

PHILIP KOTLER

**MARKETING
MANAGEMENT**

SUMMARY

PREPARED BY

SUBHANK RAJGURU
PGDM, BIMTECH



**BIRLA INSTITUTE
OF MANAGEMENT TECHNOLOGY**
GREATER NOIDA

INDEX

<i>Chapter 1 Marketing in the 21st century.....</i>	<i>3</i>
<i>Chapter 2 Building Customer Satisfaction Value and Retention.....</i>	<i>19</i>
<i>Chapter 3 Winning Markets : Market Oriented Strategic Planning.....</i>	<i>25</i>
<i>Chapter4 Gathering Information and measuring market demand.....</i>	<i>31</i>
<i>Chapter 5 Scanning the Marketing Environment.....</i>	<i>42</i>
<i>CHAPTER –6 Analyzing Consumer markets & Buying Behavior.....</i>	<i>55</i>
<i>CHAPTER 7 ANALYZING BUSINESS MARKETS AND BUSINESS BUYING BEHAVIOR.....</i>	<i>63</i>
<i>Chapter 8 Dealing With the Competition</i>	<i>69</i>
<i>CHAPTER 9 Identifying Market Segments and Selecting Target Markets</i>	<i>76</i>
<i>Chapter 10 Positioning the Market Offering Through the Product Life Cycle</i>	<i>86</i>
<i>Chapter 11 Developing New Products</i>	<i>106</i>
<i>CHAPTER 13 Product & Product Mixes</i>	<i>118</i>
<i>Chapter 14 : Designing and Managing Services.....</i>	<i>126</i>
<i>Chapter 15 Designing Pricing Strategies and Programs.....</i>	<i>137</i>
<i>Chapter 16 Managing Marketing Channels.....</i>	<i>157</i>
<i>Chapter 17 Managing Retailing Wholesaling and Market Logistics.....</i>	<i>166</i>
<i>Chapter 18 MANAGING INTEGRATED MARKETING COMMUNICATIONS.....</i>	<i>172</i>
<i>Chapter 19 Advertising and Sales Promotion</i>	<i>189</i>
<i>Chapter 20 MANAGING THE SALES FORCE.....</i>	<i>198</i>
<i>Chapter 21 Managing Direct and Online Marketing.....</i>	<i>209</i>
<i>CHAPTER 22 Managing the Total Marketing Effort.....</i>	<i>221</i>

Chapter 1 Marketing in the 21st century

Marketing tasks

Three stages through which marketing practice might pass

- 1) **Entrepreneurial marketing:** Most companies are started by individual who live by their wits. They visualize an opportunity and knock on every door to get attention
Ex. A person sold beer door to door and such direct selling. Slowly he became market leader in selling his products.
- 2) **Formulated marketing:** when small companies achieve success, they move to formulated marketing i.e. already laid down advertising methods, like thru TV etc.
- 3) **Intrepreneurial Marketing:** some companies rely on formulated marketing, without much success. They need to develop some creative out of the box ideas to market their products.

Scope of Marketing

Marketing people are involved in 10 types of entities:

- 1) **Goods** like eggs, steel, cars (Maruti!!!! Wow)
- 2) **Services** like airlines, hotels, barbers
- 3) **Experiences** like Walt Disney world's magic kingdom, at planet Hollywood
- 4) **Events** like Olympics, trade shows, sports events (T20 World Cup).
- 5) **Persons** like celebrity marketing by making major film star as brand ambassador (Amitabh Bachan, Cadbury's) etc.
- 6) **Places** like cities, states, nations to attract tourists, factories, company headquarters, and new residents, like we use TAJ or say Nainital
- 7) **Properties** like real state owners market properties or agent markets securities (DLF,Unitech)
- 8) **Organizations** thru' Corporate identity ads like by using tag line 'Lets make things better', or like Richard branson (virgin) or Phil knight of Nike are some identity
- 9) **Information** like thru encyclopedias, CDs and visit the Internet for information. This is information marketing
- 10) **Ideas** like the buyer of a drill are really buying a hole. Church should market itself as a place of worship or a community center. Eg. Bimtech as a place for breeding managers.

A broadened view of Marketing Tasks:

Production and logistics manage supply and marketers manage demand

Eight different states of demand:

- 1) **Negative demand:** if a major part of market dislikes the product and may even pay a price to avoid it – vaccinations, gall bladder operations etc. Marketing task is to analyse why the market dislikes the product and whether a marketing program can change beliefs and attitudes.
- 2) **No Demand:** Target consumers may be unaware of or uninterested in the product. Eg. College students may not be interested in foreign language courses. Marketing should look for ways to benefit others with their product and of course thus sell their product
- 3) **Latent demand:** Market feels a strong needs for some products like harmless cigarettes. Marketer needs to measure size of this market and develop such goods
- 4) **Declining demand:** market for products etc declines. Then marketer need to know the causes and rectify
- 5) **Irregular demand:** Demand of many products and services are seasonal. Marketer needs to devise ways called synchromarketing like flexible pricing, promotions and other incentives
- 6) **Full demand:** sometimes full demand is there. Marketing task is to maintain current level of demand in face of changing consumer preferences and increasing competition.
- 7) **Overfull demand:** sometimes demand is higher than what organization can handle. Then marketing task, called demarketing is required. Like thru raising prices and reducing promotion and service. Selective marketing is reducing demand from some parts, say not so profitable, of the market
- 8) **Unwholesome demand:** Unwholesome products will attract organized efforts to discourage consumption. Like unselling campaigns against cigarettes, alcohol, and handguns. Marketing can use fear messages like raising prices, reduced availability.

The decisions marketers make

Marketing managers face a host of decisions, from major ones such as what product to make, what features, how many salesperson to hire etc. These questions vary according to marketplaces.

Consider following four markets

- 1) **Consumer market:** mass consumer goods and services such as soft drinks, toothpaste, air travel etc.
- 2) **Business Markets:** Companies selling business goods and services face well trained and well informed professional buyers. They buy goods for their utility or to make or resell a product to others.

