is sometimes defined as the application of scientific method in the solution of marketing problems. Marketing research is an essential tool for strategic market planning and decision making. It helps a firm in identifying the market opportunities and constraints, in developing and implementing marketing strategies, and in evaluating the effectiveness of marketing plans. It facilitates the decision making regarding various marketing mix decisions related to product, price, promotion and physical distribution.

### 11.2 Uses of Marketing Research

The main purpose of the marketing research is to link the consumer to the marketer by providing information that can be used in making marketing decisions. The main uses of marketing research are found in

- Identification of market opportunities and problems
- Evaluating potential marketing decisions
- Monitor market and marketing performance
- Improve marketing process

### 11.3 Steps in Marketing Research Process

The broad steps in the marketing research process are listed and explained below:

- Identification and formulation of the marketing research problem
- Developing the research objectives
- Selecting a research design
- Identifying the information needs and the data sources
- Methods of data collection
- Developing a sampling plan
- Design the data collection forms
- Collection of data
- Analysis of data
- Preparation of final report and presentation of results

### 11.3.1 Identification and formulation of the marketing research problem

The first and the most important step in the marketing research process relates to identification and formulation of the marketing research problem. The researcher needs to properly identify the research problem. A marketing research problem for a particular firm may be declining sale of *full cream milk* in a particular market. The formulation of the research problem involves identification of relevant researchable isues with respect to the selected problem. An entrepreneur starting a dairy business would be facing many types of questions like

· Should I start a dairy business?
· What should be the optimum size of plant?
· Which location would be best for the business?
· Which value added products can be suitable for a given level of milk production?
· How the firm can create awareness and publicity for the health advantages of its products?
· Which media mix will create the optimum results?

These questions may be answered with the help of marketing research by proper identification and formulation of research problem.

### 11.3.2 Developing the research objectives

The research objectives are related to problem definition and are specifically set to provide the information necessary to solve the problem. For example, the objectives for the problem selected above (declining sale of full cream milk) may be, to study the trend in sale of full cream milk and other variants like toned and double toned milk available in a particular market, to study the change in consumption pattern of households for all types of milk served by the selected market, and to ascertain the reasons for decline in sale.

### 11.3.3 Selecting a research design

Every research has its own requirements and needs a specific research design. There are basically three types of categories which are referred to as research designs: exploratory research, descriptive research and causal research. Exploratory research design is applied when little is known about the problem. For example, the studies on consumer tastes and preferences for probiotic dairy products are particularly lacking in different parts of India It may serve as a base for future studies. The descriptive research design refers to a set of methods and procedures that describe marketing variables. Descriptive studies answer the who, what, where, when and how types of questions. These studies may describe consumer attitude towards a particular product or service, intentions and behavior or the number of competitors and their marketing strategies. The causal research helps us to identify the causes and effects. These studies answer the questions related to why.

### 11.3.4 Identifying the information needs and the data sources

The researcher needs to identify information required and the sources of information. There are generally two sources of data: secondary (data already collected, may be published/unpublished) and primary (first hand information collected specifically for the problem in hand). The researcher must scan the secondary data sources first and collect the already available data. For secondary data, the researchers can rely on the statistical publications published by various research agencies and the websites. The sources of these data are Department of Agriculture & Cooperation, Department of Animal Husbandry, Dairying and Fisheries, National Sample Survey Organization, Census of India etc. The primary data will be collected according to the requirement of the study from a representative sample.

### 11.3.5 Methods of data collection

While secondary data is relatively easy to access, the access to primary data may be much more complex. But both have their own merits and demerits. The primary data may be collected through observation method, personal interview, telephonic interview and mail survey. These methods vary in terms of the accuracy of the response, control, cost involved, time taken and response rate. The choice of an appropriate method will depend upon the duration of the study, resources available and depth of information required.

### 11.3.6 Developing a sampling plan

This involves selection of appropriate sampling technique (method of selecting a sample from a given population), defining the sampling unit (from whom the data would be collected) and specifying the size of sample (number of units to be selected). There are two types of sampling techniques: probabilistic and non-probabilistic sampling techniques. The probabilistic sampling techniques assign some probability to selection of each and every unit in the population, whereas non-probabilistic techniques utilize researchers' subjective judgment in selection of units from the population. The case study method, which involves studying only few cases (minimum one) for a study, can also be used in various marketing research studies.

### 11.3.7 Design the data collection forms

The design of data collection forms, which are used to ask and record information gathered in marketing research projects is very important and critical to the success of the project. Generally the information is recorded in standardized forms called as questionnaires. Utmost care must be taken to design the questionnaires which elicit information from the respondents. The language of the questions should be simple and understandable. The questions should not be repetitive (one question should occur once) and sequenced properly. The questionnaire should not be very lengthy.

### 11.3.8 Collection of data

Data collection is very important because the findings and interpretations of the study will depend upon the data collected. The errors during data collection cannot be fixed even by the most appropriate analytical methods. The data collection should be done by the trained executives. The good marketing researchers must be aware of the errors that may occur during the data collection and should implement accepted methods to control these errors.

### 11.3.9 Analysis of data

Once the data is collected, data analysis is used to convert the raw data into meaningful results. Data analysis involves entering the data into computer, inspecting the data for errors and applying suitable statistical tests and analysis. The first step in the data analysis is cleaning of data, which is the process for checking and verifying that the raw data have been correctly fed to the computer package from the data collection forms. Now, many advanced and user friendly software are available in the market for data analysis. Some commonly used are SPSS, SYSTAT, SAS, E-views etc. One can generate desirable output and reports with the help of this software.

### 11.3.10 Preparation of final report and presentation of results

This is the last step in the marketing research process. It is the final report which properly communicates the study results to the client. So, the research report should be well-organized and properly written. Though there are standard segments for a research report in the literature, yet the organization may vary according the requirement of the client. Sometimes, the client may even ask the researcher to present the results before a group. The presentation should be effective and include the salient findings of the study.

### 11.4 Market Research Agencies in India

Marketing Research is being used extensively by professionals for smooth functioning and improved decision making. Many research and consultancy organizations/private concerns are playing important role in this regard, some of these working in the area of food and dairy sector are listed below:

a. IMARC Group
b. AC-Nielson
c. IMRB
d. Q&Q
e. eSurveysPro.com
f. ORG-MARG

### 11.5 Users of Marketing Research

| | |
|---|---|
| 1. Producers | • Assessing the product potential of dairy products<br>• Substitutes available<br>• Market structure<br>• Market share |
| 2. Consumers | • Awareness to various innovative and healthy products<br>• Assessing market scenario |
| 3. Government | • Policy formulation<br>• Creating support network e.g. database development and management required for research<br>• Operational and planning problems of business and industry |
| 4. Business | • Demand forecasting |

| | |
|---|---|
| Organizations | • Market planning<br>• Marketing mix decisions |

## 11.6 Examples of market research studies in dairy sector

| Area | Marketing Research Studies |
|---|---|
| Identification of market opportunities and problems | • Estimating demand for novel dairy foods like millet based drinks, herbal ghee, probiotic curd etc<br>• Forecasting the demand and market potential for dairy products<br>• Segmenting the market for dairy products<br>• Competitors' analysis |
| Evaluating potential marketing decisions | • Assessing the impact of change in marketing mix strategies on the sales<br>• New product prototype testing<br>• Effectiveness of distribution system |
| Monitor market and marketing performance | • Customer satisfaction studies<br>• Employee satisfaction studies<br>• Distributor satisfaction studies |
| Improve marketing process | • Differences in consumer behavior<br>• The impact of long term advertising on consumer choice<br>• Use of IT in marketing of dairy products<br>• Effectiveness of e-marketing |

## Lesson 12

## MANAGING THE PRODUCT

### 12.1 Introduction

Consumers have needs. They purchase products to satisfy the needs. A product is a physical item offered by an organization to consumers to satisfy their needs and wants. The purchased products possess both tangible characteristics (physical product itself) and also intangible aspects like warranty, image etc. it is a part of benefit comprising of key product features and associated services. A product is referred to as need satisfying entity. A product is the focus of marketing plan of an organization and is responsible for success or failure of the organization. A product can take variety of forms such as physical goods (Book), services (banks), Experiences (mountain expeditions), events (football world cup), proposition (Hinduism), places (Karnal), nations (Sri Lanka), properties (farm house), organizations (National Dairy Research Institute), and information (website).

### 12.2 Components of Product

A product purchased by consumer is not simply a physical entity. Product provides utility, but it is not only its function. Consumers get satisfaction from non utility features of products also. Following are the major components of a product: Basic constituents, associated aspects, brand name, packaging, label, product line and product mix etc.

#### 12.2.1 The core or the basic constituents of the product

This is the first component in the total personality of any product. For example pears soap possesses total product personality. It is presented as soap with special qualities. The oval shape, the brown colour, special fragrance, brand name, the price, the most important thing is its transparency and its positioning as a special soap for winter season etc. All such aspects add up to product personality. In this example the basic product is soap. The total product personality is mainly dependent upon basic product. If it bad, it is not possible to develop a good final total product.

#### 12.2.2 The associated aspects

These are the aspects which positively contribute to the total product personality. Marketing organizations generally use associated product aspects to increase total personality of the product. In case of 'Pears soap' example, the transparent nature of the soap, oval shape, brown colour and special fragrance are the associated aspects of the product.

### 12.2.3 Brand name

It is defined as the name, term, symbol or design or combination of them responsible for differentiating products and services offered by different organizations. Brand name is very useful in promotion.

### 12.2.4 The packaging

The main function of package used to be 'To protect the product'. Packaging prevents spoilage and aids in handling of the product at various points of storage in distribution channel. In today's competitive world, the package also carries out the major function of sales promotion. The packaging material, its colour size and finish, its possibility to gain use, label of the package etc influence the aasthetics and sales appeal of the product.

### 12.2.5 The label

It supplies the information about the product in written form so that consumer become aware about the product, its ingredients, its characteristic features, its shelf life, method of storage and other important details. Now a day the information is supplied in machine recordable bar code form.

### 12.2.6 Product line and product mix

For an organization producing many products, the term product mix and product line are commonly used. Product mix denotes list of all the products produced by the organization. Product line refers to group of similar products. For example, product mix of TATA group of companies includes products ranging from automobiles, food items, insurance, communication etc. Automobile segment of TATA group consists of product lines of trucks, cars etc.

## 12.3 Levels of products

Each product consists of different levels. Knowledge of these levels helps marketing organization for appropriate positioning of their products.

### 12.3.1 Core product

This indicate the reasons for purchasing a product by the consumers, for example a farmer is purchasing a tractor for performing the agricultural operations in the fields, a middle income family purchase economy car for travelling with family and a higher income person purchase car as a status symbol.

### 12.3.2 Basic product

This includes the physical tangible aspects of the product. An economy car should have minimum additional accessories to keep price of the car low and a fuel efficient engine. A luxury car should have additional accessories.

### 12.3.3 Expected product

This includes normal expectations from a product by the consumers. An owner of luxury car expects that, the car should possess all the latest accessories and a good look which differentiates it clearly from the other mid segment and economy segment car.

### 12.3.4 Augmented product

This level includes the additional features which exceed the consumers' expectations.

### 12.3.5 Potential product

This includes all the possible transformations and due to addition of all possible features is called a potential product. In case of luxury car, the features such as move with the help of computer, it can also be air lifted and fly in traffic jam, and many more.

## 12.4 Classification of Products

Products can be classified based upon durability, tangibility and user type i.e. who uses the product. Durability indicate the approximate life for which product can be safely used by consumer. Tangibility tells about the physical characteristics of product. User type indicate the type of consumer i.e. whether individual consumer or industrial consumer.

### 12.4.1 Classification based upon durability and tangibility

#### *12.4.1.1 Non durable goods*

These are tangible goods generally consumed in one or very few uses. Due to its frequent use, these products are purchased very often. Marketers need to ensure that products of this category are widely available, only small margin is kept above cost of production and heavily advertised. The examples include household consumption goods, ready to eat food items etc.

#### *12.4.1.2 Durable Goods*

These are tangible goods which generally last for many years. Manufacturers keep higher margins on them. As they are used for more years, guarantee and warrantees are associated with them. For example, video instruments, music systems, automobiles.

#### *12.4.1.3 Services*

These are intangible, non-separable, variable and perishable in nature. For example, automobile repair, medical professionals services, teaching, etc.

### 12.4.2 Consumer goods

These are classified, based upon shopping habits, into following categories:

#### *12.4.2.1 Convenience goods*

These include goods which are frequently and instantly purchased without making an elaborate purchasing effort. For example, newspapers, washing and bathing soaps, toiletries etc. Convenience goods are further categorized into following three types.

*Staple goods:* Goods which are purchased by consumers regularly such as tooth paste and soaps.

*Impulse goods:* Goods which are purchased by consumer on an impulse, immediately without carrying out any search effort or any planning. For example, chocolates, wafers.

*Emergency goods:* Goods which are purchased when an urgent need arises. For example, seasonal clothes like rain coat, woolen cloths.

### 12.4.3 Shopping goods

Goods which are purchased by consumers after undergoing a process of comparison of alternatives on aspects of price, quality, suitability, style etc. For example, second hand automobiles, home furniture. Shopping goods can be homogenous or heterogeneous. Goods which have same quality but variable price to facilitate comparison on the basis of price by consumers are referred as homogenous shopping goods.

Goods which have different product features which help consumers to differentiate goods and help make a purchase decision are called heterogeneous shopping goods.

#### *12.4.3.1 Specialty goods*

Goods which posses unique characteristics or brand identification which induce many consumers to make a special purchase effort. For example, man's cloth-wear, automobiles, electronic goods. As each brand is unique, there is no comparison and consumer will wait and even go too far off locations (dealers) to purchase the good.

#### *12.4.3.2 Unsought goods*

Goods which are not known by the consumers or normally they do not think of purchasing it. Thus, it is essential for marketers to undertake advertising and other selling support activity. For example, encyclopedias, fitness equipment, etc.

### 12.4.4 Industrial goods classification

In industries, goods are produced. For production of goods, various raw materials, equipments, services etc are required. The output of one industrial unit may become raw material for any other industrial unit or it may reach consumer for final consumption. The goods used in industrial production are classified into following categories:

#### *12.4.4.1 Materials and parts*

These are the goods which enter into the production process and become part of manufacturer's product. They can be natural raw materials or manufactured materials and component parts. Natural raw materials include different agricultural products (crops output, fruits) or animal products (marine products). Material parts may include various types of metal components like aluminum, copper and component parts like nut, bolt, rivets, and other such items.

#### *12.4.4.2 Capital items*

These include long lasting goods which help in manufacture of other goods in the production process. They are of two types: installations (buildings and heavy equipment) and equipment (hand tools, computers).

#### *12.4.4.3 Supplies and business services*

These include short term goods which help in manufacture of other goods in the production process. They are of two type viz. maintenance & repair items (painting) and operating supplies (stationery, lubricants, etc.).

### 12.5 Management of Product Policy

Making decisions for product policy is the focus of product management. Product policy management involves finding answers for the following questions: Types of products to be manufactured? Which market segments are to be targeted? What should be width of product mix and length of each product line? What should be the product positioning strategy? What should be the policy regarding brand?

Management of product policy includes appraisal of product line and individual product, product differentiation, product positioning, brand decisions, packaging decisions, new product development and managing product life cycle.

#### 12.5.1 Product line appraisal and individual products

A business organization and its products are affected by environmental changes. No product can regain supremacy for all the time. Competition and consumer preferences may reduce the product's sale. It is necessary for marketing organization to conduct continuous product line appraisal and implement necessary modifications, like introducing new products and removal products which have entered the decline stage and there is no possibility of revival.

#### 12.5.2 Product differentiation decisions

This involves making product/brand distinct and different from the competing brands. Differentiation can be achieved on product, channel or promotion. There is maximum scope for product differentiation. This aims at introducing certain real or psychological differences in comparison with other competitive products. The main task for the marketer is to see that consumers must perceive the product as different from other competing products by large number of consumers. Product differentiation strategy is used by almost all firms as it helps to compete with others on non price criteria.

#### 12.5.3 Product positioning

It means fixing the exact place of the product in the target market. It involves decision with respect to how and around which distinguishing features; the product offer has to be concluded and communicated to the buyers. In applying product positioning the organization performs

SWOT analysis (Strength, Weakness, Opportunities, threats) of one’s own organization as well as that ofthe competitors so as to obtain the best possible position for their product. Factors like luxury, economy, fashion etc are used by organizations for positioning.

### 12.5.4 Brand decision

These decisions are important part of product management policy. With this the organization creates assets from brand name. In today's competitive world, brand names are very much essential for promotional purpose. Without brand name, promotional aspects cannot be carried out. For creating a brand, first of all a name is chosen to give product identity. For purpose of increasing recognition, a symbol is provided with name. Then the major task involves developing unique image for the brand and to build its personality over the long term. To build brand personality is a very difficult task. In different product categories only some brands become successful. Uninterrupted hard work and a strong support of top management to marketing programme are essential to make a brand established in the market. Successful brands become asset of the organization and help to earn higher profits for a long period. In branding decision, selecting an appropriate brand name is very crucial. Brand name should be distinct, easy to spell, recognize and remember. For example the brand name 'Amul' stands for Anand Milk Union Limited as well as it is related with Sanskrit word Amulya i.e. precious.

### 12.5.5 Packaging decision

In today’s competitive world, packaging material has become an important decision criteria for organizations. With increase in competition, the organizations rely on innovative packaging materials to create a distinctive edge. Value addition and more benefits are produced by package to the consumers. Package materials, package asthetics and package structure and convenience are the important factors to be considered in making packaging decisions. A variety of materials can be used as packaging material considering its suitability with the product and cost. The type of packaging materials include paperboard cartoons, paper bags, corrugated boards, metal containers (Tin), Aluminum foils, low density and high density polyethylene metalized polyester film. Shape and size of package, the type of material, the finish, colour, labeling, branding on the package are important package aesthetic factors increasing the sales appeal. Package size and convenience is also responsible for product appeal.

New Product development and managing product life cycle are also the most important criteria to be considered in product management policy which are discussed in further lessons.

## Lesson 13

## NEW PRODUCT DEVELOPMENT

### 13.1 Introduction

For growth of any organization, it has to think beyond the existing products. A growth oriented firm maintains new product development as an important function of its product management policy. Today's rapidly changing world witnesses fast pace of scientific and technological developments resulting into change in existing practices. There is change in food habits, society, consumer’s expectations and requirements. Consumers always demand new improved products providing more convenience in tune with latest fashion which ultimately provide more value for money. Business organization has to satisfy these consumers’ expectations and thus have to go in for new product development. New products help the organization to earn higher profit. The dynamic nature of environmental factors also poses new threats to organizations and makes them vulnerable to closure. To avoid this situation also new product development is required.

### 13.2 Types of New Products

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

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

The new products due to technological innovation will be a completely new product with complete new features and new functional utility associated with them. The new products resulting due to market modification will involve change in colour, design, package, brand name etc. As such new product development due to technological innovations requires huge sums of money and long time duration. Therefore such product development processes are generally undertaken by large organizations. Whereas the new product development in terms of market modifications is undertaken by large and small organizations.

### 13.3 New Product Development Process

This is a step wise process including following steps.

1. Generating New Product ideas
2. Screening of ideas

3. Concept testing
4. Business and market analysis
5. Development of the product/product prototype testing
6. Test marketing
7. Commercialization.

### 13.3.1 Step 1: Generating new product ideas

New product ideas may come from variety of sources. They are: Sales people, marketing person other than sales person, Research and Development department, Consumers, employees, foreign and competitive products, consultants, members of distribution channel, market research studies, certain special creativity techniques. Focus group interview, brain storming and synetics techniques are used by a trained person to elicit new ideas from small number of persons as a group activity.

### 13.3.2 Step 2 : idea screening

An organization may come out with large number of new product ideas. But it is not feasible to implement all of them. All the ideas thus pass through a screening test and only few potential ideas which are considered worthwhile by the management are further worked upon by the organization. All the new product ideas are evaluated in relation to following questions:

a) Whether there is any felt need for the new product?
b) Whether the new product is improvement over existing product?
c) Whether the new product matches with existing product line of the organization or is a totally related with altogether new product line?
d) Is it possible for existing marketing network to handle the new product?
e) If extra expertise is essential to develop and market the product, approximately what will be the cost?

This step helps to avoid arbitrary decisions, lead to unity of purpose and provide perspective for new product planners. The new product idea must satisfy a perceived need of a defined target group of consumers in sufficiently large numbers. It must have a unique product features which provide distinctive benefit to the consumers and must be able to be sold in large markets. It should be compatible with the existing products of the organization. At the screening stage there are possibilities of committing two types of errors, one that of dropping a good idea and other that of developing a bad idea.

### 13.3.3 Step 3: concept testing

At this stage concept of the product is tested in terms of following aspects.

a) Whether the new product idea is clearly understood by all the prospective consumers.
b) Whether the consumers are receptive toward the idea.
c) Whether the consumers really need such a product and whether they would purchase it if it is offered to them.

In this stage the concept of the product is described orally to the consumers or shown the blue prints. This step gives idea about market success or failure of the concept. Thus it is essential that narrative description include maximum possible details about the product including price, package, brand name etc. This step decides whether the idea should be developed further as such, modified and then developed or discarded altogether. It gives idea or future potential market and thus it is possible for management to take appropriate measures well in advance.

It is necessary to carry out the concept testing step with utmost care otherwise there are possibilities of wrong results and wrong conclusions. There is also risk of company's secret plans may be known by competitors.

### 13.3.4 Step 4: business analysis and market share analysis

Financial and marketing viability of the project is decided at this stage. By using the techniques of investment and profitability analysis under different assumptions, the projects viability is decided. This stage requires the accurate forecasts of demand and other market related factors to arrive at correct decisions. Commonly following information pertaining to following aspects are required at this stage. Demand estimation of proposed new product and its price elasticity, competitions and type of competition, Seasonality of the product if any, cost volume profit analyses, distribution channel, marketing organization etc.

### 13.3.5 Step 5: Development of product/product prototype testing

At this stage with involvement of all major departments of the organization, the actual product is developed. The prototype is developed in the laboratory and technically tested and later on used for carrying out standard consumer usage test. The product is then introduced in some selected markets only so as to know consumers perception about the product.

### 13.3.6 Step 6: Test marketing

At this stage, the product is offered for sale in selected markets. Test market acts as a controlled experiment, results of which decide about the full fledged commercial manufacture of the product. The complete evaluation of whole marketing plan is carried out during test marketing which includes promotion type and its budget estimate, intensity of distribution, level of sales network and different price levels. One of the limitations of this step is that competition may come to know the plans of the organization and hence sometimes some of the firms skip this step.

### 13.3.7 Step 7: Commercialization

This is the stage at which the organization decides about large scale production and marketing of the product. This stage is commenced only if favourable results are obtained in all the previous steps. At this stage final plans are completed for production and marketing, coordinated production and selling programmes are initiated and results are checked at regular periods. It is advisable to roll out the product sequentially in different markets so as to avoid the problem of short supply. If product is heavily advertised and is not available in the market then it has a detrimental impact on image of the organization.

## 13.4 Reasons for New Product Additions

1. Profit maximization
2. Diversification necessitated by change
3. To make use of strengths
4. Undertake forward or backward integration to consolidate firm's position.
5. To take advantage of government incentives.
6. Excess Capacity

## 13.5 Challenges in launching new Products

New product development is a very costly and risk taking process. It is generally adopted by resource rich big organizations who want to be a market leader. Many other small organizations prefer to remain market follower due to following reasons.

1. New Products suffer from high attrition rate. After a long product development process, large number of new product ideas does not reach the market.
2. New products also face higher market failures. Those products which enter the market, many of them fail in the market.
3. Those products which succeed in the market, they also have short life.

Many new product failures have occurred as the organizations have not spent sufficient time in the initial steps/stages of new product development process. Identification of organizations strengths and weaknesses in relation to demands of the proposed new product is a key of success in new product development process.

## Lesson 14

## THE CONCEPT OF PRODUCT LIFE CYCLE

### 14.1 Introduction

The concept of product life cycle (PLC) is borrowed from biology. According to biological science, each organism passes through different stages in life namely birth, growth, maturity, decline and death. Similarly each product also passes through such phases in its product life cycle namely introduction, growth, maturity and decline. The PLC curve is a bell-shaped sales curve. The importance of PLC concept is that each stage in PLC has its own characteristic behavior and it is necessary to apply certain specific marketing strategies at each stage. A typical product life cycle is shown in Fig. 14.1.

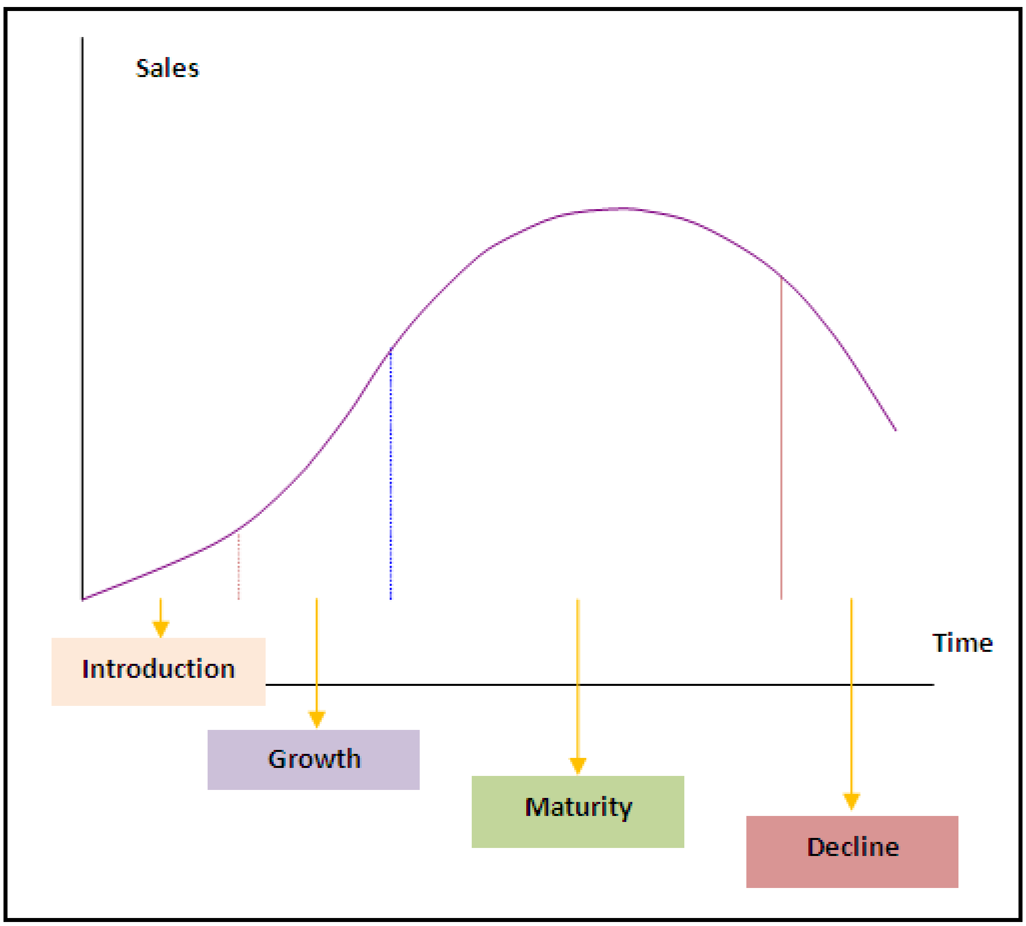



**Fig. 14.1 Stages in product life cycle**

#### 14.1.1 Steps in PLC

A typical product passes through four distinct stages of introduction, growth, maturity and decline.

***1. Introduction***

This is the first stage of product life cycle. This is the introduction stage wherein there may not be ready market for the product. There are low sales and consequently less profit. Demand is to be created and customers are to be induced to purchase the product. This stage encounters the problem based upon type of product, its price, technical aspects of product and consumers perception of product. The firm may choose to become a market leader by introducing products or become second movers i.e. learning from the mistakes of market leaders (pioneers) and rectifying it. To be a market leader is both rewarding as well as risky. Pricing and promotion are the two important decision variables at introductory stage. An organization may adopt either market skimming (very high price) or market penetration (Low price) depending upon marketing objectives.

***2. Growth stage***

Due to the efforts made at introduction stage, the demand for the product increases at this stage. But at this stage competitors also enter the market with their own similar type of products. This necessitates reconsidering the pricing strategy by the pioneer. It is necessary to lay more emphasis on distributive efficiency. By intensive distribution and deeper penetration, there will be increase in store visibility and usage which tends to bring new buyers in the market.

***3. Maturity stage***

In this stage growth in sales continues at diminishing rate as some of the unsuccessful competitors may leave the industry. Those who remain in the industry may try to capture the share of those who have left the industry and the sales tend to grow at declining rate. The sales reach the saturation point.

Intense price competition occurs and the market leader uses subtle product differentiation to distinguish his brand and tries to maintain the sale. Relatively low price, high marketing costs, fierce competition, and less profit are chief characteristics of this stage.

***4. Decline Stage***

At this stage, sales start reducing. The demand of the product decreases as new technically and functionally superior products become available in the market or because consumers become apathetic to the product, price, margin, total sale and profits decline at this stage. At this stage organization may remove the product or reintroduce it with modifications.

**Table 14.1 Marketing performance at various stages of PLC**

| Particulars | PLC stages | | | |
|---|---|---|---|---|
| | **Introduction** | **Growth** | **Maturity** | **Decline** |
| Sales | Less | Rapid growth | Limited Growth | Decreasing |
| Profits | Very less | Highest | Decreasing | Low |
| Cash Inflow | Negative | Moderate | More | Less |
| Competitors | Some | Increasing | Many | Decreasing |
| Customers | Innovative | Mass market | Mass market | Laggards |

**Tables 14.2 Product Life Cycle: Marketing implications and strategies**

| Particulars | PLC stages | | | |
|---|---|---|---|---|
| | **Introduction** | **Growth** | **Maturity** | **Decline** |
| Buyers | Innovators | Early adopters | Middle majority | Laggards |
| Competitors | Less in number so less important | Increasing in numbers and followers | Stable, no increase but intense competition | Decreasing opting out |
| Sales | At low level | Rapid growth | No further increase, stagnant | Decreasing Sales |
| Costs | More cost per consumer | Decreasing cost per consumer | Low cost due to more volume | Low cost per consumer |
| Marketing Objectives | Entering the market: emphasizing product awareness and trail | Penetrating the market: Increasing market share | Define the market share, brands | Reducing the costs, try to get maximum from the products |
| **Marketing Strategies** | | | | |
| Product | Offering the basic product | Product augmentation | Diversifying the brands and models | Eliminating weak products |
| Distribution | Selective distribution | Heavy distribution | Retention of more shelf space | Phasing out un-profitables |

| | | | | |
|---|---|---|---|---|
| Price | High, to recover cost of production and cost of introduction | Adjusted so as to penetrate the market | Kept which buyers can afford and in tune with competitors | Low price |
| Advertising | Building awareness specifically among target consumers and distribution channel | Mass communication | Emphasis on brand differences | At low level so as to retain only loyal consumers |
| Sales Promotion | High for increasing trials | Moderate | High for building loyal consumers | Low |

### 14.2 Uses of the PLC Concept

Each stage of product life cycle directly reflects the market behavior. For example, if during introduction stage, buyers remain indifferent to the product and do not try it out, then the introduction stage will continue for a longer time. At the same time, if during maturity stage, specific steps are not undertaken to maintain and increase the consumers' interest in the product then it will be possible to lengthen the maturity stge. Thus, it is possible to manipulate market behavior with appropriate strategies so that the particular stage in the life cycle can be manipulated in the interest of the organization. This behavior of PLC is helpful to marketing organization specifically the PLC concept is helpful in following ways:

#### 14.2.1 Helps in preplanning activities

It is seen that some of the organizations are not able to handle the preplanning stage appropriately. They then encounter many problems due to their sudden entry into the market and then struggle with it. With the knowledge of PLC, it is possible to have futuristic view and know well in advance the possibilities of certain future marketing events and its impact on the new product. As the future is uncertain, there are also possibilities of that whatever have been assumed and predicted about the future may not come out true in all the cases. But definitely such knowledge helps to have proper product launch with careful planning activities.

#### 14.2.2 Aids to lengthen the profitable stage

It is seen that some products face severe problems in their maturity phase. It may lead to severe decline as a result of competitors' moves. By the knowledge about characteristics of PLC it will be possible to lengthen the maturity phase by adopting some of the marketing strategies like: To locate new users of the product, to identify new uses of the product, to induce more use of the product, to differentiate the product, or by value addition in the product.

### 14.2.3 Helps to make investment decisions

By predicting the future of product with the aid of PLC, it is possible to make right investment decisions in projects/ products showing higher profitability.

### 14.2.4 Give clue to enter the market

The PLC concept has a distinct phase of introduction, growth, maturity and decline. Each organization has its own strengths and weaknesses. As each phase of PLC demands specific characteristics, the organizations can have evaluation of their own strengths and weaknesses and enter the market with their products. Some organization may act as innovators and become market leaders. Some become followers and enter at the growth stage with their own products. Some act as segmentation by late introduction of their version of products at late growth stage. Some even becomes Mc-too firms by introducing their products when the product enters the maturity stage of the life cycle.

### 14.2.5 PLC helps to serve customers in a better way

As product passes through the product life cycle, similarly consumers also pass through a cycle of events in which their awareness level and consequently their purchasing behavior varies. This can be seen in the consumers' behavior in general for purchase of shares. In India we can see as the share industry as one of the financial sector industry which has progressed in the liberalized era, so is the experience of consumers also.

## Lesson 15

## PRODUCT BRAND AND PACKAGING

### 15.1 Introduction

The American Marketing Association gives following definition of brand:

'A brand is a name, term, sign, symbol or design, or a combination of them, intended to identify the goods or services of one seller or group of sellers and to differentiate them from those of competitors'. E.g. - Nokia, Puma, Levis, Adidas etc.

Brands are valuable assets to companies and are important for consumers and they obtain their value due to its ability to obtain exclusive, positive and permanent place in the mind of large number of consumers. Consumers use large number of products. In order to identify and differentiate the product while making a purchase, it is required to give a name to each product. The earlier branding strategy adopted by the companies relied on naming a product and then developing a brand communication strategy around it. It aims at developing brand benefits around the product so that consumer can remember, recall, retrieve make a choice while making a purchase. The earlier branding orientation considered brand name as a part of brand consisting of letters or words which distinguish a company's offer.

Brand name and logo is face of the brand. It consists of word or combination of words/letters which can be spoken e.g. Amul, Nestle, Britannia, etc. Brand logo is unique for a particular product or company as a product design and signage.

From legal perspective also branding is very important. It is employed to make sure the legally enforceable statement of ownership. E.g. – HCL – Hindustan Computers LTD., TISCO – TATA IRON AND STEEL COMPANY, ICICI – INDUSTRIAL CREDIT AND INVESTMENT CO_OPERATION OF INDIA

### 15.2 Role of Brands

Branded products are manufactured by specific firm, thus it is possible to fix the responsibility for its satisfactory performance. In today's fast pace of life, people face time shortage. In such a scenario, purchase of a branded product proves to be valuable.

Brands carry out many functions for the manufacturing organization. They help in easy identification/location of products. They facilitate inventory management. Brand play decisive role in legal issues viz. patent, copyright, intellectual property rights etc. consumers perceive the branded products to possess certain level of quality. This criterion helps to make a choice. A renowned brand may help the firm to receive more revenue by increasing price of their products, as compared to competitors e.g. milk products marketed under Nestle brand are usually priced higher than most others.

### 15.3 Important Decision Variables in Branding

To use a brand name is a strategic decision. The decision to use or not to use a brand name depends upon type of product and the relative cost and benefit of using the brand name. With respect to brand strategic decisions, organization can either use new brand elements for new product, or use same existing brand element for new product. For example Dove: (Shampoo, soap, Creams). Giving a brand name is a very important decision for organizations. The brand name should be unique not used by other firms. It should be such that it is easy to remember. There are no specific rules for choosing a brand name but in general following guidelines prove useful.

a) Brand name should be acceptable to the society.
b) It should be easy to recognize, spell and remember
c) It should be distinct to rise above the clutter.
d) It should be legally protected.

The organization has to decide about single branding or umbrella branding. In umbrella branding one common brand name is used for all the products e.g. each state cooperative milk marketing federation has its own brand name under which it markets various milk products. Along these lines, Saras is the brand name of Rajasthan Dairy Cooperative Federation and Vita is that of Haryana Dairy Cooperative Federation. Umbrella branding reduces the cost of product launching, marketing and promotional expenditure. But if the products quality is of more uneven quality then this strategy is not fruitful. In single branding strategy, each product is given a different brand name. This branding strategy is costly but gives a separate identity to each product and also an adverse effect, if any, will be limited to that product only. Other products of the company are not affected by it. E.g. (1) Make design the focus of packaging (2) Create fun packaging (3) Let the true colours of brand shine (4) Focus packaging on specific target.

### 15.4 Packaging

In marketing terminology packaging involves all the activities of designing and producing the container in which product is sold. Packaging is considered as fifth 'P' in addition to product, price, place, promotion by some marketing experts. Attractively designed packages increases brand equity and lead to higher sales. Following aspects of packaging are important for marketing organization.

#### 15.4.1 Packaging materials

Wide varieties of packaging materials are available in the market. The firm has to choose suitable packaging material considering the cost and quality aspects of products.

#### 15.4.2 Package aesthetics

The size and shape of the package, the materials used, the finish, the colour, the labelling, the branding on the package etc. are important components of package aesthetics and contribute to sales.

#### 15.4.3 Package size and convenience

This also play important role in the total product appeal. This varies from bottles, tubes, sachets, re-useable containers, refill packs etc.

#### 15.4.4 Self service

With more and more big superstores coming up across the country, this function of package assumes higher importance. As a self service package, it performs the sales tasks of attracting attention, explain product features, build customers confidence and create a favourable impression.

### 15.4.5 Response of consumer

With increase in purchasing power of consumers, they do not hesitate to pay a higher amount for more convenience, appearance, dependability and more prestige.

### 15.4.6 Brand image

Package leads to easy recognition of brand. For example Colgate toothpaste in special coloured packets.

### 15.4.7 Scope of innovation

Use of different types of packages such as upside down bottles, re-sealable spouts etc. are examples of innovative packages.

### 15.4.8 Functions

In a competitive world, apart from preserving the product, package carryout some of the functions like identifying the brand, provide descriptive and persuasive information, helps in product transportation and protection, aid consumption of the product and help in home storage.

# Lesson 16

# PRICING AND ITS METHODS

## 16.1 Introduction

In simple terms, price is the exchange value of a product. For an organization, it is the quantum of money (in modern exchange economy or goods and services in barter trade) obtained by it by selling its goods/services. For a consumer, it is money given to the seller. Price as understood in terms of goods/services to satisfy need and wants of human beings and is called utility. Value represents the worth attached by consumers to goods/services. Price is represented by following formula:

$$Price = \frac{Amount\ of\ money\ obtained\ by\ the\ saler}{Quantum\ of\ goods/services\ obtained\ by\ the\ buyer}$$

For example if the buyer obtains 1 litre of whole milk for Rs 30, then to the seller the price is Rs 30 and to the buyer it is 1 litre of whole milk.

## 16.2 Objectives of Pricing

Although most of the organization aim at profit maximization but in general the various objectives the organizations try to achieve are as follows: Short term profit maximization, long term profit optimization, minimum return on investment, minimum return on sales turnover, target sales volume, target market share, more penetration in the market, selling in new markets, combined target profit on entire product line whatever may be the profit in individual products, eliminating competition or keeping similarity with competitors, fast turn around and early cash recovery, stabilizing prices in the market, supplying goods at affordable prices for economically weaker sections of society, setting prices of goods to stimulate economic development.

## 16.3 Factors Influencing Pricing

External and internal factors as listed below are impacting the pricing decision.

### 16.3.1 External factors

Market conditions, consumers behavior for the concerned product, bargaining power of major consumers and suppliers, pricing policy of competitors, government laws specifically for pricing of products, legal rules, society's view point.

### 16.3.2 Internal factors

Marketing objectives of the organization, The nature of product, Price elasticity of demand of the product, Product's stage in product life cycle, Pattern of use and turn around rate of the product, cost of production, marketing costs, Extent of product differentiation, interaction and influence of marketing mix elements on price, Organization's product width and line length.

## 16.4 Methods of Pricing

The various methods of pricing are as follows.

### 16.4.1 Cost based pricing

This includes following four methods

- Mark up pricing/ cost plus pricing
- Absorption cost pricing/ full cost pricing
- Target profit pricing / Rate of return pricing
- Marginal cost pricing

#### *16.4.1.1 Cost plus pricing / mark up pricing*

In this method, the organization calculates the total cost of production and then adds some margin as per their choice. There is no specific rule for the amount of margin but in general, it is dependent upon type of product and market conditions. Two guidelines are used by organizations for deciding the margin. Higher the unit cost of product, more is the margin and vice versa. Slower the turnaround of the product, higher is the mark up and vice versa. Following formula can be used.

$$cost\ plus\ price = \frac{TC}{(1-r)}$$

Where TC = unit cost (fixed + Variable)

r = Expected return on sales in percentage.

For example suppose fixed cost for making 10,000 ice cream cups is Rs. 1,00,000/- and the variable cost per ice cream cup is Rs 5/-. Then total cost per ice cream cup is Rs 15/-. If the organization wants 20 percent return on sales then mark up price will be

$$mark\ up\ price = \frac{15}{(1-0.2)} = \frac{15}{0.8} = Rs. 18.75$$

The method is simple but does not take into consideration consumers view point and competitors.

### *16.4.1.2 Absorption cost pricing / full cost pricing*

In this method also total unit cost of production is worked out under normal level of production schedule. This total unit cost includes fixed, variable, administrative and selling expenses. To this unit cost, some mark up is arbitrarily added (profit). This total becomes the selling price.

This method is used by organizations which prefer safety. If the market consumes all the products of the organization then the organization receives desired profit. But this method does not consider demand aspects. If normal level of production is disturbed then all the calculations are also changed.

### *16.4.1.3 Rate of return pricing*

This method is similar to absorption costing method. But unlike absorption costing in which arbitrarily mark up is chosen, here a rational approach is used to decide this mark up so that the return on investment as desired by the organization is achieved. This is an improvement over absorption costing method but the limitation is that as the rate of return is dependent on level of production and sales estimate, with the change in level of production, rate of return also changes.

The formula used is

*Marginal cost pricing*

In this method fixed cost are not considered and prices are decided based upon marginal cost. The marginal cost will include all the direct variable cost of the product. Only those costs which can be directly attributed to the specific product output are used. By this method all the direct variable cost are fully recovered and a part of fixed cost is also recovered. The method provides flexibility with respect to recovery of fixed cost. Depending upon type of consumer and type of market, fixed cost recovery portion may be adjusted. In a multi product organization, this method gives flexibility of recovering fixed costs through products at varying rates considering market situation while realizing on the marginal cost form the concerned product. As variable costs are controllable in short run, the price of the product is never rendered uncompetitive because of higher variable costs. The limitation is that the method is suitable only for short run period. There is possibility of some costs to be categorized as mixed cost (semi fixed or semi variable). Marginal costing does not consider this reality.

### 16.4.2 Demand/ market based pricing

This includes following 3 types of methods:

***a) What the traffic can bear***

Under this method, the maximum price which the consumers are able to pay in a given situation is charged by the organization. The method is more popular among retailers then producers. The method gives higher profit in short run but is not suitable for long run. The method is suitable for monopoly/oligopoly markets and inelastic product.

***b) Skimming price***

In this method initially very high price are set to realize very high profits. After a period of time, the prices can be lowered. The method is suitable for luxury novel products to specific segments of society which are less price sensitive.

***c) Penetration pricing***

This method is also adopted for new product introductions. Here the organization set low prices for the product. If the new product is not a luxury product and is generally not purchased by rich price insensitive consumers then by higher sales volume, the organization earn higher revenue till the competitors enter the market with their own versions of products.

### 16.4.3 Competition based pricing

These methods are based upon principle of similarity with competitors in pricing. Following three methods fall under this category.
*a) Premium pricing:* Setting price above the competitors’ price.
*b) Discount Pricing:* Setting price below the competitors’ price.

*c) Parity Pricing:* Setting price similar to the competitors'.

### 16.4.4 Other pricing methods

Apart from cost, demand and competition base, many more pricing methods are used by organizations which can be strictly placed in any of the three categories. They are as follows.

a) *Product line pricing:* For a large organization which manufactures variety of products, different product lines will be there. In each product line number of related products will be grouped. These related products of a product line share common manufacturing facilities and have interrelated cost of production and distribution. The sale of a particular product has influence on the sale of other product also. Therefore in such a situation instead of setting the price independently for an individual product to earn maximum profit, the optimum price is set for each individual product so the maximum profit results from combined sale of all the products of a product line.

b) *Tender Pricing/sealed bid pricing:* In many large projects, government work contracts, industrial marketing etc this method is employed. In this method the supplier or the firm who wants to do the work is required to submit their price in the form of sealed quotations. Generally the lowest quoted price tenders are selected and awarded the job. By quoting lesser price which will cover only cost of production, the firm may get the work order but the profit margin will be less.

c) *Social welfare pricing / affordability pricing:* In this method price of the product is set in such a way that it is affordable by all section of society. Here the cost of production is not the criteria but social service is the main objective.

d) *Subsidy:* The money is supplied in the form of subsidy to cover the cost of production such a system is prevalent in the public distribution system.

e) *Differentiated pricing:* In this method organisations set different prices for the same product based upon either type of consumer, market or volume purchased.

f) *Going rate pricing:* In this method the price is set considering the market disregarding cost of production. In the method, the price is set according to what others are charging in the market. The method is helpful when it is difficult to measure the cost of production.

g) *Perceived value pricing:* In this method the prices are set on the basis of perceived value of consumer. Here consumers' perception of value is counted more important than sellers cost of production.

h) *Value Pricing:* In this method quite less price is charged for a quality product for loyal customers. This also necessitates organizations to lower cost of production without impacting quality.

i) *Psychological Pricing:* In this method, the organisation sets the price based upon consumer psychology. During purchase, consumers have a reference price in their mind and thus compare the products to be purchased with this reference price. Organisations thus manipulate this reference points so as to make a sale.

j) *Two part pricing:* This method is used when the product/ service can be divided into two different parts. For example, in case of some book libraries running in big cities. One part is of annual membership fee. This is a fixed component. The member can then take the books/magazines available in the library for a specified period on rent.

k) *Loss leader pricing:* In this method, prices of well known branded products are reduced to generate higher demand.

## 16.5 General Guidelines for Setting Price

The following guidelines can help set price of a product:

1. Deciding pricing objective
2. Estimating demand
3. Estimating cost
4. Comparing competitors' cost, price and strategy
5. Deciding a pricing method.

## Lesson 17

# PRICE DETERMINATION AND PRICING POLICY OF MILK PRODUCTS

### 17.1 Introduction

In dairy industry price determination and price policy decision are to be performed for milk producers as well as for consumers. In dairy industry, milk collection takes place either through organized set up consisting of cooperative and other private well established dairy plants. The unorganized set up consists of private personnel / middle men.

### 17.2 Pricing Strategy for Raw Milk

There are various methods of paying for milk procured from producers viz.,

1. On the basis of volume or weight
2. On the basis of fat content
3. On the basis of fat as well as solids-not-fat (SNF) (Two-axes pricing system).

The most popular and prevalent method is two axis system in which both fat and SNF are considered for providing payment where in the price of SNF is kept 2/3 of the price of fat. The pricing methods for payment to milk are summarized below:

**Table 17.1 Pricing methods of Milk**

| Sr. No. | Method | Characteristics | Advantages | Disadvantages |
|---|---|---|---|---|
| 1 | Based on volume or weight | By using the weighing machine or spring balance. | Simple to calculate milk price<br>No expensive testing equipment is required | No incentive to improve quality of milk |
| 2 | Based on fat amount | By finding out the fat percentage of milk by conducting test. Using directly fat percentage or kg fat | Fairly simple to calculate milk price<br>No benefit to milk producers adding water to milk | Necessary to purchase fat testing machines. |
| 3 | Based on fat as well as | By using the formula* | Provides an incentive to | Necessary to purchase fat testing |

| | | | | |
|---|---|---|---|---|
| | solids-not-fat content | | increase fat and SNF | machine and density meter. |

$$\text{*Milk Price} = liters\ of\ \ milk \times \left\{\frac{fat\ \% \times fat\ price}{100} + \frac{SNF\ \% \times SNF\ Price}{100}\right\}$$

The milk producers who are members of cooperative societies get the price of their milk based upon two axis method only. The cooperatives give regular and remunerative price of milk to their member producers. The price to be paid is decided and revised regularly by the board of directors of district cooperative union. The milk producers who are supplying milk to large private dairy plants like Nestle in north India also get price of their milk more or less similar to the cooperative set up. Those milk producers who supply milk to private traders/middlemen get their price based upon mutual understanding between the two parties and based upon demand supply situation.

### 17.3 Pricing Strategy for Milk Products

Milk is a complete food. It is an essential food item for all the households. Apart from liquid milk, large numbers of traditional and western dairy products are sold in the market. There are no specified rules for setting the price for consumers just like two axis pricing method for milk producers. The price of milk and milk products is generally determined based upon market conditions (type of competition). In India, 'Amul' is the market leader in dairy industry. It is a cooperative organization. Generally, it is seen that Amul decides the price for a milk product, particularly liquid milk, and others immediately follow. For setting the liquid milk price the usual factors considered are.

i. Price to be paid to milk producers.
ii. Other expenses viz. processing, transportation, storage etc.

For other milk products forces of demand and supply as well as organizations strategy is important. For example, when Amul introduced their ice cream in the market, they sold it at fairly low price so as to penetrate the market.

#### 17.3.1 Illustration

The price to be charged from the consumer depends upon many factors. It essentially considers cost of production, demand situation, competitors’ policy, marketing environment etc. Following illustration shows the price fixed by the entrepreneur for basundi. On similar lines prices for other dairy products can be ascertained and fixed.

### 17.3.2 Cost analysis of the *basundi* manufactured in the scraped surface heat exchanger (SSHE)

Cost analysis of the product prepared in SSHE was carried out as shown in Table.17.2 and Table 17.3. The cost analysis is based on the optimum operating conditions among the studied conditions of the machine. The cost of product worked out to be Rs **97.97** per kg. The cost of raw material per kg of *basundi* would be Rs. 84.72.Which is 86.48 % of total cost. The analysis revealed that estimated operating cost of *basundi* in the machine would be Rs. 1324.49 per batch (Rs. 13.24 per kg of the product) which is 13.52 % of the total cost. The rate of Amul *basundi* in the market is Rs. 115/kg. Thus the entrepreneur can keep the price around this range. If it is kept at Rs. 110/kg. From it, the firm can get a profit Rs. 12.03/kg. This is 12.28 % of the total cost.