- 3) **Global markets:** goods and services for global marketplace. They have to decide which country to enter, how to enter, has to have a fit the cultural practices etc.
- 4) **Nonprofit and Governmental Markets:** goods to nonprofit organizations like churches, universities, governmental agencies need to be priced carefully. They have to follow long government procedures to get this market.(Eg. Goods sold to the great Indian Government)

Marketing Concepts and Tools:

Defining Marketing:

Social Definition:

Marketing is a societal process by which individuals and groups obtain what they need and want through creating, offering and freely exchanging products and services of value with others.

(One marketer said that marketing's role is *to deliver a high standard of living*)

Managerial Definition:

Often described as the art of selling.

Marketing is not just selling. Selling is only the tip of the iceberg!

Peter Drucker: The aim of marketing is to make selling superfluous. The aim of marketing is to know and understand the customer so well that the product or service fits him and sells itself.

American Management Association: Marketing (management) is the process of planning and executing the conception, pricing, promotion, and distribution of ideas, goods, services to create exchanges that satisfy individual and organisational goals.

Kotler: We see marketing management as the art and science of choosing target markets and getting, keeping and growing customers through creating, delivering and communicating superior customer value.

Core Marketing Concepts:

Target Markets and Segmentation:

- Marketers can rarely satisfy everyone in the market. So they start with 'market segmentation'.
- Identify and profile different groups of buyers.
- Target segments that present the greatest opportunity – those whose needs the firm can meet in a superior fashion.

- For each chosen target market, the firm develops a **market offering**, which is positioned as offering some central benefit.
- Marketers view the **sellers** as constituting the **industry** and the buyers as constituting the market.

Markets:

- Need markets (the diet seeking market) Eg. VLCC
- Product markets (the shoe market) Eg. Reebok, Adidas
- Demographic markets (the youth market)
- Geographic market (the French market) Eg. Atta Market
- Other markets like voter markets, donor markets and labour markets.

Marketplace v/s market space – physical v/s digital

Mohan Sawhney has proposed the concept of **metamarket** to describe a cluster of complementary products and services that are closely related in the minds of consumers but are spread across a diverse set of industries.

Metamediaries

Advantages of e-commerce:

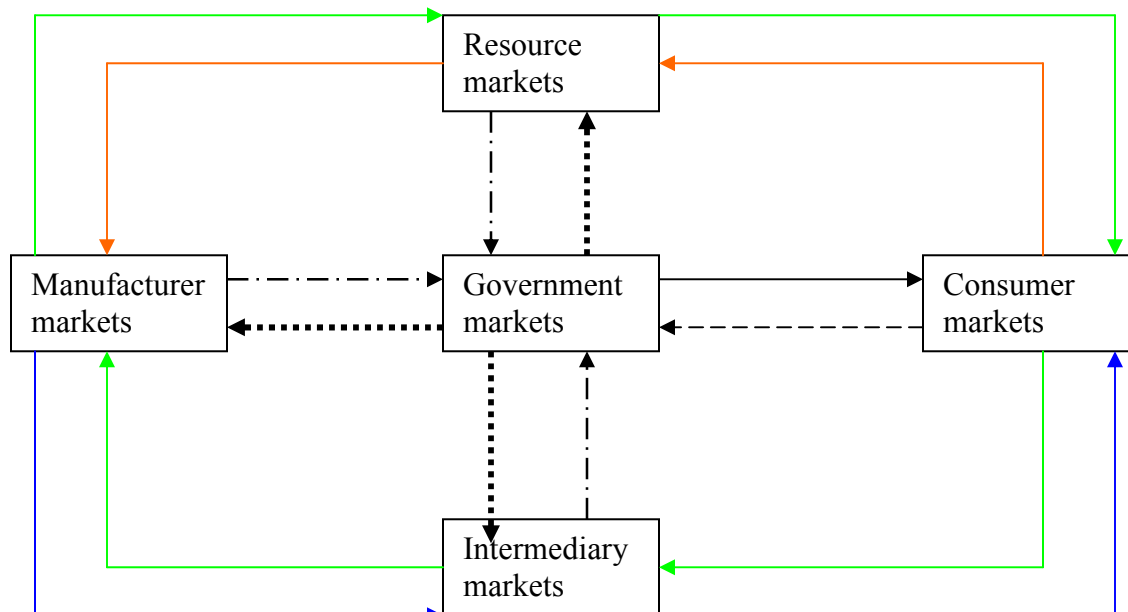
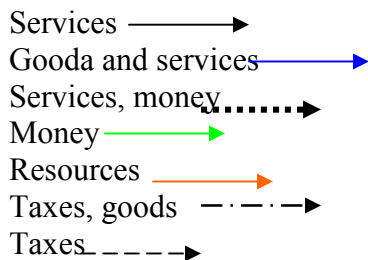
Convenience

Cost savings for companies

Selection

Personalization

Information



Marketers and prospects:

Marketer is someone seeking response in the form of attention, purchase, vote and donation. The response is sought from prospect.

Needs, Wants and Demand:

Needs describe basic human requirements. Example need for food, air, water, education, entertainment etc.

Needs become wants when they are directed to specific objects that might satisfy the need.

Need for food ---> Want for a Hamburger (KFC ZINGER)

Demands are wants for specific products backed by willingness and ability to pay.

Marketers do not create needs. Needs preexist marketers. Marketers along with other social influencers influence wants.

Product or offering:

A product is any offering that can satisfy a need or want.

Major typed of basic offerings: Goods, services, experiences, events, persons, places, properties, organizations, information and ideas.

A brand is an offering from a known source.