**Table 17.2 Raw materials cost for preparation of 100 kg*Basundi* (Figures are for 2011-12)**

| Sr. No. | Ingredient | Rate per kg (Rs.) | Quantity required (Kg.) | Cost of ingredient(Rs.) |
|---|---|---|---|---|
| 1 | Standardized buffalo milk (4.6 per cent fat) | 30.00 | 240.000* | 7200.00 |
| 2 | Sugar | 40.00 | 12.500 | 500.00 |
| 3 | Di-sodium hydrogen phosphate, dihydrate | 75.00 | 0.300 | 22.50 |
| 4 | Condiments @ 3 per cent | 250.00 | 3.000 | 750.00 |
| | *Basundi 100 kg* | | | 8472.50 |
| | Raw material cost (Rs.) per kg of *Basundi* Rs.84.72 | | | |

*Source*: Patel H G (2000): Standardizing method for manufacture of basundi, a thesis submitted to Anand Agricultural University, Anand

* Considering 1 per cent product loss

**Table 17.3 Final cost per kg of *Basundi* (Figures are for 2011-12)**

| Sr.No. | Particulars | Rate | Quantity | Cost (Rs.) |
|---|---|---|---|---|
| 1. | Raw material cost | Rs.84.72/kg | 100 kg | 8472.50 |
| 2. | Works overhead cost | | | |
| | -Superivisor-1 | Rs.150/day | Rs.150.00 | 150.00 |
| | -Labourers-2 | Rs.65/day | Rs.130.00 | 130.00 |
| 3. | Utilities cost | | | |
| | -Steam | Rs.1.20/kg | 180.92 kg | 217.99 |
| | -Electricity | Rs.5/kwh | 54.42 kwh | 272.10 |
| | -Cleaning solution | Rs.50/kg | 2 kg | 100.00 |
| | -Water | Rs.10/500 lit | 720 lit | 14.40 |
| 4. | Packaging cost | Rs.20+Rs.0.20 | 200 bottles | 440.00 |

| | | | | |
|---|---|---|---|---|
| | including sealing* | sealing cost per bottle | | |
| Total cost for 100 kg *Basundi* = Rs.9796.99 | | | | |
| Cost per kg *Basundi* = Rs.97.97 | | | | |

* 200 glass bottles used 10 times on an average

The above illustration highlights the manner of price fixation for dairy products.

# Lesson 18

# MARKETING CHANNELS

## 18.1 Introduction

Most of the production organization does not sell their products directly to the Consumers. They take help of other middlemen/agencies (Intermediaries). They are called as marketing channels. These marketing intermediaries comprise of sole selling agents, marketers, wholesalers, distributors, stockiest, semi wholesalers, retailers brokers/ commission agents, franchise dealers, authorized representative jobbers.

Based upon the role performed by these intermediaries they are classified into following types.

(i) Merchants: They buy, take title to and resell the products. For example, wholesalers, and retailers.

(ii) Agents: They search for customers, negotiate on behalf of producer and do not take title to goods. For example brokers, sales agents.

(iii)Facilitators: They do not take title of goods, does not negotiate purchase or sale. They only assist in distribution process. For example transportation companies, independent warehouses, financial institution, advertising agencies.

## 18.2 Functions of Marketing Channels/Channel Members

1. Collect information pertaining to current or potential consumers, competitors and others important variables of marketing environment.
2. Create and transmit persuasive communications to increase sale.
3. Negotiate transfer deals among channel members.
4. Put purchase orders to suppliers/producers.
5. Make financial arrangement to hold inventories.
6. Bear risk of distribution work.
7. Arrange for storage and transport of physical goods.
8. Arrange for payment to parties.
9. Conduct overall supervision to affect transfer of goods.
10. Undertake stock holding and sub distribution.
11. Undertake presale, sale and after sale service.
12. Helps in sales promotion.

13. Act as a change agent by transferring technology to end users.
14. Keep necessary records / documents.
15. Provide feedback, market intelligence and credit to channel member.
16. Facilities introduction of new product in market.
17. Maintain liaison.

### 18.3 Marketing Flows in Channels

The various functions associated with market channel are must and it is necessary that each function is carried out by at least one of the channel members. All channel members do not specialize in all type of market flows. Certain channel members only specialize in specific flows as indicated below.

**Title flows**

Supplier → Manufacturer → Dealer → Consumers

**Physical flows**

Supplier → Shippers → Manufacturer → Dealer → Consumer

**Payment flows**

Supplier ← Financial Institution ← Manufacturer ← Financial institution ← Dealers ← Financial institution ← Consumer

**Promotion flow**

Supplier → Advertising Agency → Manufacturer → Advertising Agency → Dealer → Consumer

**Information flow**

Supplier → Transporter warehouses' → Financial institution → Manufacturer → Transporter → Warehouses → Financial Institution → Consumer

### Channel Levels

Channel levels are categorized based upon number of intermediaries from manufacturer to consumer. The commonly used channel levels are shown below.

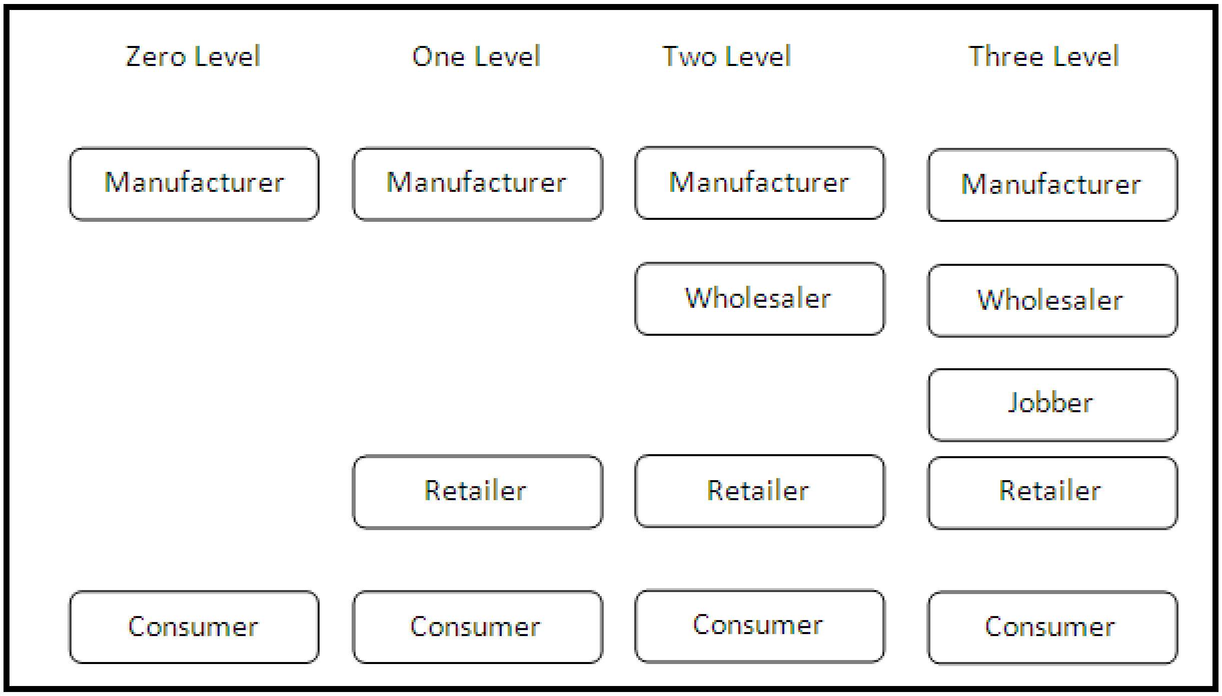



**Fig. 18.1 Levels of channels**

Channels generally denote the movement of product from manufacturer to users in forward direction. There are also reverse flow channels which take back products or packaging materials with following objectives. (a) To again use the same containers (b) To recycle products as in the case papers. (c) To dispose of waste products. Reverse flow channels are useful from environment point of views as they try to reduce damaging effect of some non degradable waste products. A diagrammatic view of reverse flow channel is shown below.

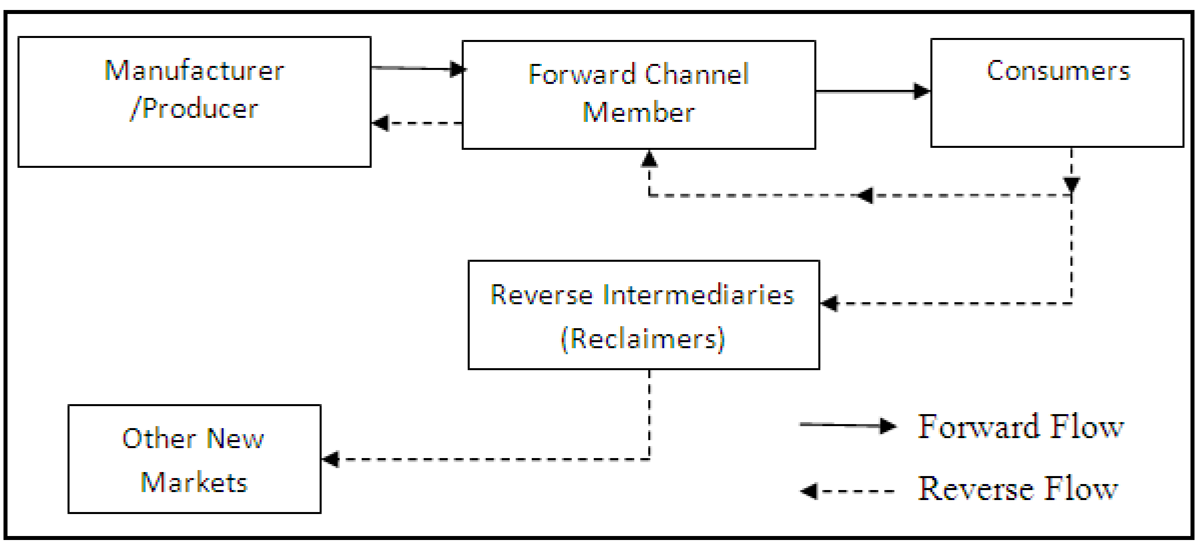



**Fig. 18.2 Reverse flows**

## 18.5 Important Channel Participants

Manufacturers, wholesalers are acting as important channel participant. They are described below.

### 18.5.1 Manufacturers

Those who produce the product are referred to as manufacturers.

### 18.5.2 Wholesalers

They sell to retailers, other merchants, industrial users, commercial users, institutional users. They do not sell in large quantities to final consumers. Wholesalers can be classified into merchant wholesalers, agents and manufacturer's sales and branch office. Merchant Wholesalers take ownership and associated risk. Based upon number of functions carried out by the merchant wholesaler, they are categorized as full function (jobber) or limited function merchant wholesaler. Full function wholesaler carryout almost all or most of the marketing functions. Limited function Wholesalers carry out only some of the functions. Agent Wholesalers do not take ownership and rarely take possession of the products. Agents are further classified as manufacturer's agents, brokers, commission merchants, selling agents and auction companies. Manufacture agents are independent firm which are mostly used in place of manufacturer's own sales force. They generally handle variety of non – competing products of different manufacturers. Brokers are the middlemen engaged in establishing contacts between sellers and buyers and used primarily in real estate business. Commission merchants obtain goods on consignment basis and sell them on commission basis. They are used in instances where consumers are somewhat least concerned with producer's identity. For example agricultural produce. Selling agents are the persons who do not take title of the goods but they generally engaged in producer's entire product line. They generally set the price, Terms of sales and do engage in promotional activities. Auction companies bring buyers and sellers at a common place and actively negotiate the sale of those products. They are generally used in automobile sales.

### 18.5.3 Branch and sales office of producers

These are physical facilities away and separate from the manufacturing units. Sales branches keep inventory whereas sales offices do not keep inventory.

## 18.6 New Developments

Traditional marketing channels comprise of different levels based upon number of intermediaries. Apart from this traditional type, now-a-days following new developments have also taken place.

### 18.6.1 Vertical marketing systems (VMS)

In a traditional distribution channel, all the channel members are independent. All the members try to maximize their own profit at the cost of overall profit of a whole system. As the members are independent, no one has control over others. In vertical marketing system (VMS) one channel member owns the other and the producer, wholesaler, retailer as a channel members work in a unified system. The channel captain posses power so that all other channel members co-operate to perform functions of sales, delivery and service. VMC are of following types.

#### *18.6.1.1 Corporate VMS*

This involves successive stage of production and distribution under one ownership. For example, many petroleum product companies not only owns production but also have their own retail outlets.

#### *18.6.1.2 Administered VMS*

It involves co-ordination of successive stages of production and distribution through size and power of one of the members. The production organization with strong brands are able to manage such a VMS by obtaining co-operation of other channel members.

#### *18.6.1.3 Contractual VMS*

In this system, dependent organization possessing different production and distribution join and come together in a contractual agreement so as to manage distribution.

### 18.6.2 Horizontal marketing system (HMS)

In this system two or more production organization joins to exploit a new marketing opportunity. Individually each organization does not possess sufficient knowhow and expertise to produce and sell the product alone.

### 18.6.3 Multi channel marketing

This is a system in which one organization uses two or more channel to sell same consumer segments. It is done to obtain more distribution efficiency. It is very crucial to manage channel conflicts in this system.

## 18.7 Channel design decisions

In order to make the product available to the consumer it is necessary to design an effective and efficient channel for smooth flow of products from producer to consumer. Channel design decisions involve the following four aspects.

### 18.7.1 Analyzing desired service output level of consumers

Each channel has following five service outputs

***a) Lot size***

This refers to the number of units which consumers can purchase on a single purchase transaction. In general for household purchases, consumer prefers a channel which allows to purchase a single unit. In business / organizational purchase, more units are purchased in a single occasion.

***b) Waiting and delivery time***

This is the average time, the consumer has to wait to obtain the products / services after placing the order. Consumers prefer those channels which have less average waiting and delivery time.

***c) Spatial convenience***

The degree to which the channel helps to make purchase. Consumers prefer to have speedier and easier purchase.

***d) Product variety***

It refers to number of different products of same or related category offered by the organization. Consumers prefer more variety. Most of the two wheeler companies in India now have large number of different vehicles for consumers.

***e) Service backup***

The consumer prefer greater service backup in terms of speedy and easy delivery installation. Providing credit facility and after sales service including repairs, extended warranty period.

### 18.7.2 Deciding objectives

Channel objectives are dependent on type of product. For perishable product, short channel is required. A bulky product requires longer channel. For customized product, direct marketing is the best option. The organizations should aim at minimum channel cost without affecting product availability. In general, the channel objectives might be to make the product available in the target market in cost effective and economic distribution and to have smooth and speedy transfer of goods and information from producer to consumers.

### 18.7.3 Identification and evaluation of important channel alternatives

It is possible to sale a product by many different alternative channels. The organization has to choose channels. The organization has to choose appropriate channel considering cost and type of product. The different intermediaries available to the organization to act as a channel member are: company’s own sales force, middleman, agent / broker, wholesaler, Retailer, distributor, dealer, merchants, and value added resellers, carrying and forwarding agents. A company can use adequate number of intermediaries to make the product available to consumers. Based upon number of intermediaries used, the channel can be categorized as intensive, selective or exclusive distribution. In exclusive distribution, only one outlet is kept. In selective distribution, the product is made available through few carefully selected outlets in a selected market area. In intensive distribution the product is made available in large number of appropriate places.

After selecting the type and number of intermediaries, they should be evaluated on following three criteria

***a) Economic***

Cost of Channel member for making product available to final consumer.

***b) Control***

The level of control that can be affected by organization on channel members.

***c) Adaptability***

The responsiveness of channel member to dynamic marketing environment.

## 18.8 Channel Conflict and its Resolution

There are chances of eruption of channel conflict among different channel members for business related reasons. A vertical channel conflict occurs between different levels within same channel. For example conflict between producer and distributor regarding commission. Horizontal conflict occurs between members of the same level in the channel. For example dealers indulging in conflict about geographical territory. A multichannel conflict occurs between two or more channels through which producer sells their products in the same market.

Conflicts are also desirable to some extent and hence instead of eliminating conflicts all together, it is desirable to manage them by adopting super ordinate goals, exchange of persons, joint membership in trade associations, co-operation, through diplomatic means, mediation, arbitration and finally by adopting legal recourse.

# Lesson 19

# WHOLESALING

## 19.1 Introduction

Wholesaling includes all the activities associated with selling goods or services to individuals or organizations for resale or business use. Wholesalers purchased goods generally from producers and sell to retailers, industrial users and other wholesalers. Producers and retailers are not considered as wholesalers. Wholesalers deal with business consumers whereas retailers deal with domestic final consumers. Due to difference in consumers, wholesalers lay less emphasis on promotion, atmosphere and location of outlet then retailers.

## 19.2 Type of Wholesalers

Wholesalers are divided into following categories

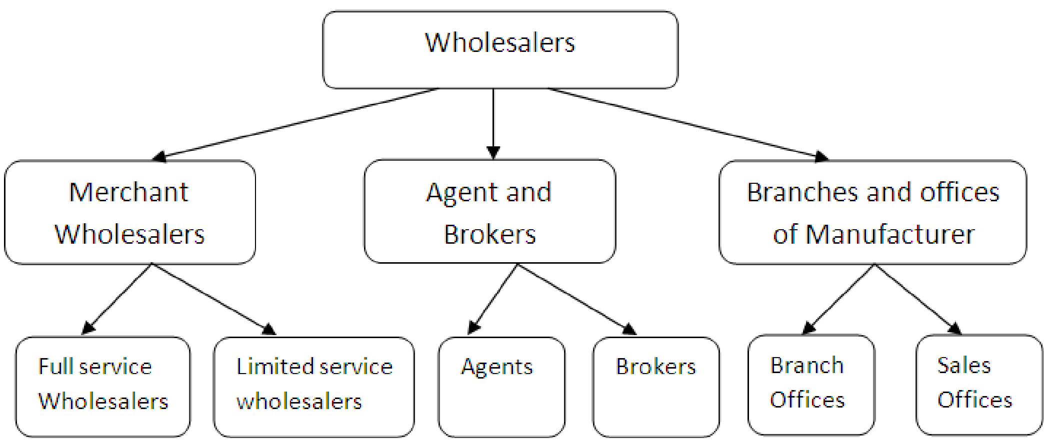



**Fig 19.1 Types of wholesalers**

### 19.2.1 Merchant wholesalers

They are independent businesses. They take title to the goods. They are known by various names like mill supply houses, jobber, and distributors.

#### *19.2.1.1 Full services wholesales*

As the name indicates, they offer a full line of service viz. To carry stock of goods, keep sales personnel, provide credit, ensure deliveries, render managerial assistance. They are of two types (i) Whole sale merchants (ii) Industrial Distributors

#### *19.2.1.2 Whole sale merchants*

They sell generally to retailers. This merchant's exhibit variation in terms of product range handled. Some are selling many product lines and are referred to as general merchandise wholesalers. Some are selling one or two product lines in more depth and are referred to as general line wholesalers. Some carry only a part of a line such as dairy food wholesalers.

### *19.2.1.3 Industrial service wholesalers*

They provide only limited services as compared to full service wholesalers. Following table indicate different limited service wholesalers.

**Table 19.1 Limited service wholesalers**

| | | |
|---|---|---|
| **Cash and Carry Wholesalers** | They indulge in only few lines of fast moving goods. They carryout cash sales transactions with small retailers | A fruit store retailer may purchase may fruits from a fruit wholesalers in cash and keep it in his store for sale. |
| **Truck Wholesalers (Truck Jobbers)** | They engage in few lines of semi perishable products like (Some dairy products, bakery products) | They sale though mobile vehicles to important selling points like students hostels and restaurants etc. |
| **Drop Shippers** | They do not handle the product nor maintain inventory. They take the orders from consumers; select a suitable producer of that product who transports the goods directly to consumers. They assume the title and risk from the time they receive order till the goods reach the consumers | Sales transactions in bulk industries like coal, lumber and heavy equipment is carried out through drop shippers |
| **Rack Jobbers** | They set up displays, determine price, keep inventory records. They retain title of goods and charge retailers only for goods sold to final consumer | Serve retailers of grocery engaged in non food items. |

### *19.2.1.4 Producer co-operatives*

Producer members combine to sell their produce. They own the organization and run the business by hiring professionals. They are collectively responsible for profit or loss. For example dairy co-operatives.

#### *19.2.1.5 Mail order wholesalers*

They do not keep sales force but send catalogs to retail, industrial and other organizational consumers featuring the products they deal in e.g. jewellery, speciality food, cosmetics and other such small items. The orders are filled in and sent by mail or by any transportation mode.

#### *19.2.1.6 Brokers and agents*

They act as facilitators in buying and selling process on commission base. They do not take title to goods and specialize by customers' type or product line.

*(a) Brokers*

They make contact between sellers and buyers and help both the parties to finalize business deal through negotiation. They do not carry inventory nor assume any risk. They receive payment from the hiring party. For example brokers of real estate, food, insurance, security business.

*(b) Agents*

They have more permanent association / application with sellers and buyers as compared to brokers. They are of following types: manufacturer's agents, selling agent, purchasing agents, commission merchants.

#### *19.2.1.7 Manufacturer agents*

These agents have written agreement with two or more manufacturer of complimentary products. The written agreements cover the aspects of price, geographic territory, order handling, delivery, service, guarantee and warrantee commission etc. Such agents are hired by large manufacturers to expand their business to new geographic locations and by small manufacturers, for whom employing full time sales people is uneconomical. Such agents are generally used for apparel, electric items, and furniture.

#### *19.2.1.8 Selling agents*

If the manufacturer is uninterested or lacks capability in sales functions then they enter into contract agreement with selling agent for their complete production output. Such selling agents then work like a sales department for the manufacturer and exhibit substantial control over prices, terms and conditions of such selling agents generally deal in natural materials. (Coal, coke, metals etc), Machines and Equipments, Chemical etc.

### *19.2.1.9 Purchasing agents*

They establish a long lasting relationship with purchasers and do the purchases for them. They receive check, store and transfer the goods to the consumers / purchasers. They supply all the necessary market information to their clients to help them make best decision.

### *19.2.1.10 Commission merchants*

Employed for short time duration. They take possession of product and do negotiation for sale. Generally seen in agricultural products. Those producers who are not members of any producer co-operative and also do not want to perform selling function, engage commission merchants who take all the produce in a vehicle and sale it at best price in a nearby main market. They then deduce their agreed commission and deposit the balance money to producers.

### *19.2.1.11 Manufacturer's and retailers branches and offices*

This involves performance of wholesaling operations by sellers or buyers themselves instead of independent wholesalers. Separate branches and offices can be established for sales or purchase.

### *19.2.1.12 Sales branches and offices*

These are established by manufacturer to have better control over inventory, undertake selling and promotion. Sales offices do not carry inventory and sales branches carry inventory.

### *19.2.1.13 Purchasing offices*

They are integral part of buyer’s organization and carryout function similar to that of brokers or agents.

## 19.3 Functions of Wholesalers

### (a) Sale and promotion

Manufacturer's reach large number of small business customers at low cost through wholesalers. They have more contacts and consumers rely more on them than producers.

### (b) Purchasing and assortment building

They Choose items and make assortments according to need of their consumers.

### (c) Bulk reduction

They purchase big lot and reduce it into smaller lot by dividing it for the sake of consumers.

### (d) Storage

They keep inventories thus reducing / associated inventory consumers on account of their nearness to consumers.

**(e) Monetary support**

They extend credit to consumers and finance suppliers by early order making and timely payment of bills.

**(f) Risk taking**

They assume some risk by taking title and withstand cost of products damage, spoilage, theft, etc.

**(g) Transportation**

They make fast delivery to consumers on account of their nearness to consumer.

❤ **Market information**

They provide necessary information about competitors activity, new products, price etc to supplier and consumers.

**(i) Management support**

They extend necessary support to retailers about several management aspects like employee training, store layout & efficient utilization of space etc.

# Lesson 20

# RETAILING

## 20.1 Introduction

Retailing encompasses all the activities in selling goods or service directly to final consumer for self use or family use. In recent years there is growth of retail marketing all over the world including developing countries like India, one of the reasons being increase in income of consumers due to economic progress. The developments in the field of information technology has also helped the growth of retail marketing by integrating multi-location distribution carrying large number of products through a common hub. India's retail market is unorganized. It includes shops & houses in the same building. The front portion of the building is used by shop and the rear portion as house. In many small towns weekly bazaars are also organized. The retail segment is highly fragmented and is spread over a large geographic region. India now witnesses emergence of big shopping malls not only in big cities but also in small towns.

## 20.2 Significance of Retailing

Retailing is the final stage in distribution channel. Retailers have communication / contact with both consumers as well as producers. Retailers' function involves procuring products in large quantities from many sources and then selling them to consumers as per their requirement in small quantities. Retailers carryout the functions of transporting, storing, marketing, promoting, paying for goods and also complete sale deed with consumers. Thus, retailer fulfills the expectation of producers as well as consumers. For producer's expectations it undertakes promotion of product, make the product visible, gain knowledge about its use, and render necessary service. For fulfilling consumers expectation it provide higher quality and low price, appoint learned sound employees, give immediate fast service, extend after sales service, extend suitable return policy.

### 20.2.1 Function of retailing

#### *20.2.1.1 Provide variety*

Companies specialize in production of one or limited number of products. If they open their own retail store, they will keep probably only their products. Consumers demand variety of products. Retailers keep wide variety of products for sale to satisfy diverse consumer needs.

#### *20.2.1.2 Sorting*

Companies produce goods and are interested to sell them to limited buyers in large quantity so as to reduce cost. Consumers demand products in small quantities. Retailers satisfy both the manufacturers and consumers by adopting sorting procedure. Under sorting, they purchase variety of goods in large quantities and sell them to consumers in small quantity. By doing so it also reduces transportation cost, warehouse cost and inventory cost for consumers.

#### *20.2.1.3 Facilitator*

They provide variety of service to consumers and facilitate consumption by them. They provide financial support to consumers, display products to make a choice, solve queries of consumers, do all necessary paperwork like form filling, deliver and install product at consumer's house, extend guarantee / warranties.

#### *20.2.1.4 Risk bearing*

They bear the risk of spoilage / loss of unsold items as well as risk of receiving return products from consumers.

#### *20.2.1.5 Keep inventory*

Retailers keep inventory to make the product readily available to consumers and thereby helping consumers.

#### *20.2.1.6 Link between producer and consumer*

They transmit the information between manufacturers and consumers. The consumers preferences are provided to manufactures and new products information from manufacturer to consumers.

#### *20.2.1.7 Physical distribution and promotion*

Retailers bring the goods from manufacturers production units at their retail outlets and also provide goods at consumers home wherever required. Along with transportation they also carry out advertisement function by placing banners at retail outlets and on transport vehicles.

## 20.3 Type of stores

### 20.3.1 Kirana stores

These are traditional independent stores of varied size. They show their physical existence throughout the country. They serve large population. Main advantage of these stores is their nearness to the population.

### 20.3.2 Department stores

These stores keep many product lines such that most of the items required by a family will be available at the store. The product line includes clothing, appliances, food items, gift articles, furniture, and many other household items. They are mainly located in metro cities.

### 20.3.3 Discount stores

These stores sell standard products at lesser price than other stores. They aim at less margin and large volume. They are situated in low rent areas but as they sell standard products of famous brands, is visited by consumers from far flung areas also. For example, 'Big Bazaar' in India.

### 20.3.4 Speciality store

This stores offer narrow product line with a deep assortment within that line. The product range may include jewellery, watch, sports, goods, books, garments and many more. This are further classified based upon type of products sold by the store. If a store sells a particular range for the whole family is called single line store. For example titan watch show rooms which sells watches specially designed for all family members children, youth, middle age, old age people & for both male & female population. If a store sells a product related to only one criterion (Gender, subject etc.) it is called limited line store. For example, Arvind showrooms sell only men's clothing. If a store sells a specific product only but of more than one brand then it is called super speciality stores. There are many such super speciality stores selling men's garments of more than one brand in India.

### 20.3.5 Superstore and hyper market

These are very big stores located outside traditional shopping centres. Their operations being self service type and sell products at low cost, low margin and high volume. Based upon build up area, hypermarket occupies double selling space than that of superstore. A superstore will have selling space of approximately 25,000 square feet. In India, such stores are still in the infant phase.

### 20.3.6 Convenience stores

These are small stores situated near residential areas. They keep small range of fast moving convenience products. They have longer operating hours and are open throughout the week. Such Stores are in place in India since long.

### 20.3.7 Category killers

This is a type of store which sells only one kind of goods. For example, domestic kitchen appliances. Such stores purchases items in a very large quantum and are thus able to sell at very low price.

## 20.4 Theories of Retailing

There are many theories to explain the concept of retailing. The theories deal with the historical development and growth in retail sector, the mode of entry in retail market and its subsequent growth.

### 20.4.1 Wheel Retailing

One of the important theories is 'wheel retailing'. This theory says that retailers follow a definite cycle. They enter into the market as low price, low margin and low status operators. Upon entry into the market, they compete by offering products at lowest possible price so as to attract consumers. After certain time period they cease to be price competitive. They obtain more elaborate facility. As these retailers increase their prices, it gives opportunity to new retailers to enter the market.

According to the theory of 'wheel retailing', each retailer passes through three successive phase, i.e. entry phase, trading phase, and vulnerability phase.

The first or entry phase of the Wheel of Retailing starts with the opening of innovative retail institutions, which initially offer limited products with low prices and minimum services. Retail institutions at this phase strategically accept low margins due to lack of services and facilities offered and low market penetration, but these low margins can reduce product prices and help retailers to increase penetration of the market. When these retail institutions are successful, other rival retail institutions rapidly copy and adapt those strategies. At the end of the entry phase, the number of the same type of retail institutions has increased. As time passes this retail store moves to trading phase wherein, these innovative retail institutions become traditional retail institutions that offer more services and better store experiences at higher prices. These retail institutions are simultaneously increasing their margins and prices and appeal to more middle and upper income consumers rather than bargain hunting and lower income consumers. As time passes and the wheel turns, retail institution types mature additionally and move into the third and final phase, the vulnerable phase. These firms are mature retail institutions that should have strong or at least stable cash flow. However, as retailers add higher levels of operational practices, costs increase, product prices rise, and margins erode. Some mature retailers abandon high quality and high services in order to reduce operation costs and product prices to survive price competition. These changing operational practices make the third phase retailers vulnerable to easy replacement by other retailers. In this vulnerable phase, retail institutions lose market share and profitability.

**Table 20.1 Wheel retailing**

| Entry Phase | | Trading Up Phase | | Vulnerability Phase | |
|---|---|---|---|---|---|
| | | | | | |

| Innovation Retailer | Consumer | Traditional retailer | Consumer | Mature retailer | Consumer |
|---|---|---|---|---|---|
| -Low Status<br>-Low Price<br>-Minimal Service<br>-Less Facilities<br>-Less number of products to offer | -Price Sensitive Consumers<br>-Dissatisfied with existing retailers in the market | -More facilities<br>-Improved services<br>-Fashion orientation<br>-Increases price<br>-More Product offering | -Upscale consumers who are willing to pay higher price. | -Higher end of market<br>-High prices<br>-Better quality products<br>-Wide range of products<br>-Emphasis on services | -Quality conscious<br>-Consumers who are willing to pay higher price |

### 20.4.2 Accordion theory

According to this theory, retailers enter a market as a general retailer. As they gain experience, they try to target specific groups. Then they start diversifying in order to grow but are followed by a stage of reverting to specialization. The various stages of growth according to accordion theory are shown below:

General store: Initial Phase of entry

Specialty Store: Targeting specific groups

Specialty Department Store: Emphasis again on specialization

Discount Store: Offering Higher Discounts

Category Killers: A large retail chain store that dominates its products category so completely that it eliminates large chunk of competition

Super Center: Is a physically large retail establishment center usually part of a chain.

**Fig 20.1 Accordion theory**

*Module 6. Elements of marketing mix – IV. promotion*

**Lesson 21**

# ADVERTISING

## 21.1 Introduction

There are various connotations of 'advertising' in marketing literature:

- The dissemination of information concerning an idea, service or product to compel action in accordance with the intent of the advertiser.
- Advertising is any paid form of non personal presentation and promotion of ideas, goods and services by an identified sponsor.
- Advertising is a message paid for by an identified sponsor and delivered through some medium of mass communication. Advertising is a persuasive communication.
- Advertising is controlled, identifiable information and persuasion by means of mass communication media.
- Advertising is the non personal communication of marketing related information to a target audience, usually paid for by the advertiser and delivered through mass medium in order to reach the specific objectives of the sponsor.

## 21.2 Objectives of Advertising

Advertising achieves two goals, one that of communicating and propagating the product and other of achieving the sales. Advertising objectives are classified as sales and communication objectives as given below:

### 21.2.1 Sales objectives

This are measured in terms of increase in sales, increase in market share and return on investment.

### 21.2.2 Communication objectives

It is related with increase in mind awareness, increase in comprehension, increase in brand attitude. Under Communication objectives, following specific communication objectives are performed by advertising.

*Informing (Awareness generation):* The first and foremost task of all the advertisement is to inform the people and make them aware about the availability of the product or service and describe its characteristic features so as to explain what exactly is the product or services.

*Persuasion for attitude formation (Forming Favorable attitude):* The advertising message aim at forming favorable attitude about the brand and finally make the consumers to purchase the product. For e.g. Tide advertising in TV channels to show the product features.

*Reinforcement of desired behavior (Customer loyalty):* In today's competitive business world, each company tries to increase its market share. Thus, repeated marketing communication should strengthen customer loyalty and build referrals for future sales. For e.g. AMUL advertisements by Amul for their dairy products.

## 21.3 Categories of Advertising

Advertising can be categorized into following types:

### 21.3.1 National advertising vs. local advertising

The word 'National advertising' indicates that such advertising is not limited to any specific geographic location. Such advertisements are undertaken by branded products with the objective of informing or reminding consumers about the brand. This advertising attempts to create an image of the product among specific target audience. For example, advertisement by some of the car manufacturers target specific consumer segment. For e.g., Tata nano cars are advertising targeting the people with low budget. i.e. lower middle class people Local advertising has a limited regional focus. It is undertaken by retailers so as to develop store loyalty among consumers. Example: Advertisement by the retailer on the paper box. Duliram penda of Baroda give their advertisement on paper box.

### 21.3.2 Co-operative advertising

In such type of advertising, the manufacturer and dealer bear the cost of advertising. The dealers generally put the advertisements in local magazine. They are guided by manufacturers. For e.g. Honda twister advertisement in newspapers, magazine etc.

### 21.3.3 End product advertising

The advertisements of different raw materials/ component parts which become part of final product are called end product advertising. For e.g. MRF Tires advertising in channels and magazines.

### 21.3.4 Trade advertising

Such advertising is aimed at resellers to motivate them to stock the products. From mass distributed products, it is necessary that more and more retail stores sell the product so as to achieve maximum distribution. Thus, trade advertising is used to create brand awareness among retailers. For e.g. Basmati rice advertising on packaging bags

### 21.3.5 Industrial advertising

In case of industrial goods which are purchased by manufacturers to produce finished good, personal selling is generally used. Industrial advertisements help to reduce personal selling costs. Industrial advertisements are more specific, detailed and aimed at small number of experts. Industrial advertisements use industry publications, direct mail, telephone, trade fair and internet. For e.g. A4 size Oriental Xerox paper give their advertisement on it packaging material.

### 21.3.5 Professional advertising

Professional like medical consultants, engineers, architects etc make purchases for their clients (final consumers). Professional advertisements are aimed at such professional and use professional journals and direct mail. For e.g. Bansal classes of Kota for IIT JEE give advertisement in newspapers.

### 21.3.6 Non product advertising

Besides products, ideas and services are also advertised.

***Idea advertising:*** This advertising is used to sensitize general public towards some common subjects affecting the society e.g. polio eradication, save girl child, non discrimination of AIDS victims etc. For e.g. Gujarat tourism by Amitabh Bacchan on TV Channels

***Service advertising:*** With the progress of economy, there is also growth of service sector. Contribution of service sector in employment highlighting virtues of any particular service may be regarded as service advertising. For example, educational services, financial services etc. For e.g. Bajaj Allianz giving insurance advertisement on TV Channels

***Corporate or institutional advertising:*** This advertising is used to build the image of an institution or organization among its stakeholders e.g. sponsorship of any event by an institution. For e.g. *Sharda* university advertisement on TV Channels.

## 21.4 The Advertising Management Process

The advertising management process comprises of several distinct steps (Fig. 21.1):

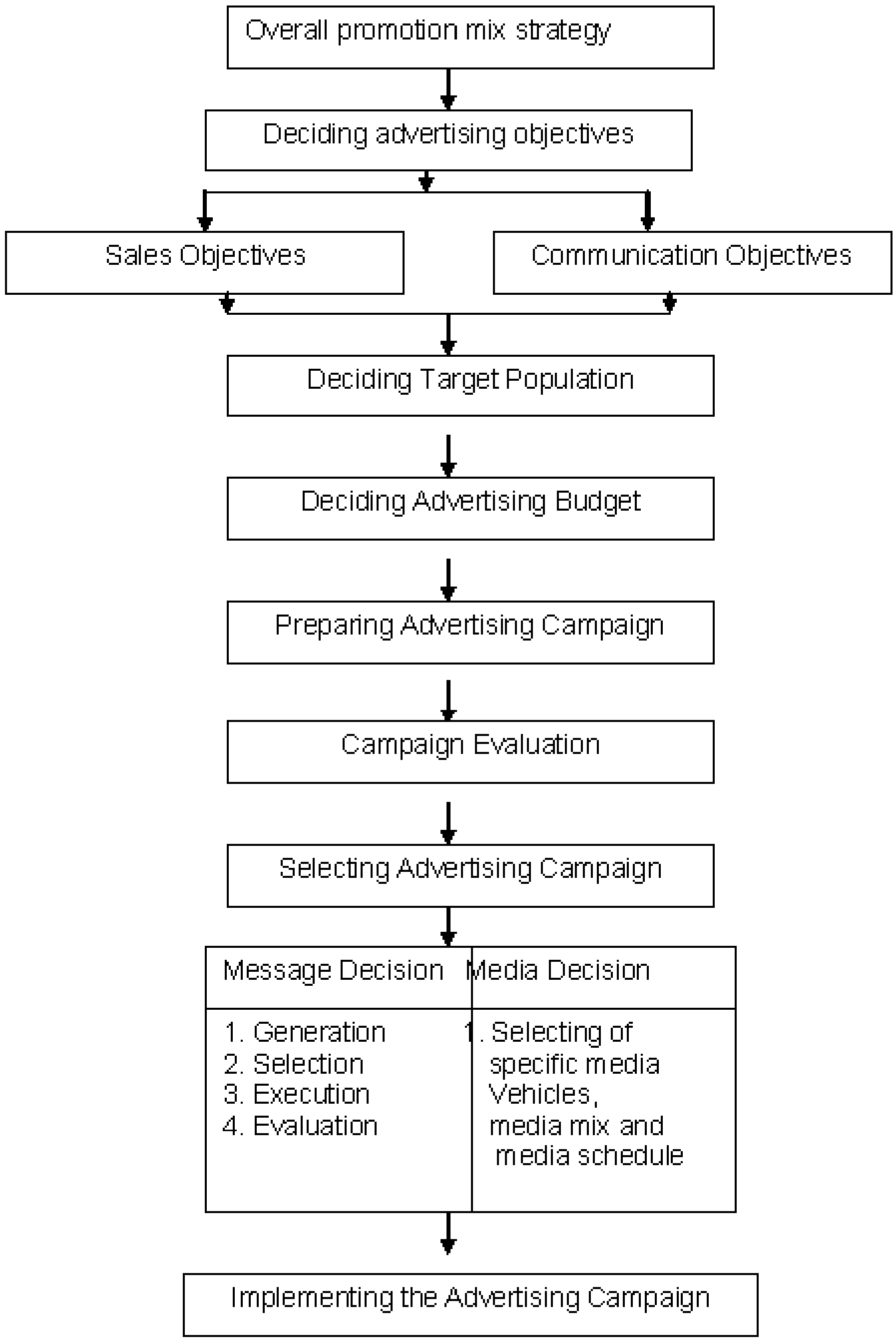



**Fig 21.1 Advertising management process**

## 21.5 The Advertising Budget

There is no standard rule for deciding advertising budget. Following guidelines are taken into consideration while deciding advertising budget:

### 21.5.1 Competitor similarity

The common method employed by many companies is to set their advertising budget similar to major competitors. This method does not give any idea about company's advertising needs and marketing needs.

### 21.5.2 Affordable

This method is adopted by many small organizations where in the allocate some advertising budget amount which they can afford. This amount is not fixed any may even get reduced to transfer of allocated advertising budget to more pressing needs.

### 21.5.3 Fixed percentage of turnover

Under this method, a fixed percentage of annual sales turnover is set as a part as advertising budget. The limitation of the method is that it does not take into consideration the product life cycle or the competitive situation.

### 21.5.4 Budget in relation to function

This method overcomes the limitations of previous methods, amount of funds required to achieve the specified advertising goals is decided on a function to function basis. The budget is allocated based upon market to market, product to product and brand to brand basis.

### 21.5.5 Statistical method

The firms may also employ some of the statistical method like regression analysis to decide advertising budget. This method uses part historical time series or cross sectional data to approve at budget estimates.

## 21.6 Comparison of Advertising Media

Table 21.1 highlights the advantages and disadvantages of major media types.

**Table 21.1 Advantages and disadvantages of major media types**

| Media | Advantages | Disadvantages |
|---|---|---|
| Television | Mass Coverage | Less selectivity |
| | High reach | Short message span |
| | Mixed impact of sound, sight and action | Higher total cost involved |
| | Less cost per exposure | Lead to clutter |
| | Effective in drawing attention | |
| Radio | Less cost | Limited to local coverage |
| | High frequency | Only audio |
| | More focus on selection segment | Noise |
| | | Less attention possibility |
| | | Short life span and message. |
| News Paper | More coverage | Short life |
| | More space with less cost | Clutter |
| | Less lead time for ad placement | Less attention Possibility |

| | | |
|---|---|---|
| | More choice for ad position | Selective exposure |
| | More suitable for current ads. | No audio – video |
| | Exposure controlled by reader | |
| | Possibility of inserting coupons | |
| Magazines | Possibility to have more focus on selected segment | More lead time for ad placing |
| | Longevity of information | No audio – video |
| | More information quantum | Less frequency |
| | Higher readership per copy | Less flexibility |
| Out door | Suitable for specific location | Short Message |
| | More repetition | Short exposure time |
| | More visibility | |
| Direct Mail | More selectivity possible | More cost per contact clutter |
| | Exposure controlled by reader | Possibility of throwing as junk mail |
| | More information Content | |
| | Possibility of repetition | |
| Internet | Controlled by use | Less reach in developing countries |
| | More attention and involvement | |

# Lesson 22

# SALES PROMOTION

## 22.1 Introduction

According to American Marketing Association, sales promotion includes those sales activities that supplement both personal selling and advertising and co–ordinate them and help to make them effective such as display, show and expositions, demonstrations and other non recurrent selling effort not in the ordinary routing.

Sales promotion has various other definitions, as below:

- Sales promotions are short term incentives to encourage purchase or sale of a product or a service.
- Sales promotions are temporary incentives targeted at the trade (called trade promotions) or at end consumers (consumer promotions). While sales promotions generally aim to change purchase behavior, they very in whether they attempt to persuade trade customers or end consumers to buy a product for the first time, to buy more, to buy earlier or to buy more often.
- Sales promotion consists of a diverse collection of incentive tools mostly short term designed to stimulate quicker and / or greater purchase of particular products. Service by consumers or the trade.

From the above definitions it can be said that sales promotion refers to many kinds of incentives and techniques directed towards consumers and traders with the objective to produce immediate or short term sales effects. Sales promotion provides a direct inducement to purchase by giving something extra over and above what is built into the product at its normal price.

## 22.2 Objectives of Sales Promotion

Sales promotions are used with either proactive or reactive objectives.

Following are the proactive sale promotion objectives:

1. To obtain more sales revenue or increase market share.
2. To increase the size of target market.
3. To ensure and build good experience of consumers with the product.
4. To deliver extra value from the product and build brand franchise.

Reactive sales promotion objectives are formulated when unfavorable market conditions crop up due to competition or more inventories etc.

Important sales promotion objectives are as under:

1. To lead to higher sales
2. Achieve sales of slow moving product at faster rate
3. Smoother out fluctuations in sales
4. Add new customers
5. Encourage repeat purchase
6. Reduce stocked product inventories
7. Motivate dealers to stock the products

8. To obtain better shelf space
9. To encourage dealers to take part in display and sales competitions.
10. To make better relationship with dealers.
11. To counter competitor moves.
12. To motivate sales personnel
13. To add to other promotional efforts like advertising and personnel selling
14. To divert consumers attention from price.

### 22.3 Advantages of Sales Promotion

Sales promotions prove advantageous to manufacturers, traders and consumers for manufacturers it is possible to use variable price strategy for different consumers and trade people based upon their price sensitivity by using sales promotion. Such sales promotion techniques include coupons, special sales events, discounts, clearance sale etc. Sales promotion techniques are offered for short time duration. This necessitates consumers to make purchase without comparison with other products. This necessitates dealers to make a forward buy ensuring fall stock with retailers. With higher stock with dealers, they make use of advertisements in local media leading to more customers and increasing stock traffic. Sales promotion techniques motivate consumers to buy products of new brands and upon satisfaction become loyal users and indulge in repeat buying.

### 22.4 Disadvantages of Sales Promotion

Sales promotion techniques motivate consumers to purchase products of new brands. This specifically applies to low priced, less differentiated low involvement products. With brand switching phenomena all the efforts and money put by the company to build brand image get reduced. It causes delay in purchase due to increased price sensitivity. Consumers wait for announcement of various promotional schemes. It gives wrong inference about poor quality of product. In this competitive world, companies are compelled to announce sales promotion schemes. Forward buying by dealers leads to diversion of stocks in non deal areas. They then resort to selling more stock items in non deal areas at prices less then list price thus impairing company's price discrimination policy. Sales promotion schemes have short term orientation which impairs the long term policy of company.

#### 22.4.1 Classification of sales promotion techniques

Based upon the segment to when it is targeted, sales promotions are classified into consumers, trade and sales people sales promotion schemes.

**Table 22.1 Classification of sales promotion schemes**

| Consumer sales promotion Techniques | Trade sales promotion techniques | Sales people sales promotion techniques |
|---|---|---|
| Price discount (Rupees off deals)<br>Rebates (Refunds) | Off invoice allowance<br>Free goods<br>Buying allowance | Sales Contest<br>Incentives |

| | | |
|---|---|---|
| Price pack deal (bonus back)<br>Coupons<br>Continuity programme<br>Contest and sweepstakes<br>Sample<br>Pop display<br>Premiums<br>Free service camp<br>Free Trials<br>Exchange offer<br>Product Warranties<br>Low interest Financing | Dating<br>Cash rebates<br>Display and advertising allowance<br>Trade Coupons<br>Buy back allowance<br>Dealer listing<br>Count and recount allowance<br>Bill back allowance<br>Dealers loaders<br>Slotting allowance<br>Sales contest | Awards and Prizes<br>Premium (gifts)<br>Sales Meetings<br>Training<br>Sales Manuals |

**Table 22.2 Important sales promotion techniques**

| Sales Promotion | Description | Objectives | Relevant Example |
|---|---|---|---|
| Quantity Deals | Without increasing the price or with minimum increase in price, more quantity is offered of the same product | To lengthen consumption period, induce consumers to buy larger quantity packs, transfer larger quantity from company to market | Washing powder ' Wheel' manufacturer provide 10% extra on same price. |
| Price Deal | Offer the product at less then normal list price during deal period only | To motivate consumers to purchase a new product, encourage quick sales, counter competitors policy. | Some of the big electronic goods stores sell some branded electronic goods at less than normal list price. |
| Coupons | It is a certificate that give right to consumers to get stated saving or get some specified thing free on part payment | To encourage product trial reward loyal consumers promote longer usage, give new product, in the market, solicit enquiries | 'Big Bazar' provide coupons on exchange of old cloths in buying new garments. |
| Discounts | Special discounts (other than normal cash discounts to trade) | To push more stock for sale, to obtain immediate or early cash revenue from trade | 'Dove' shampoo manufacturer provides 'conditioner' with it as free for increasing its sale. |

| | | | |
|---|---|---|---|
| Trading Stamps | This are attached with the purchase item. When this stamps are accumulated in specified numbers, they are exchanged for product or services | To develop consumer loyalty to reward consumers, to effect repeat buying, to keep away competitors. | Marvel yellow tea-Bowl (Plastic Container) on giving coupons. |
| Refund or rebate offers | It involves providing some money back to the consumer which consumer has paid on submitting proof of purchase of the said product | To motivate primary users to try a product, encourage brand switching, encouraging dealers to stock more arrange displays at retailer's store. | RCM (Right Concept Marketing) or Amway give some cash in return on its product after sometime. |
| Package Premium | A gift product is packed inside the package of the product | Good method to supply samples of a new or related product to stimulate trials. | Arun ice-cream (In Tamil Naidu) offer toys inside the ice-scream packs. |
| Premium | A Premium (gift) is a reward provided to consumer for a specific action (Generally purchasing a product). These are given at low cost or as free. The main product and premium product may or may not be related in use. | To encourage purchase of a product/ service, develop loyalty, promote products in off season encourage consumers to try a new product. | Dell offer USB, head phones or holiday trips on purchasing laptop, PCs etc. |
| Banded Premium | Premium article is banded to the package of the product with suitable material like rubber band, tape, adhesive etc. | Good method to supply samples of a new or related product to stimulate trials | *Haldiram* offers Biscuit packets attached with its *Namkeen* packs. |
| Over the counter Premium | A bulky premium which cannot be packed inside or banded to the promoted product is given to the consumer over the counter. | To effect reduction in inventory at trade level. To counter competition. | Bournvita provide Badminton racket. |
| Container Premium | Product is supplied in a attractive and reusable container. | Act as a long time reminder at consumers home. | Surf excel packet is provided in plastic bucket that can be used for various purposes. |

| | | | |
|---|---|---|---|
| Self liquidating premium | Consumer is asked to pay a specified amount to claim and offset part or full cost of the premium of scheme administration cost. | To strengthen brand image, motivate retailers to organize displays, given as a reward to present user, increase consumption, act as a regular and pleasant reminder. | |
| Free in mail premium | On sending proof of purchase or doing repeat purchases, the premium article will be sent to consumers home through mail. | To ensure consumers to remain brand loyal, lead to more usage, improves attracting power of advertisements. | |
| Sampling | Free sample given to the consumer. | To stimulate initial product trial and allow the consumers have experience. If the consumer is satisfied chances of purchases increase. | *Amul* when it launched 'Bindas' chocolate it was given to students of a particular school as free sample for testing. |
| Consumer contests, sweepstakes | Competition is arranged for consumers based upon their general knowledge, skills, creativity. In sweepstakes reward is obtained based upon chance or luck. | To generate interest or excitement in customers, create brand awareness, encourage brand purchase increases customers visit at retailers, encourage purchase of more than one product from the store, receive consumer feedback, Attract new consumers. | Airtel conduct quiz by sending questions as SMS to consumer and giving talktime, prizes etc. |
| Dealer sales contests | Competition is arranged among dealers with respect to sales performance and winners are given trophy shield, holiday tour package etc. | To build dealer loyalty, encourage dealers to sell more. | Uninor gives holiday tour package to dealer which sale the maximum sim card. |
| Push money | Amount given to sales people to push additionally a particular product or product line. | To motivate sales people to sell more. | 'Pure it' water purifier gives additional money to sales person. |
| Dealer Gifts | Providing gifts to | To build better | LG (life's Goods) |

| | | | |
|---|---|---|---|
| | dealer for their personal use. | relations with dealers and obtain dealer co-operation on consumer schemes. | provide gift to its dealer i.e. bikes, Television for their personal uses. |
| Demonstration | Arranging product demonstration to make consumers aware about new products, its benefits and performance. | To satisfy consumers, encourage dealers, increase store traffic, strengthen advertising and personnel selling moves. | Honda CB twister, when it was launched demonstration was given on mini trucks specifying its performance. |
| Merchandise deals (11 for 10) | On purchase of a specific quantity of product, one more unit of the same product or another product of same manufacturer is given | To move inventory, show case other products of the same manufacturer, motivate dealers to sell more and earn more. | Dettol soap: Buy 3 get 1 free. |
| Trade allowance | Temporary reductions in price or paying back the expenses incurred by dealers partially or fully. | Application of push strategy. | Home Shop 18 provide products at reasonable price. |
| Buying allowance | Price reduction is given on purchase of a specified quantity of product | To stock more products with dealers. | Godrej No. 1 shop offers a pack of 4 shops at low price. |
| Buy back allowance | On purchase of additional unit over and above the agreed deal by the traders secondary incentive in the firm of money is given to such traders. | To increase sale of promoted product. | Amway incentivized the traders to cross the target. |
| Merchandise or display allowance | Allowance provided to trade for organizing desired display and merchandising effort. | To generate enthusiasm among, traders so as to promote company's product. | Marutisuzaki provide allowance to traders for advertising. |
| Count and recount | Based upon sales of a specified number of units, specific amount of money is given. | Provide reward to dealers to sell the stocks at faster rate. | LIC (Life insurance Corporation Limited) Provide specific amount of money to agents on sale of its insurance policy. |
| Trade fair and exhibition | Demonstration of costly industrial | Consumers and prospective buyers | Auto expo in *Pragati Maidan* New Delhi, |

| | | | |
|---|---|---|---|
| | items. | visit such fairs and purchase is made. | wherein auto manufacturers demonstrates their new launches (new cars). |
| Co-operative advertising and promotion allowance | Manufacturers and dealers jointly share advertising and promotion expenses at agreed terms. | Encourage dealers to advertise manufacturers' goods in local media. | |

# Lesson 23

# PERSONNEL SELLING

## 23.1 Introduction

Personnel selling are a two-way communication process of promotional mix. The history of personnel selling is as old as human civilization. All the countries have witnessed the use and growth of salesmanship / personnel selling. In India, '*pheri wallas*' carried goods (mostly clothes) on bicycles and moved from one place to another to sell the goods. In present times the method of personnel selling has seen many changes in terms of practice, strategy and adoption of technology. Earlier salesmen were regarded as an order taker or information provider. But now he is looked upon as a customer consultant.