Value and satisfaction:

Value is what customer gets and what he gives. Customer gets benefits and assumes costs. Benefits include functional and emotional benefits. Costs include monetary costs, time costs, energy costs and psychic cost.

$$\text{Value} = \frac{\text{Benefits (functional and emotional benefits)}}{\text{Costs (include monetary costs, time costs, energy costs and psychic cost)}}$$

Value of customer offering can be increased by:

- ❖ Raise benefits
- ❖ Reduce costs
- ❖ Raise benefits AND reduce costs
- ❖ Raise benefits by MORE THAN the raise in costs
- ❖ Lower benefits by LESS THAN the decrease in costs

Exchange and transactions:

Exchange is one of the four ways in which a person can obtain a product.

Exchange is core concept of marketing.

Exchange involves obtaining a desired product from someone by offering something in return.

For exchange potential to exist five conditions must be satisfied:

- ❖ At least two parties
- ❖ Each party has something that might be of some value to the other party.
- ❖ Each party is capable of communication and delivery
- ❖ Each party is free to accept or reject offer
- ❖ Each party believes that it is appropriate or desirable to deal with the other party.

Exchange is value-creating process as it leaves both the parties NORMALLY better off. Exchange is a process rather than an event.

A transaction is a trade of values between two or more parties.

Monetary transaction: Paying money in exchange of goods

Barter transaction: Goods or services for other goods or services.

Dimensions of a transaction:

At least two things of value

Agreed upon conditions

A time of agreement

Place of agreement

Transaction differs from transfer. In a transfer A gives goods to B but does not receive anything tangible in return. Example: Gifts, charities, subsidies etc.

Relationships and networks:

Transaction marketing is a part of larger idea called relationship marketing. Relationship marketing has the aim of building long term mutually satisfying relations with key parties – customers, suppliers, and distributors – in order to earn and maintain their long-term preference and business.

Relationship marketing builds strong economic, social and technical ties among the parties.

A marketing network consists of companies and its supporting stakeholders (customers, employees, suppliers, distributors, retailers, ad agencies, university scientists and others).

Marketing Channels:

To reach a target market marketer uses three different kinds of marketing channels.

Communication channel: The marketer uses communication channels to deliver and receive messages from target buyers. These consist of dialogue channels (e mail, toll free numbers).

Distribution channels: To display and deliver the physical product or service to the buyer or user. They include warehouses, transportation vehicles and various trade channels such as distributors, wholesalers, retailers etc.

Selling channels: They include not only the distributors and retailers but also the banks and insurance companies that facilitate transactions.

Supply chain:

Supply chain represents a value delivery system. When a company moves upstream or downstream, the aim is to capture a higher percentage of supply chain value.

Competition:

Competition includes all the actual and potential rival offerings and substitutes that a buyer might consider.

Four levels of competition:

Brand competition: Similar products or services to the same customers at similar prices.

Industry competition: All companies making the same product or the class of product.

Form competition: All companies manufacturing the products that supply the same service.

Generic competition: All companies that compete for the same consumer dollars.

Example: Company – Volkswagen

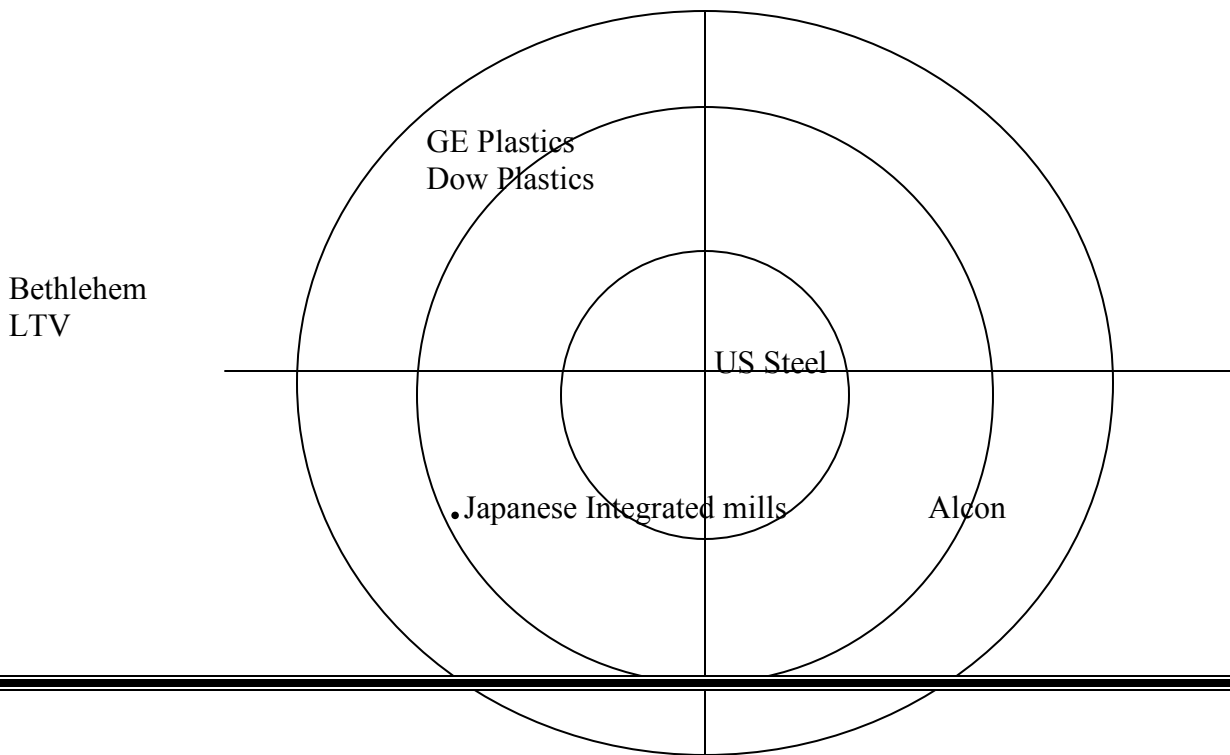
Brand competition: Honda, Toyota and other medium price automobiles