## 23.2 Significance of Personnel Selling

For business to business marketing, personnel selling are perhaps the most preferred method of promotion as it provides opportunity to the companies to match their products to the needs of consumers. This is useful in products which require explanation / understanding to be given to consumers for using the product / appliance. In personal selling, the salesman is assumed to be representing the company. He is considered to be company itself. The capability of salesmen to satisfy the consumer determines the success or failure of business transaction. This necessitate that salesman is skilled, knowledgeable, able to solve consumers doubts. In today’s internet era, personnel selling method gives company to prove that it is a customer oriented company.

## 23.3 Types of Personnel Selling

### 23.3.1 Order takers

They are of two types: Outside order takers and inside order takers. The outside order taker makes sales call and takes order from the consumers. They do not deliver products to the customers. The insider order taker may act as either retail sales assistant or delivery sales people. As retail sales assistant, they simply complete the sale transaction by receiving cash from consumer and providing goods to them. They do not assist consumers in making their choice. Such retail sales assistants are employed in big super stores. Delivery sales people deliver the product at customers’ house. They do not actually influence the choice of consumers but the way in which they provide their service / delivery decides the future of business transactions.

### 23.3.2 Order creators

These are sales people who do not actually sale any product but convince the experts to recommend the use of their product to consumers. For example the medical representatives do not sell the medicines / drugs but convince the doctors to recommend their medicines.

### 23.3.3 Order getters

They convince the consumers to buy the product. It includes the new business sales people, organizational sales people, consumer sales people, technical support sales people and merchandisers. The new business sales people always try to sale the products to non users or new users. Organizational sales people build strong relationship with institutions. They sell the product to institutions undertaking a team effort so as to convince different departmental head of the organization. The consumer sales people move from house to house and sell company's product. The technical support sales people work along with main front lines sales people to solve the technically complex problems. Merchandisers give assistance / advice in retail and wholesale distribution with respect to display.

## 23.4 Activities of Personnel Selling

A typical selling approach consists of following sequential steps:

*Prospecting:* This is the first step of any personnel selling approach. At this stage search for potential consumers is done.

*Targeting:* This involves time allocation between prospects and existing consumers.

*Communication and approach:* At this stages sales person meet the consumer and engage in communication and make approach for the sale.

*Presentation and demonstration:* At this stage sales person delivers a sales presentation highlighting features, advantages, method to use the product / appliance if required, and showcase all those aspects required for the satisfaction of the consumers.

*Handling objections:* Consumers may raise some issues related with price, quality, comparison with competitor's product etc. The salespersons quality solve all such queries of the consumers.

*Closing:* This is the most important stage of affecting the sale and closing the sale after classifying all the doubts of the consumers.

*Follow up and maintenance:* Under this step, the sales person make a follow up visit, enquire whether consumer is facing any problem with the product? Carryout necessary maintenance if required etc. This step ensures customer satisfaction and lead to repeat sales transaction.

## 23.5 Determining the Number of Sales Persons

Determining number of sales persons to be kept by the organization is a complex process. There is no single method to arrive at this number. The organization operates in dynamic environment. These dynamic environments pose a challenge to maintain a fixed number of salesperson. The factors determining the number of sales person are the nature of work to be carried out by salesperson, such as paper work, demonstrations, time etc, and the type of customers to be contacted i.e. new or existing one. Following methods are used by the organizations to arrive at appropriate number of sales person:

### 23.5.1 Workload method

In this method the time estimate is used. The time required to make a sales by sales person is calculated. The other time such as that of travel, waiting time and break is also found out. Total working time available with a sales person is found out. The consumers are then divided into different segments like large, medium, small, new, growing, established etc. Based upon such estimates, the time of call for different type of customers is calculated and dividing it by total time available to meet this calls will give number of sales persons required. This method does not take into account the differences in capabilities of each salesperson. This factor may give rise to erroneous results.

### 23.5.2 Sales potential method

This method uses two different factors, one the sales forecast and the other productivity of salesperson. Using both this factors, firm is able to arrive at approximate number.

### 23.5.3 Increment method

This is based on the principle that while employing new sales person and upon calculating its cost of employing and revenue generated by him, if revenue generated is more than the cost incurred then salesperson should be employed otherwise not.

# Lesson 24
# PUBLICITY

## 24.1 Introduction

Publicity is a non-personnel stimulation of demand for a product, service or institution (firm) by giving important and useful news about it in a published medium or clinching nice presentation about it on radio, television or stage which is not paid by the concerned institution.

## 24.2 Important Characteristics or Features

Non-personnel / mass media: Publicity reaches many people simultaneously with the use of mass media such as new papers, magazines, radio, television etc.

Important and useful news: When some important and useful news about product or institution is available, the mass media intends to communicate such items free of cost. Moreover such news items are considered to have high credibility as they are issued by the media instead of advertiser.

*Sponsorless:* The information published by media has no sponsors and are unsigned.

*Paymentless:* As the information is not published by the institutions, they do not also pay for it. Function: Publicity may carry out the function of creating a favourable image about the product or institution there by increasing the demand.

## 24.3 Role of Publicity

In the present competitive scenario, the concept of publicity has given way to Marketing Public Relations (MPR). Publicity played the role of obtaining editorial space (free space) instead of paid space in print and broadcast media so as to promote a product, service, idea, location, individual or an institution. The new form of publicity i.e. 'MPR' is broader in use and carryout following roles:

1. New Product launching
2. Mature product repositioning
3. Developing interest in product category
4. Sensitizing target group consumers.
5. Supporting products facing public problems.
6. Developing corporate image so as to favour their product.

## 24.4 Publicity Tools

### 24.4.1 Publication

Annual reports, articles, brochures, institute newsletters, magazines etc are widely used for publicity by the companies so as to reach and make impact on target population.

### 24.4.2 Events

News conferences, outings, seminars, exhibits, tradeshows, anniversaries, contests and competitions are used by companies to draw attention to new product or other company activities.

### 24.4.3 Sponsorships

Sponsoring special events like any sporting events such as cricket or soccer world cup or any cultural event provides opportunity to companies to promote their brand and corporate name.

### 24.4.4 News

This is one of the important tasks carried out under publicity wherein the company tries to finds or develop favorable news about the company, its product and its people and let media accept press release and press conferences.

### 24.4.5 Special service activities

Firm can develop favorable image in the society by donating money and time and perform certain activities for good cause.

#### *24.4.5.1 Speeches*

Management should positively respond to media queries. They should give public speech at trade associations or important sales meeting.

#### *24.4.5.2 Identity symbols*

Firm should possess visual identity marks in the form of company logo, brochures, stationery, business firms, signs, buildings, business cards, uniforms and dress code.

## 24.5 Difference between Advertisement and Publicity

Advertising and publicity are different forms of promotion, with different subject matter, costs and expectations. Some organizations may blur the line between the two, which can cause misunderstandings with the news media and negate organization’s efforts to improve business and its image. Knowing the differences between the two and how to use them as complementary efforts can reap benefits in spreading organizations message.

### 24.5.1 Cost

The organization pay a charge to place an advertisement in a newspaper or magazine, run on a broadcast station, or appear on a website, and organization pay each time its run or clicked. But the organization can schedule when it appears, and run it as many times as it want based upon providing necessary price. For publicity, the organization can send out a press release or stage an event, but it does not pay for any news coverage that results. Any coverage usually runs only once, and the organization don’t control when the coverage will appear. Even the organization can't even guarantee there will be any news coverage unless an editor decides the release or event has legitimate value and interest to readers or viewers. A sale or self-promotion will not pass the editor's muster.

### 24.5.2 Content control

The organization get to control what appears in their advertisement. The organization decides the wording and the design. The subject of the advertisement could be a sale, description of a product or an image-building presentation for the organization. With a press release, the organization may decide on the wording for the release, but an editor will likely rewrite the release before it appears in a news media outlet. Depending on the story, the editor may assign a reporter to do additional interviews for the story. That can be a big plus for a business organization, though the reporter may interview people outside of the business organization for objective viewpoints. The organization doesn't get to see the story before it runs.

### 24.5.3 Style

Advertisement can use 'great,' 'stupendous,' 'best ever' and any other superlative adjectives to describe products or a business organization. But if the business organization is sponsoring a charity or community event, using a 'sponsored by' banner with just the business organizations name can have a stronger positive effect than any blatant promotional message.

### 24.5.4 Going viral

Though media coverage of an event or press release runs only once, it lingers on the Internet for viewers to call up again and view. Press releases that business organizations post on their organizations website can be picked up by bloggers, Facebook users and other reporters digging for stories long after you wrote the release. YouTube videos end up being seen around the world. Publicity has a much better chance than ads for going viral on the Internet. The organization can't control its spread or how their publicity is used, but it can be seen by far more people than any advertisement bought if it strikes the right chord.

### 24.5.5 Creativity

In advertising, the advertisers get to fully exercise their creativity as they create new materials and ad campaigns. Conversely, publicity is limited to how you look for any new information that you can give the media.

### 24.5.6 Consumer effect

When consumers see or read an advertisement, they already know that the organization is attempting to sell them a service or product. However, when someone sees a news article written concerning any organizations product, they are essentially viewing something that an organization did not pay for and thus view it in a different way than they normally do paid advertisements.

## Lesson 25

## STATUS AND PROBLEMS IN MARKETING OF DAIRY PRODUCTS

### 25.1 Introduction

India is the largest milk producing country in the world having 121 million tonnes of milk production in the year 2010-11. In India, per capita availability of milk is 281 gms/day in the year 2010-11. (Source: Department of Animal Husbandry, Dairying & Fisheries, Ministry of Agriculture, GOI). Dairying is considered as a subsidiary occupation along with agriculture in mixed farming system practiced in India. However, now this concept is changing and dairying activity is fetching important independent status as main occupation. With increased milk production in the country, scope of dairy as a small scale enterprise for its processing and product manufacturing has found economic base. Thus, there is still a scope for establishing well planned commercial dairy farms to meet well established growth of organized sector.

Milk is considered as a complete and essential food item even among the poor people. With technological improvement and new research findings in the dairy sector, it is possible to adopt value addition in processed milk and milk products. There is growth of large number of Indian consumers exhibiting definite preference for value added milk & milk products. There is varied demand at low cost but visible demand for quality based products at even premium price showing pathways for prospective dairy entrepreneurs. Table 25.1 given below indicates the utilization pattern and opportunities of selling of milk and milk products in India.

**Table 25.1 Utilization of milk and milk products in India**

| Type of Product | Quantity (%) |
|---|---|
| Fluid Milk | 46.0 |
| Ghee | 27.5 |
| Butter | 6.5 |
| Curd | 7.0 |
| Khoa (Partially Dehydrated Condensed Milk) | 6.5 |
| Milk Powders, including IMF | 3.5 |
| Paneer & Chhana (Cottage Cheese) | 2.0 |
| Others, including Cream, Ice Cream | 1.0 |

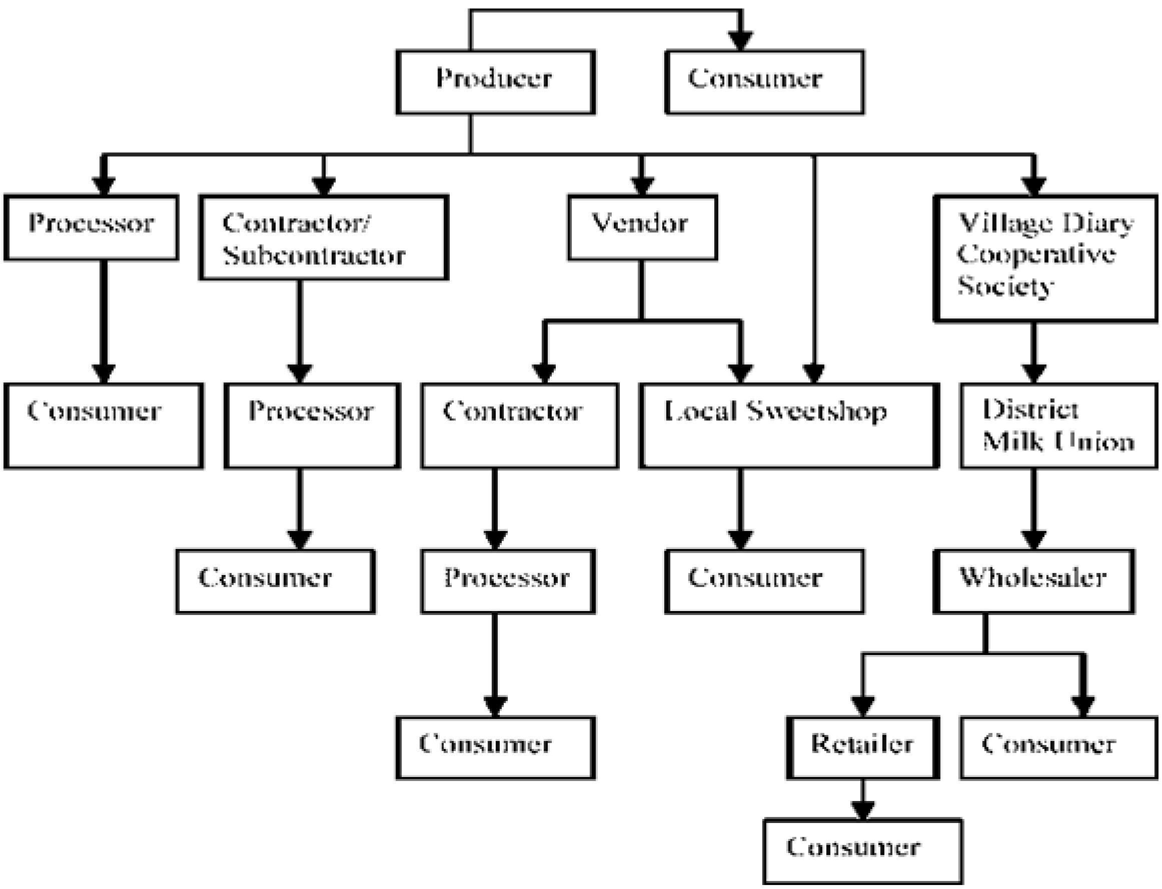
*Source*: business@mapsofindia.com

## 25.2 Present Status

The top dairy players in India are categorized into following groups: (A) Cooperatives: Gujarat Cooperative Milk Marketing Federation (GCMMF), Mother Dairy, Visakha Dairy, (B) Multinational: Nestle,(C) Private: Dynamix Dairy, Britannia, Creamline Dairy, (C) Public: Hatsun Agro, Heritage and Metro Dairy (*Source:* Dairy India 2007)

## 25.3 Marketing Network

India is largest milk producing country in the world. In India milk is handled by both organized and unorganized sectors as shown in the figure 25.1.




*Source*: www.fao.org/WAIRDOCS/LEAD/X6170E/ad218e2j.gif

**Fig. 25.1 Milk handling Pattern of organized and unorganized sector**

## 25.4 Problems in Milk and Milk Product Marketing

The milk production and its marketing in India suffer from following main problems.

1. It is scattered throughout India and undertaken by large number of small and marginal milk producers.

2. The quantity (output per annum) and quality of milk is poor.
3. Erratic power supply mostly in villages adversely impacting quality of milk.
4. Seasonal and regional imbalances in milk supply.
5. Lack of incentive and awareness for clean milk production.
6. Tropical climatic conditions of the country.
7. Mal practices adopted by middlemen particularly in unorganized sector.

## 25.5 Opportunities in Milk and Milk Product Marketing

Following factors are influencing the food habits and market profile in India:

### 25.5.1 Growing urbanization and rise in purchasing power

India witnesses growth of urban centers. People move from rural to urban areas. The population of all cities is increasing. Along with this, income of people has also increased. With the rise in income, there is more disposable income and there is higher demand for more variety in value added food products. There is also decline in demand for tinned and dried milk powders and rise in demand of packaged, fresh dairy products.

### 25.5.2 Health consciousness

**Consumers have become health conscious and demand health benefits in their food products. Dairy Products have a positive image and considered to possess quality and health benefits. There is growth in demand for probiotic dairy products such as ice cream, lassi etc.** Human health consciousness is at an all time high and growing. This has given birth to many industries benefiting the health conscious consumer. The desire to look and feel younger has been, to a large part, been driven by the rise in life expectancy rates. The longer we live, the more we want to stay young as long as possible. One testament to our allegiance to healthier lifestyles is the growth in the number of health spas and retreats. Interestingly, the strongest growing segment in the spa industry is the medical spa market. These types of spas combine medical procedures with healthy alternatives, such as Swedish massages. In fact, many medical centers have now begun to offer alternative therapies by including acupuncture and spa treatments within their complex. Even the media has recognized this trend growth and targeted more broadcasts for the health conscious audience. There are now shows on television that demonstrate medical procedures and advise on healthy alternatives. Its almost as if you are not health conscious, then you might as well be an uneducated derelict. All this awareness has driven our psyche in search of our youth.

### 25.5.3 Life style changes

People now prefer to spend some of their money by going out from home and taking meals outside in restaurants and other dining halls. This has given rise to a fast food industry. The growth of fast food sector has also benefitted the dairy products like ice cream, milk shakes, cheese etc which are listed in fast food menus.

### 25.5.4 Scope of organized dairying

In India, milk production is scattered in large number of villages in small quantity of two to four liters by milch animals. The approximate contribution of buffalo, cow and goat milk is 54, 43 and 3 percent respectively in India's total milk production. The unorganized sector comprises of numerous small and /or seasonal milk producers/trader (popularly known as halwais) that are not registered under Milk and Milk product order (MMPO). They are involved in selling raw liquid milk, boiled liquid milk as well as selling mainly traditional milk products, usually at the local levels, but have a major share in these milk products. There are no official records on number of such unorganized dairy units. The organized dairy sector procures around 30% of the marketable surplus i.e. around 15 % of the national milk production, while the unorganized sector handles about 70 % of the marketable milk. Thus there is a huge scope for organized dairying in India.

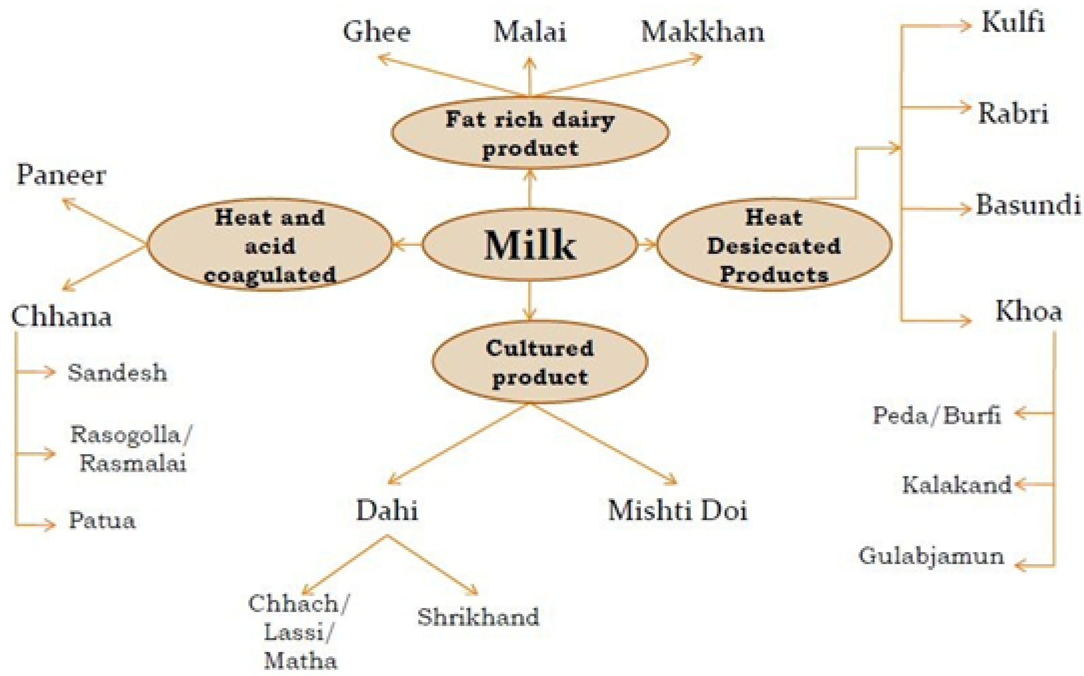
### 25.5.5 Expanding market for traditional dairy products.

The Khoa, Chhanna and Chakka are intermediate products for manufacture of most of the ethnic products. A very large part of country's milk production is converted into these products but the organized dairy industry has not taken adequate initiatives to be a part of this huge market.

Two major interventions are required to integrate the organized dairy sector to become an integral part of supply chain for traditional milk products. Firstly, the organized dairy sector undertakes the manufacture of intermediate products on a large scale to supply to the unorganized sector for conversion into variety of ethnic products as per regional preferences of the consumers.

Such reconfiguration of the supply chain will not only require introduction of technology for their large scale manufacture but also a second intervention in terms of a business model to expand the demand of traditional products in future and upscale their quality standards.

The major traditional dairy products are shown in the figure 25.2




*Source:* National conference on "Processed Food and Beverages for Health: Beyond Basic Nutrition" April-2011

**Fig 25.2 Major Traditional Dairy Products**

## Lesson 26

## SALIENT FEATURES OF INTERNATIONAL MARKETING

### 26.1 Definition of International Marketing

International marketing is defined as the multinational process of planning and executing the conception, pricing, promotion and distribution of ideas, goods and services to create exchanges that satisfy individual and organizational objective.

*Cateora* defines international marketing as the performance of business activities designed to plan, price, promote and direct the flow of company's goods and services to consumers or users in more than one nation for a profit. International marketing takes place when marketing/trade is carried out 'across the border' or between more than one nation. International marketing is all about identifying and satisfying global customers needs better than the competitors, both domestic and international and co-ordinating marketing activities within the constraints of global environment.

Thus, international marketing would involve

a) Identifying needs and wants of customers in international markets.

b) Taking marketing mix decisions related to product, pricing, distribution and communication, considering diverse consumers and market behaviour across different nations of the world on one hand and firms goals towards globalization on the other hand.

c) Entering into international markets through moves.

d) Taking marketing decisions considering dynamic international environment.

### 26.2 General Reasons for entering International Market

1. **Growth on saturation of domestic market:** In order to find out other marketing opportunities elsewhere, firms enter international market.
2. **To earn more profit:** There exists difference in price for a product in different markets. Due to stiff competition in local market, firms profit gets reduced. In such situation exporters benefits owing to more profit margin in foreign/international market in price. Differences in price and enhanced profits in the international market are chief reasons for exporting.
3. **Decreasing the risk:** If a firm is restricting its marketing activities to home country only then it is prone to economic upheavals. International markets decreases dependence on domestic home market and reduces risk associated with market failure.

4. **Availing imported inputs:** Government provides incentive schemes that leads to duty exemption or remission on import of inputs for export production such as advance licensing, duty drawbacks, duty exemption, export promotion, capital goods scheme etc. such provisions helps the firm in obtaining imported items and technical know how to improve their current operations and become more competitive.
5. **Product characteristics:** Each product passes through product lifecycle stages. When a product enters in to decline stage in a particular market, a firm may decide to introduce it in new international market. At the same time some unique products e.g. Ayurvedic medicines may be appropriate for specific international markets.

### 26.2.1 Advantages of international marketing

#### *26.2.1.1 Sustenance of business*

A country does not have all the resources required for its citizens. All countries do not have a sufficient domestic market size. Thus in order to survive, it is necessary that firms expand their activities beyond their home country.

#### *26.2.1.2 Expansion of business*

International marketing provides opportunities for expansion and growth of the business. Many of the developing countries are highly populated. They represent huge market which provides growth opportunities for many firms.

#### *26.2.1.3 Continuity of business*

There are many seasonal products. Their sale is fluctuating according to season. Throughout the world, there is no uniformity of season. This helps the firms to continuously sell their products e.g. a multinational soft drink company of western world may face decrease in sale in winter season. But at the same time it is possible to have sale in Asian countries.

### 26.2.2 Stages of internationalization

#### *26.2.2.1 Domestic sale*

The firms in the beginning rely on domestic sale. They do not pay attention to changes in international marketing environment. This approach is referred to as ethnocentric concept; predisposition of a firm is predominantly concerned with viability and legitimacy only in its home country. This makes them vulnerable to charges forced upon them by foreign companies.

#### *26.2.2.2 Export marketing*

Here a firm catering to only domestic market receives demand of their products from foreign markets. The firm fulfills this demand and then later on tries to get repeat orders. At this stage due to lack of experience, the firm takes the help of intermediary (trading firm) and carry on the business which is generally referred to as indirect export. With due course of time as the firm gets the necessary experience of international marketing, it enters into direct export eliminating intermediary. At this stage it still retains the ethnocentric orientation.

#### *26.2.2.3 International marketing*

With passage of time, firm adopts polycentric orientation. Polycentric orientation is defined as predisposition of a firm to the existence of significant cultural differences among different markets. The firm adopting polycentric orientation visualizes these differences across the market and responds to it with appropriate market specific strategies. Under international marketing, a stage of multi domestic marketing is reached wherein all foreign subsidiaries operating in different countries adopt totally different independent strategies without direct appropriate control from mother country/head quarters. Here it is difficult to achieve economics of sale and hence multi domestic orientation is preferred only when higher diversity is there among different markets which call for separate independent marketing strategy.

#### *26.2.2.4 Multinational marketing*

When a firm tries to consolidate its activities on regional basis to gain advantage of economies of scale in manufacturing and marketing, its policy is referred to as multinational marketing. Here marketing mix decisions are standardized within the region but not across the region.

#### *26.2.2.5 Global marketing*

The firm operating in multinational markets may adopt the policy of single marketing methods across the international markets with limited changes. Such a move gives cost efficiencies by eliminating duplication of marketing efforts among the national and regional subsidiaries. Here there will be improved linkages among national marketing infrastructures leading to the development of a global marketing infrastructure which gives rise to global customers that gives opportunity for easy dissemination of products, brands and other ideas across subsidiaries.

#### *26.2.2.6 Glocal marketing*

Obtaining greater market share leading to profit is more critical for a firm than achieving economies of scale. Thus, global marketing firm cannot underestimate the local expectations and finer marketing nuances. It is required to give more attention to local customers. This gives rise to global marketing which indicates policy of global marketing with local focus. Although it increases marketing complexity for the firm but at the same time the firm is able to fulfill customer expectations more competitively and achieve higher market share.

The marketing complexity with each stage of international marketing is depicted in Fig. 26.1

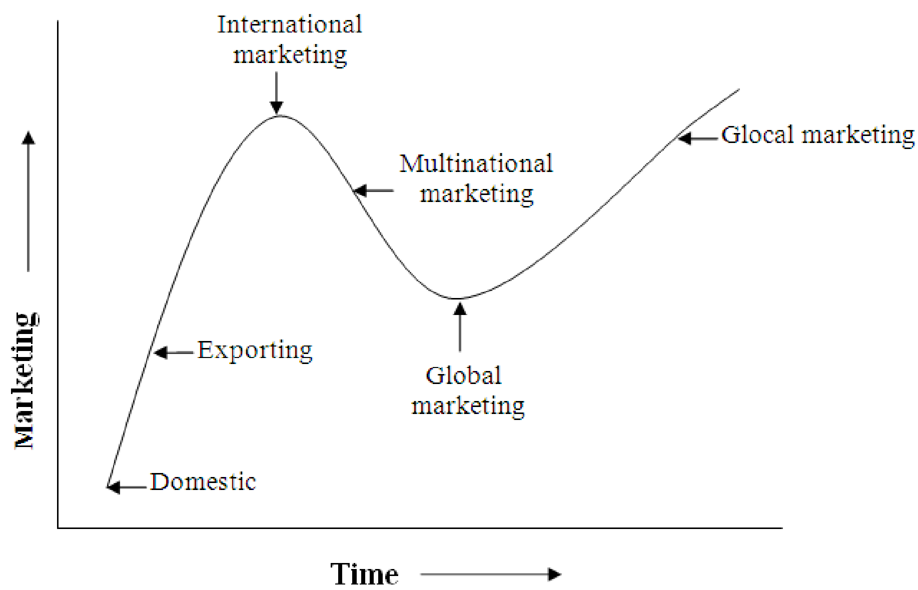



**Fig. 26.1 Marketing Comlexity**

**Table 26.1 Marketing orientation during stages of internationalization**

| Activity | Domestic Marketing | Export Marketing | International Marketing | Multinational marketing | Global Marketing |
|---|---|---|---|---|---|
| **Marketing focus** | Domestic | Overseas (targeting and entering foreign markets) | Differentiation in country markets by way of developing or acquiring new brands | Consolidation of operations on regional basis. Gain from economies of scale | Consolidating firms operations on global basis. |
| **Orientation** | Ethnocentric | Ethnocentric | Polycentric | Regiocentric | Geocentric |
| **Marketing mix decision** | Focused on domestic customers | 1. Focused mainly on domestic customers. 2. Overseas marketing; generally an extension of domestic marketing. | 1. Developing local products depending upon country needs. 2. Decisions by individual subsidiaries. | 1. Product standardization within region but not across them. | Globalization of marketing mix decision with local variations. Joint decision making across firms global operations. |

| | | | | | |
|---|---|---|---|---|---|
| | | 3. Decisions made at head quarter. | | | |

**Lesson 27**

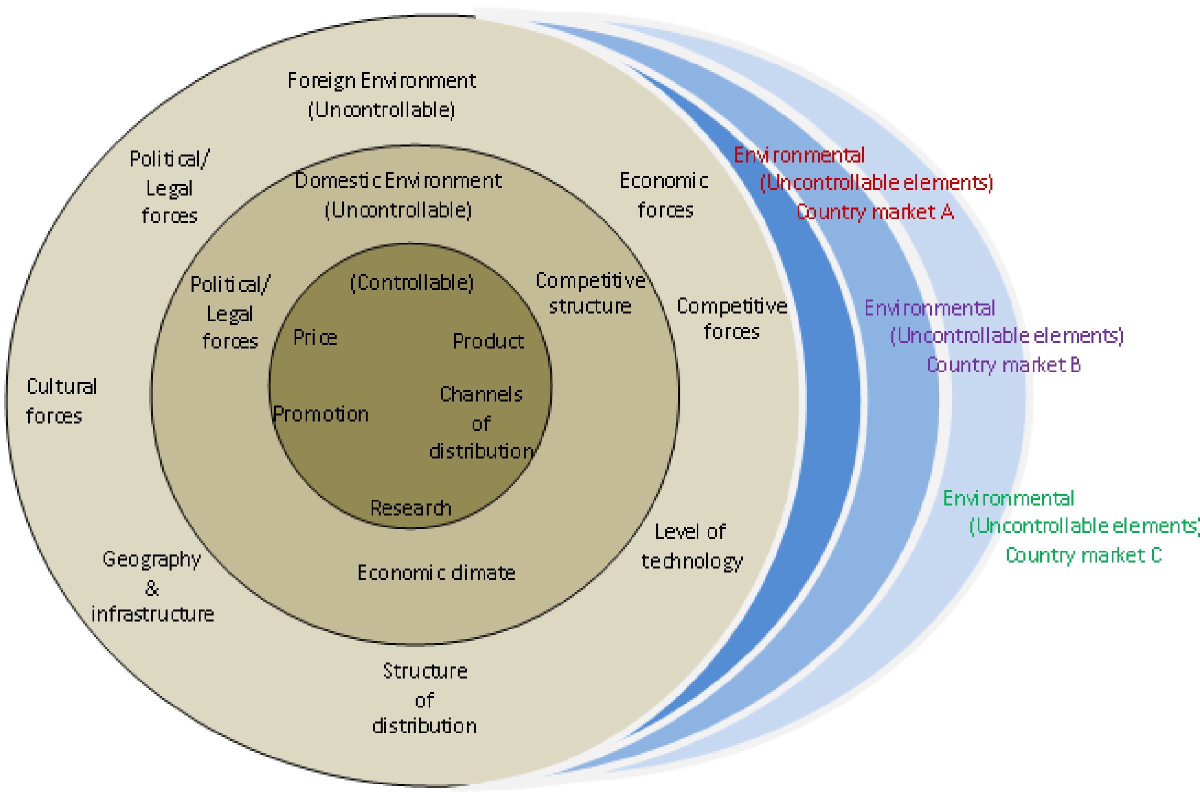
# INTERNATIONAL MARKETING ENVIRONMENT

## 27.1 Introduction:

Today most business activities have a global scope. Technologies, capital investment, research, production, marketin distribution, communication networks etc all have global dimensions. Every business must be prepared to compete an increasingly interdependent global economic and physical environment and all business houses must be aware the effects of these trends when managing a domestic company.

## 27.2 International Marketing Environment:

The important elements of international marketing environment are depicted in fig. 1.1




*Source*: International marketing by cateora Graham, Tata McGraw – hill Edition (2005).

**Fig 27.1**

Even though many of the trade barriers are not appropriate, but they still play important role in internation marketing. Although World Trade Organization (WTO) has tried to reduce many of these barriers, they do exist. Sin an international marketer has no control over these wide ranging factors, it is better to understand and adopt the wisely.

The political environment of different nations varies widely. From political view point, it may be democratic dictatorship, monarchy etc. from economic view point; it may be communalism, socialism and capitalism. For international marketer, political environment is complex and difficult as a result of interaction of domestic, foreign ar international politics. If the host and home country are adopting different ideology/system, their conflicting politi may become hindrance in smooth conduct of business. Due to diversity in political and economic systems, varyi philosophies are adopted by governments of nations across the world. At times the political motives over shadow th economic logic. This leads to creation of expropriation, nationalization and restrictions against exports or impor Decisions in international marketing are depended upon political considerations also. Firm has to adopt polici conducive to host countries, political ideology also prepare contingency plans for adverse eventualities. It is necessa for home country to adopt suitable policies like employing citizens of host country, sharing business ownership wi local firms, and be civic oriented. At the same time, to protect their company's economic interest, should rema politically neutral, quietly lobby for their mission. Thus, political environment for international marketing considered as an obstacle by some companies, where as others view it as a challenge.

Just like political environment, legal environment is also complex and dynamic, as different countries claim ov business operations. New obstacles and opportunities are created due to interaction between domestic, foreign ar international legal environment. At times the circumstances so arise that a multinational company is pressurized l two different government governments in opposing directions.

There also exist cultural differences among nations which are very critical for international marketers. Cultu prescribes beliefs, traditions, customs and values which are socially shared. Culture is subjective, cumulativ enduring yet dynamic. Although some cultural traits are common, many others are unique and vary across the nation cultural differences even exist within a country also. It is necessary for international marketer, not to misinterpret t other country's culture. As marketing occurs within a given culture, a firm marketing plan takes on meaning or it appropriate only when it is relevant to that culture. An international marketing firm will succeed if it tries to walk the other person's shoes in order to understand more clearly that persons concern and ideas.

## 27.3 Impact of international Marketing Environment Factors

### 27.3.1 Aspects of domestic environment

A political decision involving domestic foreign policy can have both positive and negative effect on organizatio international marketing success. For example imposing and lifting of ban on export of skim milk powder by Indi government have positive and negative effects on cooperative dairy plants and consequently affecting milk produce The domestic economic climate is an important home based unaccountable factor which has a far reaching effect organizations competitive position in international market. The investment capacity of the organization in plants ar facilities either in foreign or domestic markets, is influenced greatly by domestic economic vitality. If intern economic conditions worsen then restriction might be imposed on investment and purchasing in foreign markets so to strengthen the domestic economy. Competition within the home country also necessitates the international market to alter their activities. For example once upon a time Bajaj Company enjoyed a very good position in two and thr wheel automobile segment in India. It could depend on achieving profit goals that provided capital to invest in forei markets. Without worrying about the company's lucrative base, management has time and resources to devi aggressive international marketing programmes. However the competitive structure changed with entry of many oth competitors like TVS Suzuki, Hero Honda, etc. As a result, Bajaj had to direct energy and resources back to India.

### 27.3.2 Aspects of foreign environment

Along with uncontrollable domestic environment factors, a significant source of uncertainty is imposed by forei uncontrollable environmental factors. An organization having business transactions in foreign countries might fi differences in political stability, class structure and economic climate. The important factors in the uncontrollab international environment include: political/ legal forces, economic forces, competitive forces, level of technolog and structure of distribution, cultural forces, geography and infrastructure. Vast differences exist with regard to lev of technology between developed, developing and under developed countries. In underdeveloped countries, technic expertise might not be available at appropriate level for product support. In general, population also may not posse adequate technical knowledge for proper maintenance of equipment. This necessitates providing special training local people or the company has to provide such support.

A business organization faces political and legal issues while operating both at home and in foreign country. Whi operating in a foreign country, these factors have more profound effect due to alien status of the company. T dimensions of alien status for a home country include (i) foreigners controls the business (ii) The culture of the ho country is alien to management.

The alien status of business implies that when viewed as an outsider, it can be considered as an exploiter and thus m receive unfair or prejudiced treatment by the government authorities. For example Indian Government gave coc cola, the choice of either reveling its secret formula or leave the country. At that time coca-cola chose to leave. Seve years later, it was welcomed again but it faced continued interference and harassment from various political activiti inspired by local competitors.

The most challenging and important task confronting international marketers are the task of cultural adjustment. It necessary to adjust marketing efforts by international marketer’s to culture of domestic country in which they want do business. For example western culture uses white for bridal gowns, whereas white is a symbol of mourning many Asian countries. Cross culture misunderstanding might also occur by a simple hand gesture which has differe meaning across the world. For example to signify something is ok, people in USA raise a hand and make a circle wi a thumb and forefinger. But the same gesture implies money to Japanese and zero to French. Eating habits very acro the countries. In general, there are more vegetarians in India than non vegetarians. There are also very stri vegetarians. Eating habits of Jains is also different as they even do not take onions, garlic etc. in foods. Such a cultu difference necessitated Macdonald’s to revise their food offering policy for India.

Conclusion: The internationalization of business is proceeding at a fast pace. The globalization of markets a competition demand that manager must pay attention to the global environment. The international marketing task made more daunting because environmental factor such as laws, customs and culture vary from country to count These environmental differences must be taken into account if the firm are to market products and services in oth countries and earn profit.

## Lesson 28

## INTERNATIONAL MARKET ENTRY STRATEGIES

### 28.1 Introduction

When a domestic company decides to do international business, it must decide a best mode of entry. The major entry modes are indirect exporting, direct exporting, licensing, joint ventures, and direct investment. This chapter describes various international market entry modes.

### 28.2 International Market Entry

Doing business in many nations is a strategic decision. It has long term financial and structural implications. It requires careful analysis of different market entry options available to a firm. Selection of the mode depends upon the ability and willingness of firm to allocate resources, the level of control desired over the international operations by the firm and the level of risk firm is willing to take.

#### 28.2.1 International market entry module

International market entry is carried out first by home production and than by other country production through various modes as described in this section.

#### *28.2.1.1 Home production*

This implies that goods and services are produced in home country and sold to overseas market. This is the most simple and common international market entry mode. It involves lower risk and less allocation of resources. This is adopted by following mechanisms.

*a) Exports*

Bilkey and Tesar have identified following stages in export marketing.

| | |
|---|---|
| Stage 1 | Firm is not in exporting; ignores unsolicited |
| Stage 2 | Firm supplies unsolicited business; does not examine feasibility of active exporting. |
| Stage 3 | Firm actively examines the feasibility of exporting |
| Stage 4 | Firm exports on experimental basis to a country of close business distance. |
| Stage 5 | Firm becomes an experienced exporter to that country. |
| Stage 6 | Firm explores feasibility of exporting to countries with greater |

| | |
|---|---|
| | business distance. |

*b) Indirect exports*

It is the process of selling products to an export intermediary in the firm's home country, who would then sell it in foreign markets. This mode is suitable for a firm which has limited experience of exposure to overseas markets and has less resource for investment in export development. This can be carried out by (i) Selling to a foreign firm or buying agent in home country (ii) Exporting through a merchant intermediary (export house/ trading house). The trading house carry out following functions: Selection of market and conducting market research, identifying the customers and evaluating them, performing negotiations of commercial or technical nature, developing the vendors, product/packaging adoption and technology up gradation, imports of items required for export production, arrangement of finances, counter trading, ensuring protection against export through insurance, carry out export documentation and shipping, provide timely payments, deals with claims, provide after sale service, ensure spare part availability, great distribution network abroad, develop and maintain special relations with government.

As large number of functions is being carried out by export houses, it provides following benefits to firms adopting international marketing.

- It provides best option for firms having limited resources to enter into international market.
- As export house obtain shipment from many firms, it is possible for to get competitive price for exports and reduced operational cost which can be carried to firms in the form of discounted prices.
- Risks associated with exports like commercial, transport and credit risk is borne by export house.
- Due to consolidated shipment, they have better negotiating power.
- As many marketing activities are carried out by export house, it results into saving in financial and operational resources of firm.

*c) Direct export*

Here all the activities which are carried out by export house/trading house in case of indirect export are carried out by firm itself. This is carried out by foreign based independent market intermediaries (agents and distributors). Agents do not take title to goods; assume no risk or responsibility and gets commission according to work. Agent is considered as exporting company in the given market and finds wholesalers and retailers for its products. An overseas distributor is a foreign based merchant who buys the product on his own account and resells them to wholesaler and retailers to earn profit.

I. Advantages of direct export

- Higher profit is realized by exporter due to absence of intermediaries.
- Firm develop in house skills for export operations with passage of time.
- Firm builds its own rapport/ brand image in the foreign market due to direct contact with foreign importers.

II. Disadvantages of direct export

- More allocation of resources
- More risk.

*d) Complimentary exporting (piggy backing)*

Here well established distribution network of a foreign country is used by home country to sell their products in foreign market. The home company/exporting company is referred to as rider and foreign company is referred to as carrier. The carrier may act as an agent on commission base or as an independent distributor which outright buys the product. Complimentary exporting is generally adopted for allied products from unrelated companies that are non competitive.

*Advantages of complimentary exporting*

1. Allows the company to enter into international marketing without developing its own distribution channel.
2. Helps the firm to learn and understand the process of international marketing.
3. For Carrier Company, it helps to broaden the product line.

*Disadvantages of complimentary exports*

1. Carrier may be conscious about uninterrupted supply of products from rider to maintain continuity.
2. Carrier is also conscious about quality and warranty of product.
3. Rider may be conscious about handling over of selling activities to carrier which may not be compatible with firm's long term objectives.

**28.2.2 Other country production**

Exporting as a measure of international marketing is preferable when currency and home country is weak. When home currency becomes strong then it is wise to take it to other countries having weaker currency. The change in production facilities may be effected either by contractual alliances or foreign direct investment.

Contractual entry modes: Company can enter into contractual arrangements so as to have beneficial effect for both the companies. A company having excellent production facilities at home but lacking distribution competencies abroad may enter in to contractual agreement with a company having excellent distribution network in related product. Contractual entry modes may be adopted by following measures.

### *28.2.2.1 Licensing*

Under this mode, two companies enter in to agreement wherein one company allows use of its intellectual property such as trademark, copyright, patent, process technology, design or specific business skills in lieu of agreed royalty payment. The firm which transfers the intellectual property is called licenser and the firm which receives it, is called licensee.

*a) Advantages of licensing*

- It allows fast penetration in international markets specially for technology intensive product and processes.
- It opens up markets having high level of tariff and low tariff barriers.
- It decreases economic and political risks of international marketing and provide opportunity to do business in sensitive markets.
- It helps in reducing duplicate product's market in developing and underdeveloped nations.
- Less cost is incurred for exiting the market.

*b) Disadvantages of licensing*

- The quality of the product is dependent upon licenser. Lack of commitment by licensee may have negative impact on image of the licenser.
- The licenser may be creating potential competitor in the form of licensee.

### *28.2.2.2 Franchising*

This mode is gently adopted for service sector wherein the transfer of intellectual property and other assistance is required for a longer period. The company which provides intellectual property and other assistance is called franchiser and the receiving company is called franchisee.

### *28.2.2.3 Turn-key projects abroad*

Some engineering companies which possess competencies in constructing dams, bridges etc. can obtain international contract and can enter in to international market. For an international market turnkey project, a firm carries out all the activities right from conceptualizing, designing, constructing and carrying out preliminary testing of a prepared structure for a foreign client organization. The various types of turnkey projects are (a) Built and transfer (b) Built, operate and transfer, (c) Built, operate and own. This mode of entry into international market allows companies to take advantage of their core competencies and exploit export opportunities.

***28.2.2.4 Management contracts***

Under this mode a firm enters into contract with foreign company to provide technical and managerial skills/know how for a specific period. This is a low risk, low mode of entry. This mode is specially used in managing hotels, catering services, operation of power plants etc.

*a) Strategic alliance*

When two companies cooperate with each other to achieve common strategic goals but they do not establish a separate company, such a relationship is called strategic alliance. In today's competitive world, majority of the companies are willing to focus on their core competencies, which increases scope for strategic alliance. Strategic alliance reduces individual risk of firms but at times give rise to conflicts due to difference of opinion among companies.

***28.2.2.5 Contract manufacturing***

Under this system, manufacturing operations of an international firm are done at off shore location on contract basis. Under this mode the contracted firm carries out the production activities and the marketing activities are carried out by the main firm. This mode is advantages to many firms as it is not required to invest its resources in manufacturing, which can be done at other locations by contracting firm at reduced cost. Due to low exit cost, it is possible for the main firm to change contracted firm if is necessary to maintain quality of the finished product.

***28.2.2.6 Assembly or mixing in foreign market***

Under this mode a manufacturing firm exports various components of the product in completely knocked down condition and assembles them in foreign country. This helps the firm to eliminate the high cost of shipping and high import tariffs, counter non tariff barriers for imports. Manufacturing firm can also avail the facility of cheap labour if assembly of parts is to be undertaken in developing or underdeveloped nations.

***28.2.2.7 Joint ventures***

If a company wants to retain complete control of all its foreign country operations/assignments then it enters into a joint venture with other country with equity partition. The firms involved in joint ventures contribute their complementary expertise and resources. As compared to other modes, this provides access to foreign capital market but at the same time involves more risk as compared to other modes of entry without equity participation. Also at times opportunistic behaviour of partner firms adds to high rate of dissolution.

### *28.2.2.8 Wholly owned foreign subsidiaries*

If a firm is willing to have complete control and ownership of international operations, then it chooses to have foreign direct investment to own foreign operations. This option is helpful to the firm to develop foreign market with growth potential by way of product differentiation and competitive response. The firm can also avail the incentives provided by host government to foreign companies. But this mode requires more financial and other operational resources. It also involves higher risk and requires sufficient experience of international business.
A company can set up a wholly owned subsidiary by any of the following modes.

#### *a) Acquisition*

It provides speedy access to the resources of a foreign company such as skilled man power, its product and brand, its distribution channel.

#### *b) Greenfield operations*

In this mode, a company creates the production and marketing facilities on its own from initial stage. Acquisition can be adopted by bigger firms, whereas Greenfield operation strategy operation strategy is suitable for smaller firms with limited financial resources.

### Conclusion

When a firm intends to do marketing in other countries, first all it is necessary to thoroughly analyze economic characteristics such as gross national product, income and population. Based upon this a market may be chosen and then the firm decides a suitable market entry mode. Each market entry strategy has its own strength and weaknesses. In most of the cases, the strategies are not mutually exclusive. A company may use multiple strategies in different markets as well as within the same market. The appropriateness of a strategic option depends upon corporate objectives, market conditions and political realities.

## Lesson 29

## PRODUCT AND PRICE ELEMENTS

### 29.1 Product

For the international marketer, it is necessary to decide whether a single standardized product is to be produced or different customized products are to be produced for different markets. It is necessary to conduct preliminary screening for identification of markets and products through market research process. A poorly conceived product will lead to market failures. Different approaches are adopted by international marketers for developing products. Ethnocentric approach assumes that consumer needs and market conditions are almost same in different markets and thus firm sells the products made for home market with minor modifications. This approach helps to gain rapid entry into international market but fail to achieve maximum market share and profit. In polycentric approach, firm produces separate products for home market with minor modifications. This approach helps to gain rapid entry into international market but fails to achieve maximum market share and profit. In polycentric approach, firm produces separate products for each different market. In region-centric approach, once the firm consolidates its entry in different market, it tries to achieve product similarity within market clusters. In geocentric approach, instead of selling products made for home market in international market, the company tries to find similarities exhibited by consumers in their purchase behavior that can be satisfied by a standard product for all markets of the world.

As different approaches are available, it is difficult to decide whether a single standard product or different customized products for different markets should be produced. Thus it has been observed that majority of companies, attempt to project a uniform product image in all the markets but often customize the perceived value of the product to suit customers in the target market. The companies try to customize the product components such as features, packaging and labeling and retains brand name.

Standardization of product aims at offering a product in foreign markets with minor changes like packaging and labeling. This helps to meet the needs of global customers and also provides cost saving due to economies of sale in production. High technology content products like computers are sold as standard products through the world. Making changes in the product ranging from major modifications in the product to changes in its package, logo or even brand name to meet the needs of target market is called product adaptation. Government regulations, differences in operation system of electronic goods, differences in measurement systems, differences in electric current used in a country, and packaging and labeling requirement are some of the major reasons for product adaptation. Certain voluntary factors like consumer demographics, culture, local customs and traditions, conditions of use, price etc also influence the product adaptation process.

Following two strategies are available to companies to launch their products:

### 29.1.1 Waterfall strategy

This is a strategy in which a firm enters into international market in a phased manner. Here company enters one foreign market at a time. After consolidating its position in that country, it then enters in to another foreign market. This strategy is helpful for firms with limited resources.

### 29.1.2 Sprinkler strategy

This strategy is preferred when life cycle of the product is relatively less, its market has high potential (market size, fast growth rate, less cost of entry) and the company has enough resources to enter more than one foreign market at a time. In this strategy a company enters more than one foreign market at a time.

The companies' international competitive posture matrix can be analyzed by following model of Gogel and Larreche (1989).