Industry competition: All automobile manufacturers

Form competition: Automobiles + Motorcycles + Bicycles + Trucks

Generic competition: Consumer durables + Foreign Vacations + New Homes

RADAR SCREEN: For US steel industry (as given in Kotler)



Marketing Environment

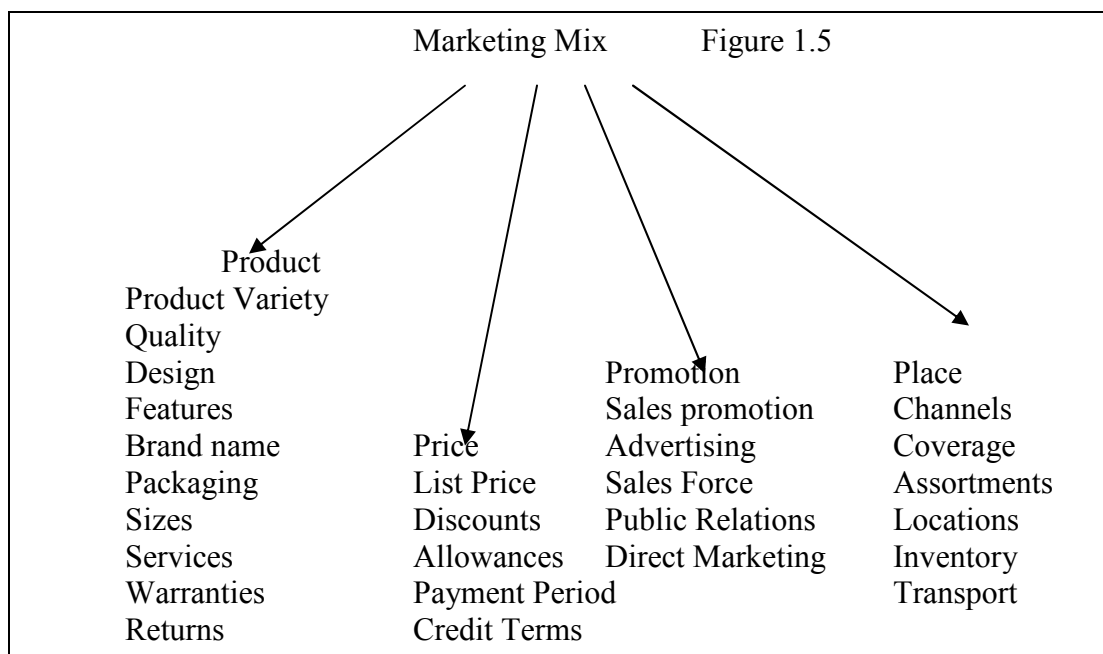
Competition represents only one force in the environment in which the marketer operates. The marketing environment consists of the *task environment* and the *broad environment*.

The task environment includes the immediate actors involved in producing, distributing, and promoting the offering. The main actors are company, suppliers, distributors, dealers, and the target customers. Included in the supplier group are material suppliers and service suppliers such as marketing agencies, advertising agencies, banking and insurance companies, transportation and telecommunication companies. Included with distributors and dealers are agents, brokers, manufacturer representatives, and others who facilitate finding and selling to consumers.

The broad environment consists of six components: *demographic environment, economic environment, natural environment, technological environment, political-legal environment, and social-cultural environment*. These environments contain forces that can have a major impact on the actors in the task environment. Market actors must pay close attention to the trends and the developments in these environments and then make timely adjustments to their marketing strategies.

Marketing Mix

Marketers use numerous tools to elicit desired responses from their target markets. These tools constitute a *marketing mix*.



- **Marketing mix** is the set of marketing tool that the firm uses to pursue its marketing objectives in the target market.

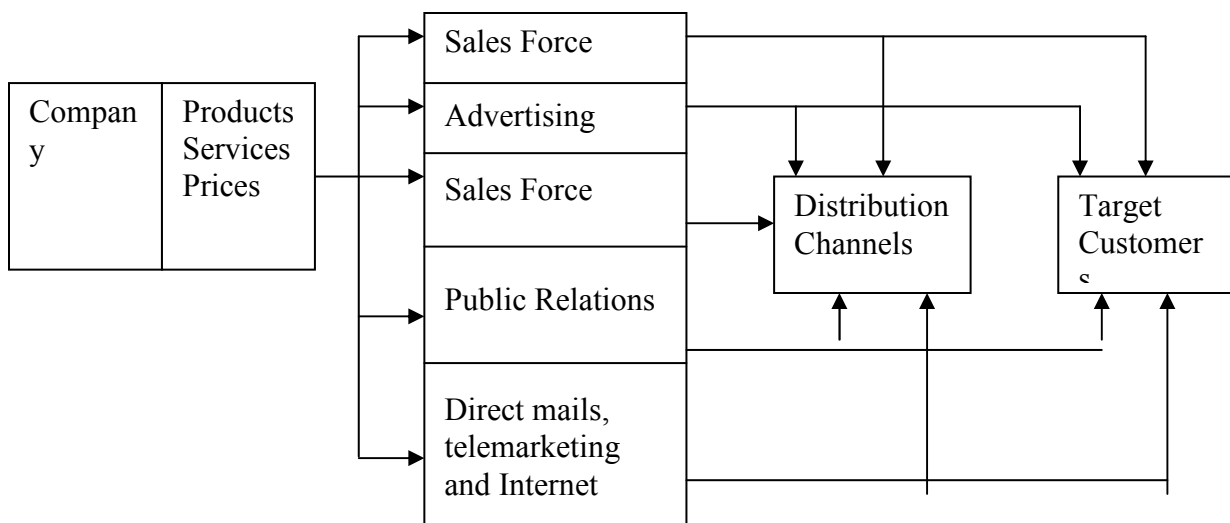
McCarthy classified these tools into four broad groups that he called the four P's of marketing: Product, Price, Place and Promotion. The particular marketing variables under each P are shown in figure 1.5. Marketing mix decisions must be made for influencing the trade channels as well as the final consumers. Fig 1.6 shows the company preparing the *offering mix* of the products, services and prices and utilizing a *promotion mix* of sales promotion, advertising, sales force, public relations, direct mail, telemarketing, and internet to reach the trade channels and the target customers.