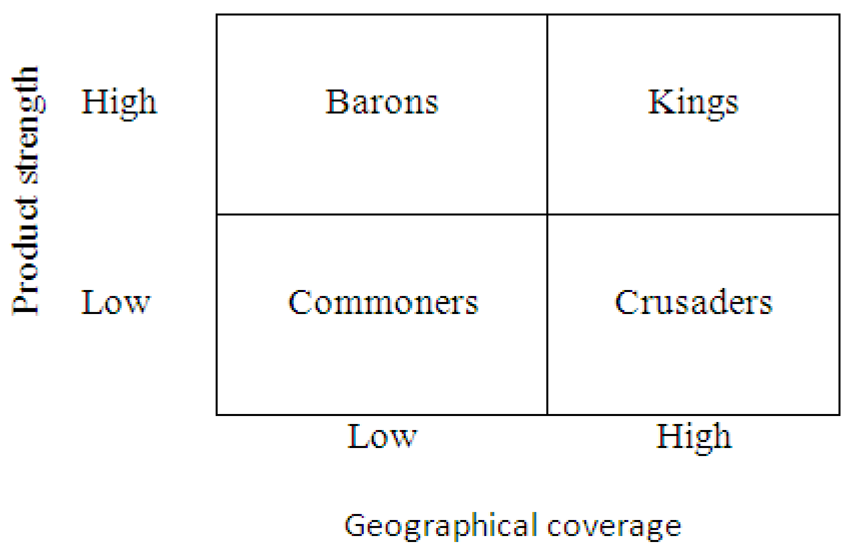



**Fig. 29.1 Companies international competitive posture matrix**

For an effective global strategy, Kings are occupying the best position due to strong product portfolio and wide geographic coverage. *Barons* refer to those companies who operate in less number of countries. As they have high product strength, it is possible to have increase in their geographical coverage. They increase their coverage by taking over weak product portfolio firms in overseas market. Crusader refers to those companies which have weak product base but they expand globally. The companies which have low product strength and limited geographical coverage fall in the category of commoners. They survive the competitive situation due to government safeguards.

### 29.2 Pricing

The various pricing strategies adopted by international marketers are as follows.

#### 29.2.1 Cost based pricing

This is a simple method used by new exporters, wherein the price of the final product is decided by adding a certain amount (profit and other expenses) to the ex-work price level. As it is not only the cost which determines the price of product but other factors such as demand, competition etc also influences it. So it is necessary to adopt market base pricing method instead of only cost based method.

#### 29.2.2 Full cost method

This is the most common method used by exporters in the early phase of their internationalization. Under this method a markup is added to the total manufacturing cost to arrive at price. The method is very simple but does not consider the prevailing price in international market.

#### 29.2.3 Marginal cost pricing

Marginal cost is the cost of producing and selling one more unit of product. Under this method the firm sets the price in such a way that it obtains fixed cost of production from domestic sale and obtains variable cost from foreign sale. As products from developing countries seldom compete on the basis of brand image or unique value, the marginal cost pricing method is used to penetrate the foreign markets. Pricing based on marginal cost may be changed, as dumping in overseas markets is prone to action based upon investigation.

#### 29.2.4 Market based pricing

Developing countries are marginal suppliers of goods in majority of markets. They generally possess less market share. They cannot influence prices in foreign markets. So exporters in developing countries are price followers. Price followers assess the prevailing prices in the foreign markets and then set the price based upon market situation.

## Lesson 30

## PLACE AND PROMOTION ELEMENTS

### 30.1 Introduction

The goal of most of the organizations is to achieve the possible synergies by using, optimum mix of appropriate marketing promotion tools. Communication mix for international market is influenced by market size, cost of promotional activity, resource availability especially finance, media availability, type of product and its price sensitivity, mode of entry into international market, market characteristics.

### 30.2 Promotion

Effective promotion of the product is very crucial for success of the company in this competitive world. A company generally makes use of all the promotional tools.

#### 30.2.1 Advertising

It is a paid form of non personal communication by an identified sponsor. This is the most widely used promotion method for mass marketing. A company may use either a standardized advertising strategy or customized advertising strategy of different markets. The extent of standardization also varies. Advertisement with no change uses the same theme, copy or illustration except for translation. When advertisements uses different celebrities in different countries but maintain the same advertisement copy the theme is called standard advertisement with change in illustration. Use of standard advertising by companies is increasing as preferences, lifestyle of consumers and consumer behavior is also becoming similar across the world. Increased reach of all forms of international media (TV, magazines, news papers) etc. has also accelerated the phenomena. When advertisement message, copy or content is changed, is called adaptation or customization. Customization is essential in international advertisement as there exists difference in cultural value among nations, difficulties in exactly translating language, differences in level of education of target groups, differences in social attitude towards advertising and regulatory framework of target market. Some of the examples of international advertising practices adopted by firm are cited as:

- Benetton Group Spa, the Italy based global clothing retailer uses global advertising campaigns with same theme.

- Virginia slims, market leader in women's cigarette endorse local models in different countries.
- Lux also maintains common advertising concept throughout the world. It endorses local film models in their advertisement.
- Pepsi customized its advertising campaign to depict its core values of youthfulness associated with generation next.

### 30.2.2 Personnel selling

Due to differences in language, social, customs and business culture, personnel selling as a promotion mode in international market is complex, personnel selling is used in low income countries as wages are low compared to advertising, in multi linguistic markets, in low literacy level countries. Its practice varies from country to country. For example, personal selling plays a special role in Japanese market owing to its peculiar socio cultural features such as: a) Individuality and independence is highly valued in western countries. But it is not so in Japan. Japanese marketers and sales people are less inclined to take credit for success or blame others for failures. (b) Non financial incentives are seldom used in Japan to recognize, praise or reward sales people for good performance as it is simply expected and special praise is deemed unnecessary. (iii) One of the fundamental characteristic of Japanese society is loyalty to one's employer. Sales personnel consider it their duty to grow business of their organization. They do not get and do not expect special compensation for their duty. Thus, commissions are generally an unnecessary component of their compensation package.

### 30.2.3 Sales promotion

Trade promotions and consumer promotions as methods of sales promotion are also used by international marketer to generate trials for new or related products, to generate more sales. The promotional offer has a local focus and generally varies from country to country. Some promotional tools are legally not permissible in some countries. for example: Buy one get one free is not allowed is Germany, Games are subject to compliance with lotteries and amusement act in UK, contests are legally permitted in Spain but the firm must be registered with the government, rebate / refunds are illegal in Italy, Gift vouchers are legally permissible but very strict restriction apply, product sampling is legally permissible in Poland except alcohol, cigarettes to Muslims.

### 30.2.4 Public relations

This promotion method helps the firm to build corporate image and influencing media and other target groups to have a favorable publicity. This is carried out by sponsoring specific events, giving awards and prizes, providing press release etc. In high income countries, professional firms offer specialized public relation services whereas in low income countries the word of mouth mode of publicity is mostly used for spreading a message.

### 30.2.5 Fairs and exhibition

Trade fairs and exhibition of various type viz., general trade fair, specialized trade fair, specialized trade fair, consumer fairs, minor trade fair, solo exhibition, catalogue shows etc. are used by firms from low income countries owing to less financial and other resources required for marketing communication.

## 30.3 Distribution Channels

Company has to use distribution channels to make the product available to consumers. Distribution channels in international market are a set of interdependent organizations networked together to move the product from firm to consumer. In international distribution channels network, products has to move longer distance so the firm has to commit more resource. The political system varies in different countries which dictate the rules for movement of goods which makes the process complex.

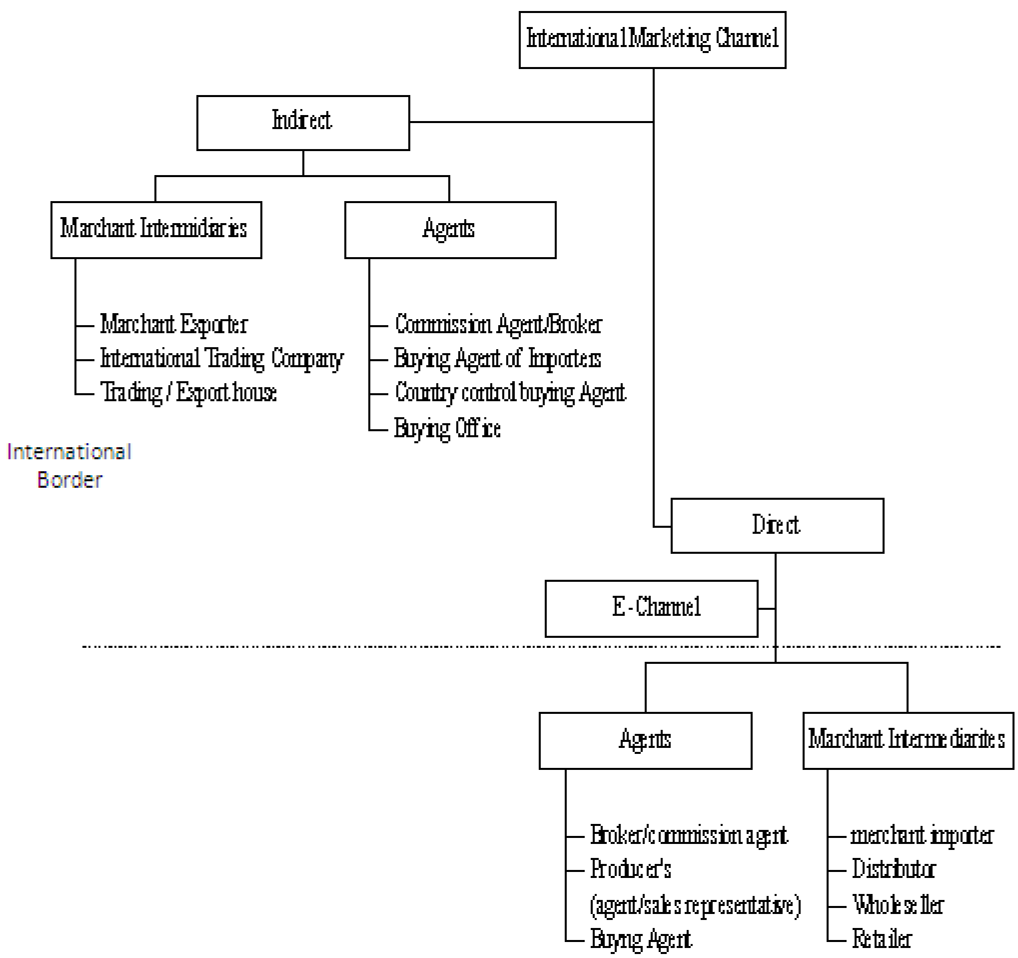


**Fig. 30.1 Distribution channels**

### 30.3.1 Direct channels

*Agents:* This is located in foreign markets. They do not take title of the goods. This is further categorized in the following types:

*Foreign based broker / commission agent:* They are located in foreign markets. They keep continuous close contact with buyer and seller to facilitate sale. They provide match making services to export and import. They specialize in food products and commodities and work on brokerage per deal base.

*Product agent / sale representative:* Small firms, who lack resources & experience, employ such agents. This agent conducts the business on behalf of company. They provide their services to more than one firm as they do not take title of goods, looses are to be borne by company.

*Foreign based buying agents:* Some firms maintain exclusive contract with agents to sell their products. Such agents work on the basis of specific percentage of profit & deal in all type of products.

### 30.3.2 Market intermediaries

This is categorized in the following types:

*Merchant importer*: This is a foreign based trader who imports products and then sells them to wholesaler or retailer. They take possession and title of goods and thus responsible for risk and bear loss.

*Distributor:* They purchase the goods and resell them to market intermediary or final consumer. They take title of goods and thus responsible for risk and losses. They enter into contract with company and work on margins.

*Wholesalers:* They purchase goods from the merchant exporter or distributor and sell them to retailers.

*Retailers:* They purchase goods from whole seller or distributors and finally sell to consumer. They carry inventories, attend credit, display the product and undertake point of purchase promotion.

*E-channels and Web based Marketing:* The revolution in information technology has facilitated the e-commerce through e-channels. E-commerce has eliminated and increased the speed of delivery of goods with reduced cost.

Companies that act internationally do not usually make the transition from traditional marketing to full-blown Web marketing in one step. Web-based interaction is a two-way street. Customers learn about the company, its products, and its policies. Simultaneously, the Web marketer learns what the customer learns while browsing the website. In an international setting, effective Web-based marketing should encourage customers to learn about the company in a "proper" way. For example, an appropriate learning sequence for an international customer would be one, where he/she first reads about the company's profile, then learns about its products and services, and finally contacts the firm to set up a sales meeting. When this process is looked from the perspective of the organization who establishes a website geared to its international markets, the critical task is to learn what the customers have learned. This can be done by website traffic analysis. Such an analysis generates reports that provide information about the visitors of the website, answering questions such as When do they visit? Where do they visit from?, and What do they do during the visit to the site?

The Internet alters the perception of distances and thus directly influences a company's internationalization process. Earlier, physical distances in time and space were key dimensions in defining what international business was all about – a company became international when it began to transact with customers across national borders. Today, even for companies that do not (or do not want to) do cross-border transactions, the reality of globalization is inescapable: the Web knows no boundaries. Furthermore, because collecting market information at a low cost is now feasible, knowledge about promising markets outside the home market is created, thereby leading to an increase in international transactions.

## 30.4 Indirect Channels

### 30.4.1 Agents

The different types of agents in indirect channels are of following four types.

***Commission agent/broker:*** They bring the seller and buyer at one place. They maintain relationships with exporters and importers and work on commission base.

***Buying agents of importers:*** Many companies depute their agents to foreign markets to obtain supplies. They are very helpful as they visit small exporters and judge the suitability of their products according to the need of their client importers.

***Country controlled buying agents:*** They are appointed by government. They find out the best importers for their country.

***Buying offices:*** Companies, who want to procure specific materials from other countries on continuous base, establish their branch office in supplier's countries which ensure continuous supply of their requirement.

**30.4.2 Merchant intermediaries**

These are of following type

***Merchant exporter:*** They procure materials/ products from many manufacturers and export directly under their name.

***International trading companies:*** This is global companies which collect, transport and distributes products in various markets.

***Trading/export house:*** These are local large companies associated with certain minimum level of export business. They get certain incentives from government.

## Lesson 31
## DECIDING THE MARKETING ORGANIZATION STRUCTURE

### 31.1 Introduction

An International Company carries out its activities in several countries. It is necessary to decide about the optimum organization structure. Organizational planning will cover aspects of type of organizational structure to be adopted, scope and extent of responsibility. Organizational structure reflects company's policies viz degree of control, hierarchy, chain and command and communication etc. Thus there is no standard organizational structure; many international companies face problems of inappropriate hapazard lines of authority, improper communication channels within various levels of organization as well as between main central office in domestic country and branches in other countries.

### 31.2 Types of Organization Structure

International companies are required to increase the profits by increasing the sale in foreign markets while maximizing sales in domestic market also. There are following options available to international companies to organize their operations.

(i) Product divisions
(ii) Geographic divisions
(iii) Matrix Organization

Product division type of organization structure is responsible for product sale in all the markets. This type of structure is suitable for those companies which have diverse product line and are also witnessing faster growth.

Geographic division structure is solely responsible for all products and functions within a specified geographic area. Such a structure is suitable when a close relationship between national and local government is desired.

Matrix organization structure consist either a product division or geographic division with centralized functional staff or a combination of area operations and global product management. A matrix organization structure is preferred by international companies as it provides number of advantages. It facilitates sharing of experiences, technology, information, expertise and resources among different business units and the company.

Apart from these major three distinct organizational structures, international companies may also adopt a special structure wherein company is basically organized by product lines but there are further geographic sub classifications or product categories. The structure is supported by functional staff at various levels.

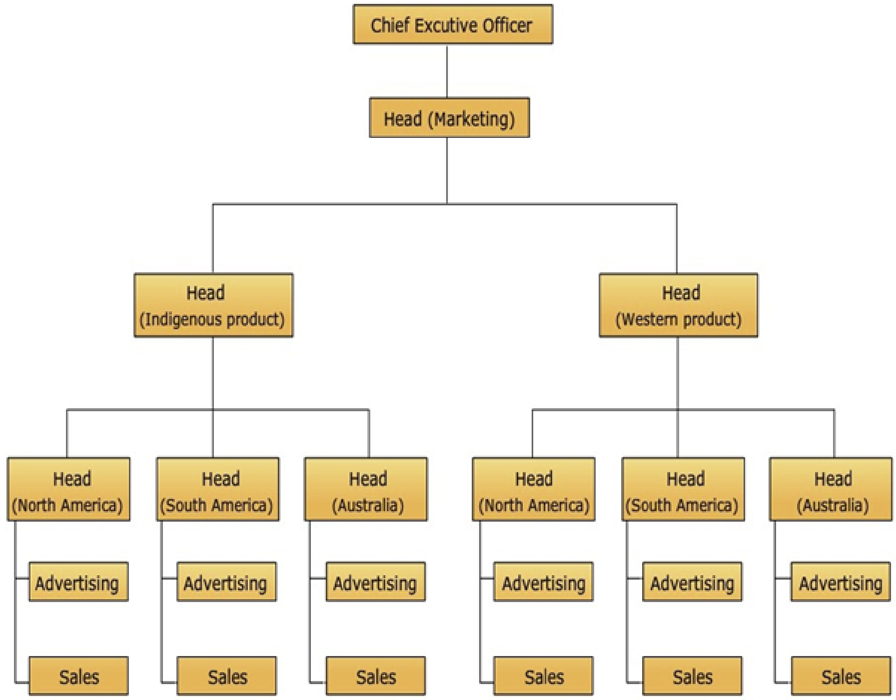



**Fig. 31.1 Combination of product, geographic and functional approach**

## 31.3 Type of Organizational Structures

### 31.3.1 International division structure

When any company enters the international market, initially it has less number of products and also it has less knowledge and limited experience of international market. Thus most of the companies start with international division. Except Product activities all other activities viz marketing, finance etc are carried out by international division. Products are manufactured by the normal domestic organizational structure and then simply turned over as such to the international division.

#### *31.3.1.1 Advantages*

1. Efficient means for inexperienced companies.
2. Allows for specialization and training in international marketing.
3. Able to adopt more focused strategy due to access to topmost official based on reporting relationship.

#### *31.3.1.2 Disadvantages*

1. Not self sufficient as dependent on other department for necessary support.
2. Low importance due to fewer sales.

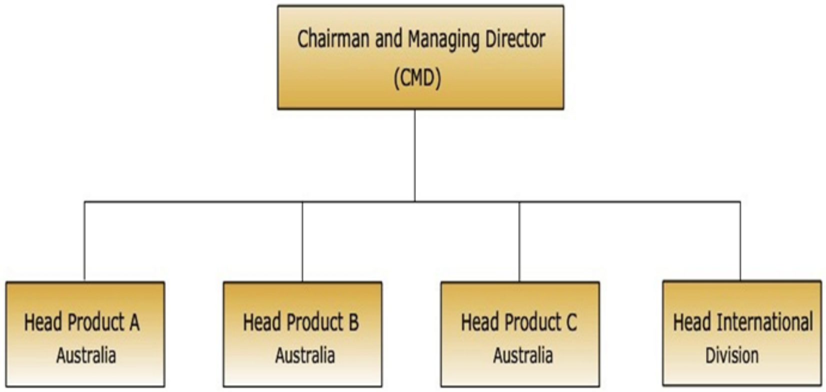



**Fig. 31.2 International division structure**

### 31.3.2 Global functional structure

In this, the structure is formed around all major functions of organization viz marketing, finance, production etc. As structure is for international business, this functional department has global responsibility. This structure is most appropriate when organization is selling same product at all the countries.

#### *31.3.2.1 Advantages*

1. Decreases conflicts between headquarter and overseas center as functional departments are responsible for global operations.
2. Better Control and Coordination from head quarter.
3. Increases global orientation of all functional managers.

#### *31.3.2.2 Disadvantages*

1. Not suitable for organization selling wide variety and products in international market.

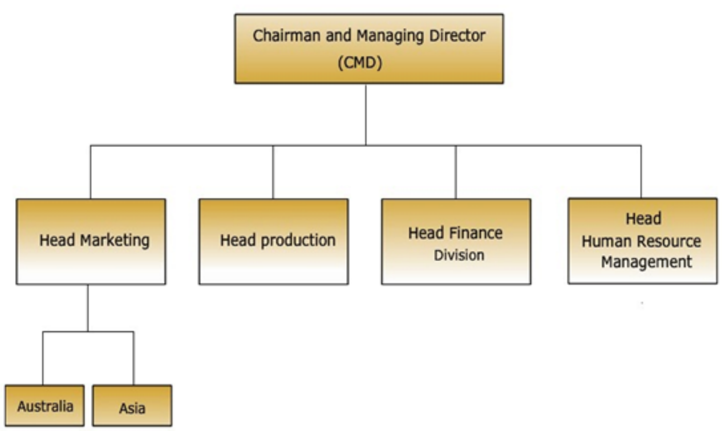



**Fig. 31.3 Global functional structures**

### 31.3.3 Global area structure

In this case structure is organized around different geographic locations of the world. The managers of this geographical location are responsible for functional activities of their respective geographical area.

### *31.3.3.1 Advantages*

1. Provides opportunity for deep learning by concerned managers.
2. Leads to improved performance as each area is considered as a profit center and concerned manager is specifically responsible for performance.

### *31.3.3.2 Disadvantages*

1. Prevent Coordination and Communication between different geographic areas.
2. Firm is not able to achieve economies of scale due to duplication of all activities including production.

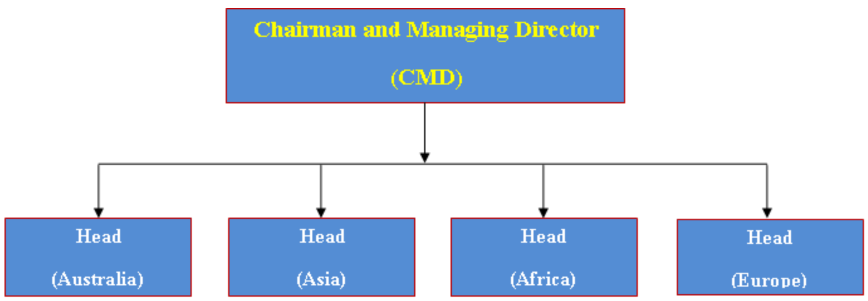



**Fig. 31.4 Global area structure**

## 31.3.4 Global product structure

Here the structure is organized around different products. Each separate product division is supported by all functional departments and is generally regarded as a profit center.

### *31.3.4.1 Advantages*

1. Leads to functional coordination due to their responsibility for a single product.
2. Provides opportunities for improvement of product due to focused approach on single product.

### *31.3.4.2 Disadvantages*

1. Wastage of resources due to duplication of all functional support to each individual product.

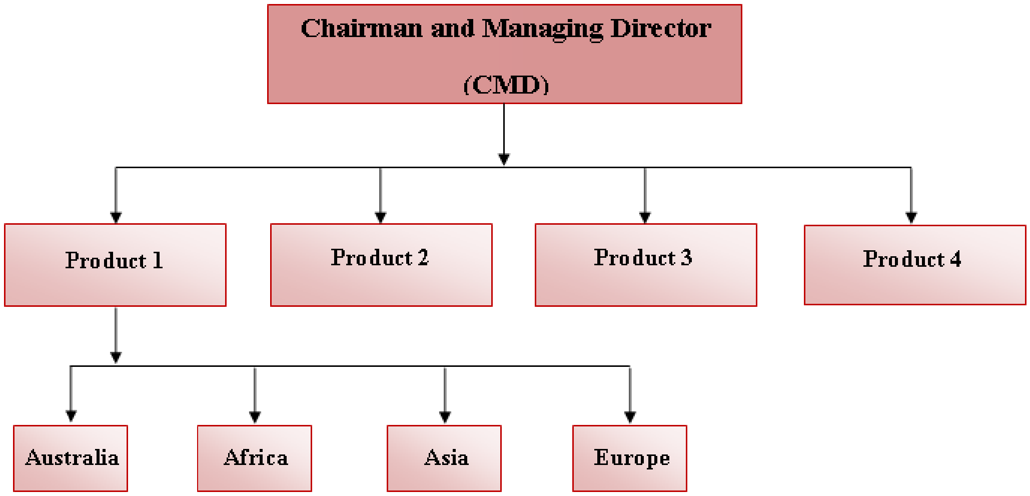



**Fig. 31.5 Global product structure**

### 31.3.5 Global division structure

In this structure all functional activities are placed within each division and each division has got global responsibility. Here a division consists of group of related products.

#### *31.3.5.1 Advantages*

1. Reduces wastage of resources by avoiding duplication of resources by assigning them in common to all products of a division.

#### *31.3.5.2 Disadvantages*

1. Difficult to determine global and local element of a product. These obscure opportunities for leveraging global advantages in raw material procurement, advertising etc.

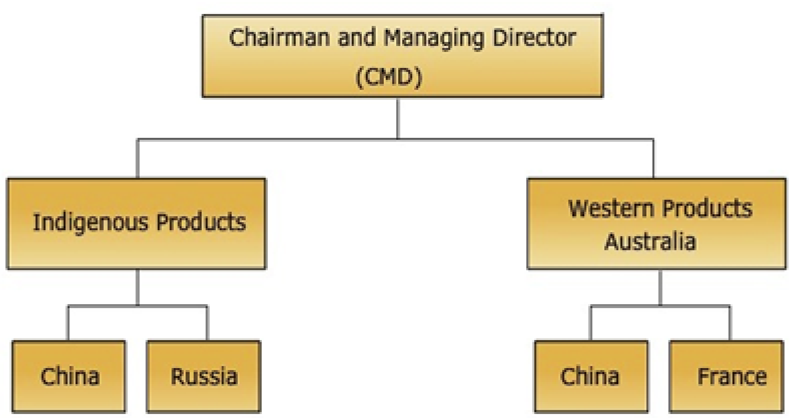



**Fig. 31.6 Global division structure**

### 31.3.6 Global customer structure

This is organized around different customer groups having different needs.