Typically, the firm can change its price, sales force size, and advertising expenditures in the short run. It can develop new products and modify its distribution channels only in the long run. Thus the firm typically makes fewer period-to-period marketing-mix changes in the short run than the number of marketing-mix decision variables might suggest.

Note that the four Ps represent the seller's view of the marketing tools available for influencing the buyer. From a buyer's point of view, each marketing tool is designed to deliver a customer benefit. Robert Lauterborn suggested that the seller's four P's correspond to the customer's four Cs.

<u>Four Ps</u>	<u>Four Cs</u>
Product	Customer Solution
Price	Customer Cost
Place	Convenience
Promotion	Communication

Winning companies will be those who can meet customer needs economically and conveniently and with effective communication.



Company orientation towards the market place

We have defined marketing management as the conscious effort to achieve desired exchange with target markets. But what philosophy should guide a company's marketing efforts? What relative weights should be given to the interests of the organization, the customers and the society? Very often these interest conflict. Clearly, marketing activities should be carried under a well-thought out philosophy of efficient, effective, and socially responsible marketing. However, there are five competing concepts under which organizations conduct marketing activities: the production concept, product concept, selling concept, marketing concept and societal marketing concept.

The Production Concept:

The production concept is the oldest concept in business.

The production concept holds that consumers will prefer products that are widely available and inexpensive.

Managers of production-oriented business concentrate on achieving high production efficiency, low costs and mass distribution. They assume that consumers are primarily interested in product availability and low prices. This orientation makes sense in developing countries, where consumers are more interested in obtaining the product than its features. It is also used when a company wants to expand the market.

Some service organizations also operate on the production concept. Many medical and dental practices are organized on assembly-line principles, as are some government agencies (such as unemployment offices and license bureaus). Although this management orientation can handle many cases per hour, it is open to charges of impersonal and poor quality service.

The Product Concept:

Other businesses are guided by the product concept.

The product concept holds that consumers will favor those products that offer the most quality, performance, or innovative features.

Managers in these organizations focus on making superior products and improving them over time. They assume that buyers admire well-made products and can appraise quality and performance. However, these managers are sometimes caught up in a love affair with their product and do not realize what the market needs. Management might commit the "better-mousetrap" fallacy, believing that a better mousetrap will lead people to beat a path to its door. Such was the case when WebTV was launched during Christmas 1996 to disappointing results.

Product oriented companies often design their products with little or no customer input. They trust that their engineers can design exception products. Very often they will not even examine competitor's product. A General Motors executive said years ago: "How can public know what kind of cars they want until they see what is available?" GM's designers and engineers would design the new car. Then manufactures would make it. The finance department would price it. Finally, marketing and sales would try to sell it. No wonder the car required such a hard sell! GM today asks customers what they value in a car and includes marketing people in the very beginning stage of the design.

The product concept can lead to **marketing myopia**. Railroad management thought that travelers wanted trains rather than transportation and overlooked the growing competition from airlines, busses, trucks and automobiles. Slide-rule manufacturers thought that engineers wanted slide rules and overlooked the challenge of pocket calculators. Colleges, department stores, and post office all assume that they are offering the public the right product and wonder why their sales slip. These organizations too often are looking into a mirror when they should be looking out of window.

The Selling Concept:

The selling concept is another common business orientation.

The selling concept holds that consumers and businesses, if left alone, will ordinarily not buy enough of the organizations products. The organization must, therefore, undertake an aggressive selling and promotion effort.

This concept one assumes that consumers typically show buying inertia or resistance and must be coaxed into buying. It also assumes that the company has a whole battery of effective selling and promotion tools to stimulate more buying.

The selling concept is practiced in the non-profit area by fund-raisers, college admission offices, and political parties. A political party vigorously sells its candidates to voters. The candidates' flaws are concealed from the public because the aim is to make a sale and not worry about post purchase satisfaction. After the election, the new official wants and a lot of selling to get the public to accept policies the politician or party wants.

Most firms practice selling concept when they have overcapacity. Their aim is to sell what they make rather than make what the market wants. In modern industrial economies, productive capacity has been built up to a point where most marketers are buyer markets (the buyers are dominant) and sellers have to scramble for customers. Prospects are bombarded with TV commercials, newspaper ads, direct mails, and sales calls. At every turn, someone is trying to sell something. As a result, the public often identifies marketing with hard selling and advertising.

But marketing based on hard selling carries high risks. It assumes that customers who are coaxed into buying a product will like it; and if they don't, they won't bad mouth it or complain to consumer organizations and will forget their disappointment and buy it

again. These are indefensible assumptions. One study showed that dissatisfied customers may bad-mouth the product to 10 or more acquaintances; bad news travels fast.

THE MARKETING CONCEPT

The marketing concept is a business philosophy that challenges the three business orientations we just discussed.

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

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

Target market

Companies do best when they select their target markets carefully and prepare tailored marketing programs.

Customer needs

A company can define its target market but fail to correctly understand the customers' needs.

Understanding customer needs and wants is not always simple. Some customers have needs of which they are not fully conscious. Or they cannot articulate these needs. Or they use words that require some interpretation.

We can distinguish among five types of needs:

- Stated needs
- Real needs
- Unstated needs
- Delight needs
- Secret needs

Responding only to the stated need may shortchange the customer. Consider a woman who enters a hardware store and asks for a sealant to seal glass windowpanes. This customer is stating a solution and not a need. The salesperson may suggest that tape would provide a better solution. The salesperson met the customers need, not her stated solution.

A distinction needs to be drawn between responsive marketing, anticipative marketing, and creative marketing. A responsive marketer finds a stated need and fills it. An

anticipative marketer looks ahead into what needs customers may have in the near future. A creative marketer discovers and produces solutions customers didn't ask for but to which they enthusiastically respond.

Sony exemplifies a creative marketer because it has introduced many successful new products that customers never asked for or even thought were possible.

Why is it supremely important to satisfy target customers? Because a company's sales each period comes from two groups: new customers and repeat customers. One estimate is that attracting a new customer can cost five times as much as pleasing an existing one. And it might cost sixteen times as much as to bring the new customer to the same level of profitability as the lost customer. Customer retention is thus more important than customer attraction.

Integrated marketing:

When all the company's departments work together to serve the customer's interests, the result is integrated marketing. Unfortunately, not all employees are trained and motivated to work for the customer.

Integrated marketing takes place on two levels. First, the various marketing functions—sales force, advertising, customer service, product management, marketing research—must work together.

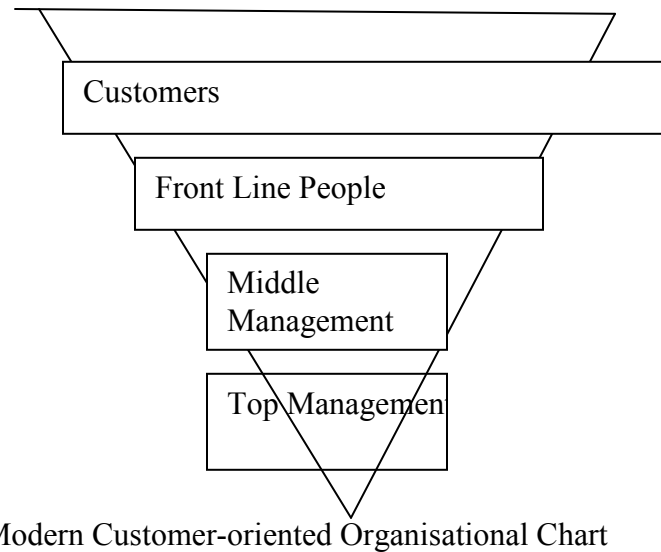
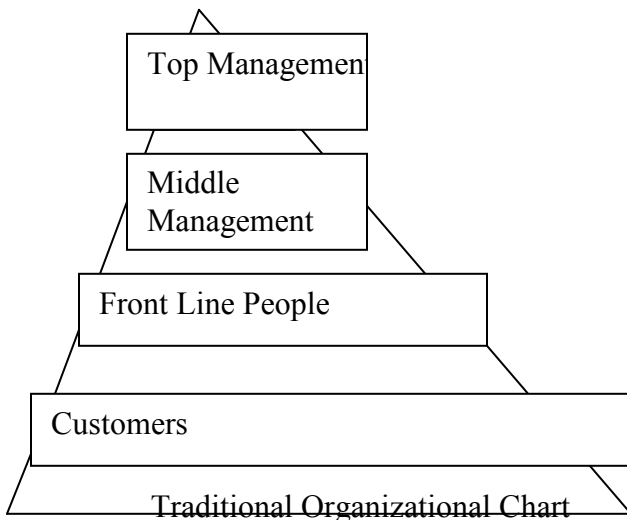
Second, the other departments must embrace marketing; they must also think customer. Marketing is not a department so much as a company wide orientation.

To foster teamwork among all departments, a company should carry out internal as well as external marketing. External marketing is marketing directed at people outside the company. Internal marketing is the task of hiring, training, and motivating able employees who want to serve the customers well. In fact, internal marketing must precede external marketing. It makes no sense to promise excellent service before the company's staff is ready to provide it.

Managers who believe the customer is the company's only true profit center consider the traditional organisation chart— a pyramid with the president at the top, management in the middle, and front-line people and customers at the bottom—obsolete. Master marketing companies invert the chart.

Profitability

The ultimate purpose of the marketing concept is to help organizations achieve their objectives. In the case of private firms, the major objective is profit; in the case of nonprofit and public organizations, it is surviving and attracting enough funds. A company makes money by satisfying customer needs better than its competitors.



Most companies do not embrace the marketing concept until driven by circumstances. These are

1. Sales Decline: When Sales fall, companies panic and look for answers. Today newspapers decline as people are more relying on Radio, TV and Internet for the news
2. Slow Growth: Slow sales growth leads companies to search for new markets. They realize they need marketing skills to identify and select new opportunities
3. Changing buying patterns: Many companies operate in markets characterized by rapidly changing customer wants. These companies need more marketing knowhow if they are to track buyers changing values
4. Increasing Competition: Complacent industries may be suddenly attacked by powerful competitors. AT&T was quite complacent in a regulated market-naïve Telephone Company until government allowed other companies to sell Telephone equipments. Companies in deregulated industries all find it necessary to build up marketing expertise
5. Increasing Marketing Expenditures: Companies may find their expenditures for advertising, Sales, Promotion, marketing Research and Customer Service to be poorly done. Management then decides to take a serious audit to improve its marketing

Companies need to attract and retain customers through superior product offerings, which delivers the Customer satisfaction. This is also influenced by other departments who must cooperate in delivering this Customer Satisfaction

In the course to converting into marketing orientation, a company faces 3 hurdles

- Organized Resistance
- Slow Learning
- Fast forgetting

Some company departments like R&D, Manufacturing, and Finance etc. believe a stronger Marketing department threatens their power in the organisation. Resistance is especially strong in the industries where Marketing is introduced for the first time-like law offices, colleges, deregulated industries and government offices. But in spite of resistance the Company president establishes a Marketing department, marketing talents are hired and seminars conducted, Marketing budget increased and Marketing planning and Control systems introduced. Companies face a difficult task in adapting ad slogans to International markets, many of which are interpreted wrongly

SOCIETAL MARKETING CONCEPT:

The Societal Marketing Concept holds that the Organizations task is to determine the needs, wants and interests of target markets and to deliver the desired satisfaction more effectively and efficiently than competitors in a way that preserves and enhances the consumers and the societies well being.