### *31.3.6.1 Advantage*

1. Provides opportunity for deep understanding of different customer segments.

### *31.3.6.2 Disadvantage*

1. Wastage of resources due to duplication of resources across division can occur.

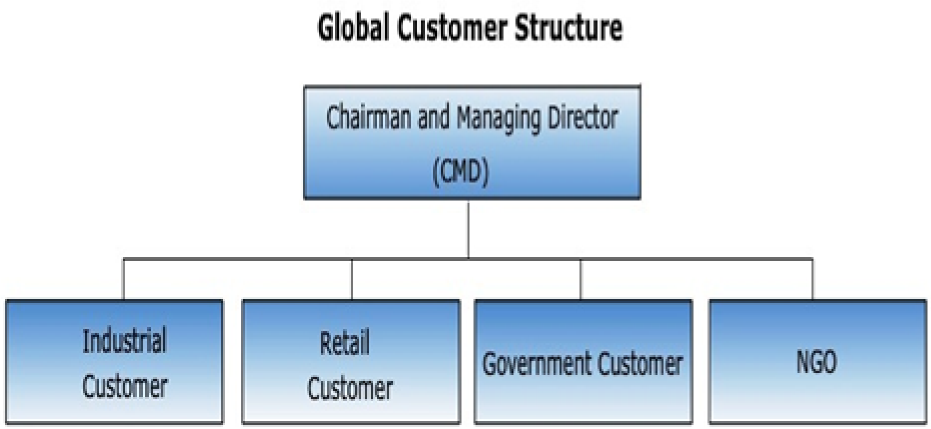



**Fig. 31.7 Global customer structures**

## 31.3.7 Global matrix structure

In this type two organization structure are superimposed on each which creates dual reporting relationships.

### *31.3.7.1 Advantages*

1. Facilitates Communication by flow of information throughout the organization.
2. Balanced orientation due to superimposition of two separate departments.

### *31.3.7.2 Disadvantages*

1. Due to dual reporting relationship chances and conflict increases.

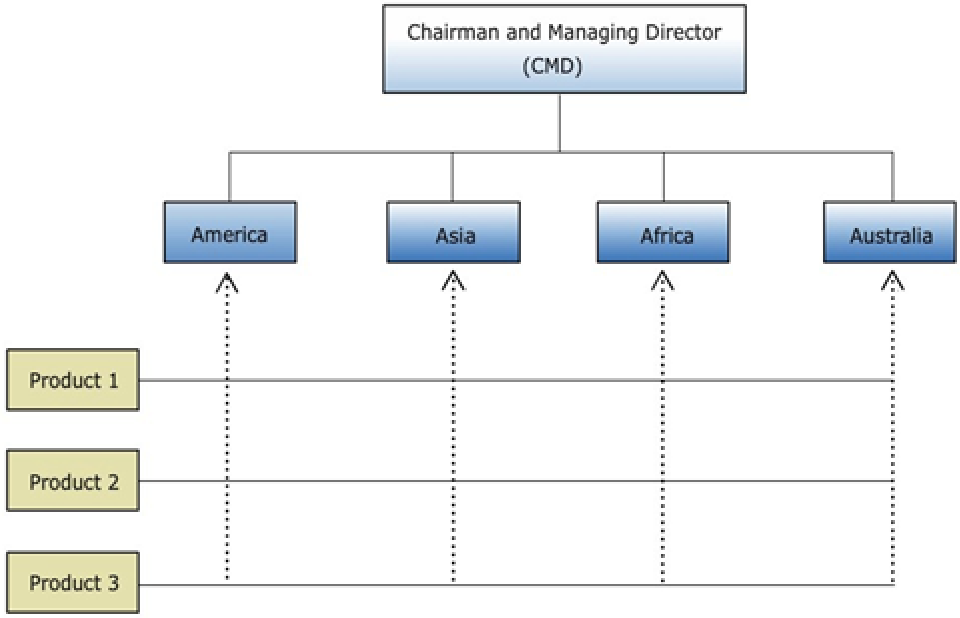



**Fig. 31.8 Global matrix structure**

## 31.4 Conclusion

An international company adopts a suitable organizational structure based upon its policy and resources. The adopted structure falls in the category of centralized or decentralized structure. Both the approaches has its relative advantages and disadvantages. Centralization offers the advantage of marketing specialist available at one place, provides necessary control at planning and implementation phase easy to create a centralized database. In decentralized approach, responsible managers are given complete antinomy and they implement suitable region specific marketing policies.

Global environment is very dynamic and therefore international companies always try to use a right type of organizational structure which provides necessary flexibility to respond immediately to local needs and also provide appropriate control over regional branches away from the main headquarter.

# Lesson 32
# WORLD TRADE ORGANIZATION

## 32.1 Introduction

The World Trade Organization (WTO) came into existence on 1/1/1995. After Second World War, General Agreement of Tariffs and Trade (GATT) was established for carrying out international trade. GATT facilitated reduction in tariffs and trade through various rounds of negotiations. The eighth such round was started in 1986 at Uruguay. The negotiations in this round continued for more than eight years and finally GATT which was a legal arrangement was replaced by an international organization called WTO on 1/1/1995. The WTO agreement was signed by 104 member countries, India being one of them.

## 32.2 Basic Principles of WTO

### 32.2.1 Non discrimination

This principle stipulates that all member countries should extend same type of treatment to all other countries at par for trade purposes without discrimination. A country cannot extend any kind of favourable treatment to any particular country /ies.

### 32.2.2 Transparency

This principle states that all WTO member countries are bound to publish their rules and regulations of trade, and are required to provide necessary information to other member countries when asked and to intimate WTO about any changes in trade related policy of their country.

### 32.2.3 Binding commitments

These represents ceilings on customs tariff rates. A country has to announce this, which can be changed by negotiating with the other countries.

### 32.2.4 Reciprocity

This principle highlights use of reciprocal action in trade rules e.g. extend, end or removing trade restrictions.

### 32.2.5 Safety valve

This principle allows countries to restrict trade if it hampers the domestic companies adversely.

## 32.3 Objectives of WTO

1. Increasing income and therereby living standard of people of the world.
2. Foster Sustainable development.
3. Ensuring development of all the countries particularly least developed and developing countries.

4. Promoting trade among member nations through non discriminatory trade policies.
5. Setup an appropriate trade dispute mechanism.

**32.4 Functions of WTO**

1. Administering all the trade agreements in right direction.
2. Act as a forum for multilateral trade negotiations.
3. Oversee trade policies to member nations.
4. Resolve trade disputes between member countries.
5. Maintaining cordial relations with other international trade organizations.

There are a number of ways of looking at the WTO. It's an organization for liberalizing trade. It's a forum for governments to negotiate trade agreements. It's a place for them to settle trade disputes. It operates a system of trade rules. Above all, it's a negotiating forum. Essentially the WTO is a place where member governments go to try to sort out the trade problems they face with each other. The first step is to talk. The WTO was born out of negotiations, and everything the WTO does is the result of negotiations. The bulk of the WTO's current work comes from the 1986694 negotiations called the Uruguay Round and earlier negotiations under the General Agreement on Tariffs and Trade (GATT). The WTO is currently the host to new negotiations, under the "Doha Development Agenda" launched in 2001.

Where countries have faced trade barriers and wanted them lowered, the negotiations have helped to liberalize trade. It's a set of rules. At its heart are the WTO agreements, negotiated and signed by the bulk of the world's trading nations. These documents provide the legal ground-rules for international commerce. They are essentially contracts, binding governments to keep their trade policies within agreed limits. Although negotiated and signed by governments, the goal is to help producers of goods and services, exporters, and importers conduct their business, while allowing governments to meet social and environmental objectives.

The system's overriding purpose is to help trade flow as freely as possible so long as there are no undesirable sideeffects - because this is important for economic development and well-being. That partly means removing obstacles. It also means ensuring that individuals, companies and governments know what the trade rules are around the world, and giving them the confidence that there will be no sudden changes of policy. In other words, the rules have to be "transparent" and predictable. And it helps to settle disputes '" This is a third important side to the WTO's work.

Trade relations often involve conflicting interests. Agreements, including those painstakingly negotiated in the WTO system, often need interpreting. The most harmonious way to settle these differences is through some neutral procedure based on an agreed legal foundation. That is the purpose behind the dispute settlement process written into the WTO agreements.

**32.5 Principles of WTO**

The WTO agreements are lengthy and complex because they are legal texts covering a wide range of activities. They deal with: agriculture, textiles and clothing, banking, telecommunications, government purchases, industrial standards and product safety, food sanitation regulations, intellectual property, and much more. But a number of simple, fundamental principles run throughout all of these documents. These principles are the foundation of the multilateral trading system.

• Most favoured nation (MFN) treatment
• National treatment: treating foreigners and locals equally
• Freer trade: gradually through negotiation
• Predictability: through binding and transparency
• Promoting fair competition
• Encouraging development and economic reform

**32.6 WTO Structure**

**32.6.1 Highest authority**

The Ministerial Conference So, the WTO belongs to its members. The countries make their decisions through various councils and committees, whose membership consists of all WTO members. Topmost is the ministerial conference which has to meet at least once every two years. The Ministerial Conference can take decisions on all matters under any of the multilateral trade agreements.

**32.6.2 Second level**

General Council in three guises Day-to-day work in between the ministerial conferences is handled by three bodies:

• The General Council
• The Dispute Settlement Body
• The Trade Policy Review Body

All three are in fact the same - the Agreement Establishing the WTO states they are all the General Council, although they meet under different terms of reference. Again, all three consist of all WTO members. They report to the Ministerial Conference. The General Council acts on behalf of the Ministerial Conference on all WTO affairs. It meets as the Dispute Settlement Body and the Trade Policy Review Body to oversee procedures for settling disputes between members and to analyze members' trade policies.

**32.6.3 Third level**

Councils for each broad area of trade

Three more councils, each handling a different broad area of trade, report to the General Council:

• The Council for Trade in Goods (Goods Council)
• The Council for Trade in Services (Services Council)
• The Council for Trade-Related Aspects of Intellectual Property Rights (TRIPS ouncil)

As their names indicate, the three are responsible for the workings of the WTO agreements dealing with their respective areas of trade. Again they consist of all WTO members. The three also have subsidiary bodies (see below).

Six other bodies report to the General Council. The scope of their coverage is smaller, so they are "committees". But they still consist of all WTO members. They cover issues such as trade and development, the environment, regional trading arrangements, and administrative issues. The Singapore Ministerial Conference in December 1996 decided to create new working groups to look at investment and competition policy, transparency in government procurement, and trade facilitation.

Two more subsidiary bodies dealing with the plurilateral agreements (which are not signed by all WTO members) keep the General Council informed of their activities regularly. The General Council also meets as the Trade Policy Review Body and Dispute Settlement Body.

**32.6.4 Fourth level**

Down to the nitty-gritty each of the higher level councils has subsidiary bodies. The Goods Council has 11 committees dealing with specific subjects (such as agriculture, market access, subsidies, anti-dumping measures and so on). Again, these consist of all member countries. Also reporting to the Goods Council is the Textiles Monitoring Body, which consists of a chairman and 10 members acting in their personal capacities, and groups dealing with notifications (governments informing the WTO about current and new policies or measures) and state trading enterprises.

The Services Council's subsidiary bodies deal with financial services, domestic regulations, GATS rules and specific commitments. At the General Council level, the Dispute Settlement Body also has two subsidiaries: the dispute settlement "panels" of experts appointed to adjudicate on unresolved disputes, and the Appellate Body that deals with appeals.

All WTO members may participate in all councils, committees, etc, except Appellate Body, Dispute Settlement panels, Textiles Monitoring Body, and plurilateral committees.

**32.7 The Agreements**

The WTO agreements cover goods, services and intellectual property. They spell out the principles of liberalization, and the permitted exceptions. They include individual countries' commitments to lower customs tariffs and other trade barriers, and to open and keep open services markets. They set procedures for settling disputes. They prescribe special treatment for developing countries. They require governments to make their trade policies transparent by notifying the WTO about laws in force and. measures adopted, and through regular reports by the secretariat on countries' trade policies.

These agreements are often called the WTO's trade rules, and the WTO is often described as "rule-based", a system based on rules. But it's important to remember that the rules are actually agreements that governments negotiated.

The agreements for the two largest areas - goods and services - share a common three-part outline, even though the detail is sometimes quite different.

They start with broad principles: the General Agreement on Tariffs and trade (GATT) (for goods), and the General Agreement on Trade in Services (GATS) (The third area, Trade-Related Aspects of Intellectual Property Rights (TRIPS), also falls into this category although at present it has no additional parts.)

Then comes extra agreements and annexes dealing with the special requirements of specific sectors or issues.

Finally, there are the detailed and lengthy schedules (or lists) of commitments made by individual countries allowing specific foreign products or service providers access to their markets. For GATT, these take the form of binding commitments on tariffs for goods in general, and combinations of tariffs and quotas for some agricultural goods. For GATS, the commitments state how much access foreign service providers are allowed for specific sectors, and they include lists of types of services where individual countries say they are not applying the "most nation" principle of non-discrimination.

Underpinning these is dispute settlement, which is based on the agreements and commitments, and trade policy reviews, an exercise in transparency. Much of the Uruguay Round dealt with the first two parts: general principles and principles for specific sectors. At the same time, market access negotiations were possible for industrial goods. Once the principles had been worked out, negotiations could proceed on the commitments for sectors such as agriculture and services.

### 32.8 Agreement on Agriculture

The important agreements related to agriculture and livestock products including dairy products are: Agreement on Agriculture (AoA) and Sanitary and Phytosanitary (SPS) Agreement. The Agreement on Agriculture (AoA) as a part of the WTO Agreements incorporates obligations and disciplines related to the following three aspects of livestock production: Market access/Tariffication, Domestic Support, Export competition/subsidy.

#### 32.8.1 Market access

On market access, the AoA primarily envisages a tariffs only rule for agricultural products including livestock products. Thus all non-tariff barriers such as quantitative restrictions (QRs) – quotas – import and export-licensing variable levies, minimum import prices and voluntary export restraints are required to be converted into equivalent tariffs. These tariffs are subjected to binding and/or reduction within the implementation period. The base period taken for tariff estimation was 1986-88.

#### 32.8.2 Special safeguard (SSG)

The AoA includes another provision of ‘Special Safeguard (SSG)’ under which members that have tariffied non-tariff measures are entitled to impose additional duty on a product in any year when either the volume of imports exceeds or the price of imports falls below the reference trigger levels.

#### 32.8.3 Dirty tariffication

With dirty tariffication, countries exaggerated their base levels of tariffs. This was done by many developed countries by the selective use of prices for determining tariff equivalents in the based period. According to Ingco (1995), European Union had set its initial tariff bindings at un-weighted average levels of 61 per cent higher than actual tariff equivalents while the United States set its initial binding at 44 per cent above actual levels.

### 32.8.4 Selective tariff cuts

Under the AoA countries had a great deal of flexibility in deciding how much each agricultural tariff would be cut so average reductions vary by country. The required un-weighted average of 36 per cent tariff reductions with the only constraint being a 15 per cent cut on each tariff left countries with much freedom to decide how to allocate their tariff reductions. This provision opened up the possibility of spreading the reduction commitments rather unevenly across products e.g. reduction was bare minimum for sensitive products. Included in this category for Canada are dairy and poultry products; for Japan, grain and dairy products; and for the US, sugar, peanuts and dairy products.

### 32.8.5 High tariff protection

Some of the highest tariffs are for dairy products in Japan, EU and US. Japan and the EU maintain rates over 100 per cent on certain dairy products. The out-of-quota tariff rate for the EU is 94 per cent while those for Japan are over 200 per cent. The rates set by Canada exceed 200 per cent and those set by Japan on butter and milk powders are also very high.

### 32.8.6 Domestic support

The AoA has categorized domestic supports provided by governments to their producers into three categories based on whether they have minimal trade distorting effects or high trade distorting effects. Those measures that are considered to have minimal trade distorting effects, such as ‘green box’, ‘blue box’ and ‘special’ measures are exempted from requirement of reductions. However, other measures that have high trade distorting effects known as ‘amber box’ or total ‘aggregate measurement of support (AMS)’ measures, are subjected to reduction requirements.

### 32.8.7 Green box measures

‘Green box’ measures have minimal effect on trade and can be used freely. These measures include government services such as research, disease control, infrastructure, extension and buffer stocks for food security purposes, domestic food aid, direct payments to producers, decoupled income support, government assistance in income insurance and income safety net programmes, payment under environmental and regional assistance programmes, payments for relief from natural disasters, assistance to help farmers restructure agriculture, marketing and promotion services.

### 32.8.8 Blue box measures

‘Blue box’ measures include direct payments to producers to limit production or towards deficiency payments. These measures are more often than not are exploited by the developed countries to safeguard their vested interests.

The other measures which are exempted from reduction requirement includes government assistance to encourage agricultural and rural development in developing countries, agricultural input subsidies provided to low income and resource poor producer in developing countries. These measures can be freely used as per Special and Differential Treatment for Development Countries clause. But due to weak financial position of most of the developing countries, they are not able to take benefit of this provision.

### 32.8.9 Production subsidy in India

India does not provide any product specific subsidy to any livestock product. Thus milk producers of India do not receive any kind of subsidy. The main non-product-subsidies provided in India are fertilizer subsidy, irrigation subsidy, subsidy on electricity, subsidy on seeds and credit subsidy. As the level of this subsidies are less then the de minimis ten per cent, India is not required to reduce levels of producer subsidies.

Some support measures provided by the government are also exempted from any reduction commitment for developing countries. These measures are subsidies for milch animals, small farmer development assistance and assistance to small holders for easy access to inputs.

Thus it can be seen that, the various domestic support boxes have not been helpful in lowering overall protection levels. The reality is that huge amounts of domestic support will mostly be production limiting and trade distorting. The present structure of domestic support boxes should, therefore, be re-negotiated. Dismantling all domestic support into one box category would eliminate the existing loopholes and bring rationale and structure to the Agreement.

### 32.8.10 Export subsidies

Export subsidies are provided by a country to make its commodities globally competitive. The AoA has listed six types of export subsidy measures subjected to reduction requirements from the 1986-1990 base period levels. Developing countries are exempted from reduction commitment in respect of export marketing costs, internal and international transport and freight charges.

### 32.8.11 Indian position on export subsidy

India does not provide any of the export subsidies listed for reduction commitments in the Agreement. The only subsidies available to exporters are in the form of (a) exemption of profits from export sales in income tax (under section 80-HHC) and (b) subsidies on costs of freight, marketing and international and internal transport on export shipments of livestock products.

### 32.8.12 Consequence of high export subsidy

The extensive use of export subsidies (mainly the EU and the US) in world trade in dairy, meat and poultry products depresses the world market prices and makes the products from all non-subsidizing exporting countries such as India uncompetitive. The size of export subsidies and the high proportion of world trade to which exports subsidies are applied both suggest that there is a need to negotiate complete elimination of export subsidies provided by developed countries during WTO meetings.

### 32.8.13 Sanitary and phytosanitary measures

The agreement on the application of Sanitary and Phytosanitary Measures (the SPS Agreement) is one of the important agreements of WTO. The SPS Agreement concerns the protection of animal, pant or human health or life from food borne risks and animal and plant carried diseases. The Agreement sets important parameters governing the adoption and implementation of food quality/safety and animal health measures and recognizes the standards, guidelines and recommendations determined by the Codex Alimentarius Commission (CAC) and International Office of Epizootics (OIE) as the minimum basis for international trade in livestock sector, while permitting the members to introduce a level of protection higher than that is recommended by the above mentioned international reference organizations provided it is scientifically justified.

The SPS Agreement provides guidelines to countries on measures to be taken to protect human, animal or plant life or health from the global trade or unsafe food, animal or plant. There are however, some provisions in the Agreement which amount to non-tariff barriers to trade.

Likewise SPS – recognized Codex standards stipulate that quality assurance systems such as HACCP, good hygienic practices should be employed in the entire food chain, including primary production. Although some flexibility has been granted to the developing countries in the primary production, it is in India's interest to ensure conformity with the HACCP System throughout the chain i.e. from farmer to consumer to enhance image of Indian livestock products.

**32.8.14 Codex standards**

The WTO has recognizes the standards set by international organizations namely the Codex Alimentarius Commission (CAC) and the International Office of Epizootics (OIE) as reference for food safety and animal health respectively in global trade.

The main focus of Codex standards and guidelines has been quality and food safety for human consumption. Codex standards are expected to be based on science. However, in some cases, this principle has been ignored. Moreover, most standards have been set without considering data from the developing countries. Therefore, the standards set, at times, are very stringent from India's point of view. Testing facilities for analyzing of all the contaminants, too are not easily available to livestock products' processors. Codex has MRLs for 10 veterinary drugs residues and is considering MRLs for some more. PFA has not as yet set MRLs for veterinary drugs although it is now considering to do so. Codex is also seriously concerned regarding the microbiological quality of livestock products, and has recommended measures to minimize microbiological contamination. Codex guidelines stipulate that the raw material should be produced in a way, which minimizes bacterial load, growth and contamination. Codex advocates measures to be taken from farmer-to consumer to ensure that livestock products are safe for human consumption.

To achieve this, Codex recommends the application of the Principles of Hazard Analysis and Critical Control Point (HACCP) System. It is expected that application of HACCP system and other codes, guidelines and recommendations would be made mandatory for the international trade in future. The Indian dairy industry must gear to meet the international regulatory requirements and ensure that not only their plants get certified under HACCP system but also their primary production system. Codex is also considering a Code of Practice on Good Animal Feeding. The proposed code includes provisions of application of HACCP in feed manufacturing and of traceability of raw materials and quality defects to processes. The main focus of Codex standards and guidelines has been quality and food safety for human consumption.

### 32.8.15 OIE standards

The major focus of OIE requirements is animal health related concerns as follows: i) General Provisions: Notification of Animal Diseases, Veterinary Ethics and Certification for International Trade, Import Risk Analysis Import/Export Producers and Risk Analysis for Biologicals for Veterinary Use,Recommendations Applicable to Specific Diseases, Diagnostic Tests for International Trade Purposes: Prescribed and Alternative Diagnostic tests for list A and B Diseases, Collection and Processing of Semen, Epidemiological Surveillance System: Recommendations for Rinderpest, contagious bovine pleuropneumonia, bovine spongiform encephalopathy, Model International Certificates

### 32.8.16 Consequence of SPS

Taking advantage of SPS provisions, some countries have adopted regulations that include unjustified, stringent SPS measures, which are difficult for most of the developing countries including India to comply with European Union regulations on health rules for the production of milk on maximum levels of Aflatoxin M in milk and on provisional list of countries authorized for export products into EU are some examples.

### 32.8.17 Impact of WTO agreements on the Indian dairy sector

India's trade in milk products – both exports and imports – is very much influenced by the policies of WTO. Different kinds of subsidies provided by many developed Countries to their farmers including milk producers distort international dairy market prove to the disadvantageous to milk producers of India. It was expected that the implementation of Agreement on Agriculture (AoA) would substantially reform the trade of agricultural products, but due to high market access barriers it has not happened.

Very high total domestic support is provided by many developed countries to their producers. According to one estimate, it was found producers continue to get nearly half of their earnings from transfers due to governments support. Whereas, Indian milk producers do not enjoy any significant levels of such support.

Export subsidies also continue to be a significant factor in world dairy trade. The quantity of dairy products eligible for export subsidies, even after reduction commitments, is about sixty percent of estimated world trade in all products. Such policies significantly influence the global prices of dairy products.

Many developed countries maintain Tariff barriers in the form of : high ad-valorem duties; specific duties that afford a higher level of protection as compared to ad valorem duties; and special agricultural safeguards. Many developed countries have maintained very high level of tariffs on dairy products, such as Norway (more than 300%), Finland (200-480%), Japan (180 to 500%). Moreover, special agricultural safeguard (SSG) mechanism, designed for import control in cases of surges in imports and decline in world market prices, is being used as an integral part of market management system by many developed countries.

Arbitrarily higher standards for food safety and quality are imposed by many importing countries, encompassing animal health requirements, standards on microbiological quality, environmental contaminants etc. It is difficult for India to meet these standards due to lack of infrastructural facilities. For producing safe milk, it is necessary that milk is produced hygienically and then chilled at low temperature and transported in the quickest possible time for processing.

The subsidies extended by major dairying developed countries depress world prices of dairy products substantially and to levels that make Indian dairy products uncompetitive. While on the one hand, this affects exports of Indian dairy products adversely, on the other, this encourages increased imports of subsidized products damaging domestic industry. Since world trade is distorted by entry barriers such as quotas and subsidies and non tariff barriers such as arbitrarily higher standards for food quality, it is difficult for any emerging country to acquire a major share in the world market. The EU is the world's largest exporter of dairy products and its use of substantial export subsidies has a depressing effect on world market prices. Practically all milk powder and butter exports as well as a substantial portion of cheese exports by the EU are subsidized. Subsidized exports by the EU and the US alone have a major impact on the global dairy market because they represent a significant proportion of total trade.

Under the Government's liberalization policy, the dairy sector was de-licensed in June 1991. In April 2001 all quantitative restrictions (QRs) on dairy products were removed. These policy move exposed Indian dairy industry to the highly distorted world markets along with the threat of imported products. This also posed threat of bringing exotic diseases into the country. Accordingly the government, then, amended the Livestock Importation Act, 1898 in July 2001 to allow the import of the livestock products, including milk products, against Sanitary Import Permit after conducting risk analysis, as per the SPS Agreement.

Due to such distortions in world trade and the legislative and infrastructural Problems prevalent in India, It is difficult for her to acquire a significant share in the international market. Particularly for western dairy products like SMP, butter oil etc. The possible road map for export of milk products is directed at indigenous milk products like ghee, khoa, paneer, sweet meats which are popular in one form or the other in South East Asia, Middle East and North Africa, where we have comparative advantage in sailing Indian dairy products and we determine the standards for these products. This group of countries (35 to 40 developing countries) would be able to absorb any surplus milk and milk products, that India export.

**32.9 Additional Agreements**

Another group of agreements not included in the diagram is also important: the two "plurilateral" agreements not signed by all members: civil aircraft and government procurement.