It calls for social and Ethical considerations in marketing. They must balance the conflicting criteria of Company profits, consumer want satisfaction and Public Interest. In an age of environmental deterioration, resource shortage, explosive population growth, world hunger and poverty and lack of Social Services Marketers needs to be sensitive on these issues

Cause-Related Marketing: Activity by which a company with an image, product or service to market builds a relationship/partnership with a cause/causes for mutual benefit. This serves an opportunity for Corporate Reputation, raise Brand Awareness, increase Customer Loyalty, Press coverage and Build Sales. DOCC....

How Businesses and Marketing are Changing?

Market place is changing as a result of major societal forces like

- Technological Advance
- Globalization
- Deregulation

Customers increasingly want higher Quality, Lower Price, Service and Customization. They perceive fewer Brand Loyalty and Product differences. They can obtain Extensive Product information from the Internet and other sources and shop intelligently. Brand manufacturers are facing intense competition from domestic and foreign brands, rising promotion costs and shrinking profits.

Store based retailers are suffering from an over saturation of retailing. Small retailers are succumbing to growing power of Giant retailers and category killers. Store based retailers are suffering from competition from catalog houses, Direct mail firms, TV direct to customer ads, Telemarketing, Tele-shopping etc.

Company Response and Adjustments

Here are some current trends

1. Reengineering: Focusing on Functional departments to reorganize the key business processes, each managed by multidiscipline teams
2. Outsourcing: From making everything inside to buying more goods and services outside, to obtain them cheaper and better. Few companies are outsourcing everything making them Virtual companies owning very few assets and therefore extraordinary rates of return
3. E-Commerce: Making all products available on the Internet. Customers can now shop online from different vendors, have access to a lot of Pricing and Quality and Variety information. Click and pay systems are evolving along with B2B systems and B2C systems, with buyers and sellers in Real Time Systems
4. Benchmarking: Adopting the best practices of World Class performers
5. Alliances: Network of partners
6. Partner-Suppliers: From many suppliers to a few reliable suppliers who work more closely in Partnership relationships with the company
7. Market-Centred: From organized around the product to organized around the Market segment
8. Global and Local: From being local to being Globally local and locally Global
9. Decentralized: More entrepreneurship at the local level

Marketer responses and adjustments:

1. Relationship Marketing: From focusing transactions to building Long Term profitable Customer Relationships. The 80-20 rule
2. Customer Lifetime value: From making a profit on each sale to making Profits by managing Customer Lifetime value. Like the EDLP of Wal-Mart
3. Customer Share: From focusing on gaining on Market Share to focusing on gaining Customer Mindshare by selling a large variety of goods and services, training employees to do Cross-selling and Up-selling
4. Target Marketing: From selling to everyone to serving better well defined market segments
5. Individualization: From selling the same offer in the same way in the target market to individualization and Customization. Customers designing their own products on the web pages and all
6. Customer Database: Customer Knowledge Profiling, Data Mining, Data Warehousing, purchase preferences, demographics
7. Integrated Marketing Communication: From relying on one communication tool like advertising and Promotion to blending several tools to deliver a consistent brand image to customers at every brand contact
8. Channels as Partners: From thinking of intermediaries as Customers to treating them as Partners in delivering value
9. Every Employee as a Marketer
10. Model based Decision making: From making decisions on intuition to basing decisions on models and facts

Chapter 2 Building Customer Satisfaction Value and Retention

Customer Value

- **Customer Value or Customer Delivered Value** is the difference between Total Customer Value and Total Customer Cost. $\text{Customer Value} = \text{Product Value} + \text{Service Value} + \text{Personnel Value} + \text{Image Value}$
- **Total Customer Value** is the bundle of benefits that the customers expect from a given product or service.
- Total Customer Cost is the bundle of costs customers expect to incur in evaluating, obtaining, using and disposing of the product or service. $\text{Total Customer Cost} = \text{Monetary Cost} + \text{Time Cost} + \text{Energy Cost} + \text{Psychic Cost}$
- Customers make their purchases based on Customer Delivered Value or on the basis of value-price ratio. $\text{Value} - \text{price ratio} = \text{Total Customer Value} / \text{Total Customer Cost}$
- Seller who is at a delivered value disadvantage has two alternatives:
- Increase Total Customer Value: strengthen product, service, personnel and image benefits
- Decrease Total Customer Cost: reduce price, simplify ordering and processing process, absorb buyers risk by offering warranty etc.

Customer Satisfaction

- **Customer Satisfaction** is a person's feelings of pleasure or disappointment resulting from comparing a product's perceived performance (or outcome) in relation to his or her expectations
- Customer Satisfaction is a function of perceived performance and expectations of the customer.
- A company must develop a competitively superior value proposition and a superior value delivery system.
- It often happens that customers are dissatisfied because of a wide gap between Brand value and Customer value. So it is recommended that marketers pay as much attention to building brands as in influencing company's core processes.
- The goal of a company should be to maximize customer satisfaction, subject to delivering acceptable levels of returns to the other stakeholders within constraints of its resources.

Four methods of tracking customer satisfaction:

1. Feedback and Suggestion Forms
2. Customer Surveys
3. Ghost shopping
4. Analyze lost customers

Nature of High Performance Businesses

Stakeholders – A company should strive to perform above the minimum expectations of all of its stakeholders, including the employees, customers, suppliers so that this dynamic relationship ultimately leads to higher profits and hence stockholder satisfaction.

Processes – The trick lies in overcoming the problems posed by departmental organization. The successful companies are those which achieve excellent capabilities in managing core business process through cross – functional teams.

Core processes here could be new-prod development, customer attraction, order fulfillment, etc

Resources – The major businesses are nowadays trying to own and nurture only their respective core resources and competences, while out sourcing the rest of the processes. Companies are paying increasing focus on their core competences and distinctive capabilities. One should go in for outsourcing, if through outsourcing,

1. better quality can be obtained
2. lower costs are incurred
3. If resources are less critical

Core competence has 3 characteristics

1. Difficult for competitors to imitate
2. Source of competitive advantage if it makes significant contribution to perceived customer benefits
3. Potential breadth of application to a wide variety of markets

Set strategies to satisfy key stakeholders	Stakeholders
By improving critical biz processes	Processes
And aligning resources and organization	Resources and Organisation

Organization and Organizational Culture –

According to the article *Built to Last*, there are 3 commonalities amongst the visionary companies –

1. They all held a core value system from which they did not deviate
2. They expressed their purpose in enlightened terms
3. They have developed a vision for their future and they strive towards it. They communicated it to their employees and embrace a higher purpose beyond making money

Senior mgmt must encourage fresh ideas from 3 grps wrt strategy making

- a. Employees with youthful perspectives
- b. employees away from headquarters
- c. employees new to the industry

✓ Delivering Customer value and satisfaction

Here are two important concepts from the customer value point of view –

Value chain – Michael Porter defined 9 processes as vital to a value building network of a company, viz.

Primary Activities: Inbound logistics, Operations, Outbound logistics, Marketing Sales and Service.

Support Activities: Infrastructure, HRD, Technology development, Procurement.

A firm's task is to examine all costs and performance of these processes and try and improve them for better value-creation. Also a firm's success depends upon how each of these processes is coordinated to seamlessly perform the following core business processes –

- New – product realization
- Inventory management
- Customer acquisition and retention
- Order-to-remittance
- Customer service

Value delivery network – A firm needs to partner with its suppliers, distributors and customers to gain significant competitive advantages by creating a superior value-delivery network.

✓ **Attracting and Retaining customers**

Customer Acquisition – This process is accomplished in 3 steps viz.

Lead generation – to generate leads, the company develops ads and places them in media that will reach new prospects; its sales person participate in trade shows where they might find new leads and so on. All this produces a list of *suspects*.

Lead qualification – the next task is to qualify which of the suspects are really good prospects, and this is done by interviewing them, checking for their financials, and so on. The prospects may be graded as hot warm and cool. The sales people first contact the hot prospects and work on account conversion, which involves making presentations, answering objections and negotiating final terms.

Computing cost of lost customers –

Too many companies suffer from high customer churn namely they gain new customer only to lose many of them. Today companies must pay closer attention to their customer defection rate (the rate at which they lose customer).

The steps involved here are

1. A company must define and measure retention rate
2. The company must distinguish the causes of customer attrition and identify those that can be managed better. Not much can be done for customer who leave the region or go out of business but much can be done about the customer who leaves because of poor service shoddy products or high prices. The company needs to examine the percentages of customer who defect for these reasons.
3. Third, the company needs to estimate how much profit it loses when it loses customer. In case of an individual customer the lost profit is equal to the customer's *lifetime value* that is the present value of the profit stream that the company would have realized if the customer had not defected prematurely.

4. Fourth the company needs to figure out how much it would cost to reduce the defection rate. As long as the cost is less than the lost profit the company should spend the amount to reduce the defection rate.

The key to customer retention is customer satisfaction. A highly satisfied customer:

- stays loyal longer
- buys more as the company introduces new products or upgrades existing products
- talk favorably about the company and its products
- Pays less attention to competing brands and advertising and is less sensitive to price.
- Offers product or service ideas to the company

Importance of retaining customers – The following statistics are helpful to this end

1. Acquiring new customers costs 5 times more than retaining old ones
2. A 5% reduction in customer defection can increase profits by 25% to 85%
3. Customer profit rates tend to increase over the lifetime of the customer.

The two ways of retaining a customer would be –

1. *To erect high switching costs* customers are less inclined to switch to another supplier when this would involve high capital costs, high search costs, or loss of loyal customer discounts.
2. *Deliver high customer satisfaction*

Relationship marketing –

The task of creating strong customer loyalty is called Relationship Marketing.

The steps in customer development process is

Suspects -> Prospects -> First-time customers -> repeat customers -> Clients -> members -> Advocates -> Partners.

There might be defections from any of these levels, in which case, relationship marketing works on customer win-back strategies.

There are 5 different types of levels of investment in customer relationship marketing –

1. Basic marketing : the sales person simply sells the product
2. Reactive marketing: the salesperson sells the product and encourages the customer to call if he or she has questions comments or complaints.
3. Accountable marketing: the salesperson phones the customer a short time after the sales to check whether the product is meeting the expectation.
4. Proactive marketing: the company salesperson contacts the customer from time to time with suggestion about the improved product uses or helpful new products.
5. Partnership marketing: the company works continuously with the customer to discover ways to perform better.

There are also certain marketing tools which can be used for added customer satisfaction

–

1. *Adding financial benefits* - through frequency marketing programs and club marketing programs. Club membership programs to bond the customer closer to the company can be open to everyone who purchases the product or service, such as frequent flier or frequent diner club, or it can be limited to the *affinity group*.

2. *Adding social benefits* – developing more social bonds with the customer; help make brand communities; etc.
3. *Adding structural ties* – Supplying customers with special equipment or computer linkages to help them manage their payrolls, inventory, etc. better.

Customer profitability the ultimate test

Ultimately, marketing is the art of attracting and retaining profitable customers. The well known 20-80 rule says that the top 20% of the customers may generate as much as 80% of the company's profits. The largest customers who are yielding the most profit. The largest customers demand considerable service and receive the deepest discounts. The smallest customers pay full price and receive minimal service, but the costs of transacting with small customers reduce their profitability. The mid size customers receive good service and pay nearly full price and are often the most profitable.

A company should not pursue and satisfy all customers.

A **profitable customer** is a person, household, or company that over time yields a revenue stream that exceeds by an acceptable amount the company's cost stream of attracting, selling, and servicing that customer.

Implementing Total Quality Management

TQM is an organization wide approach to continuously improving the organizations processes, products and services.

Important prizes in different countries to recognize best quality practices

- Japan – Deming Prize (named after W Edwards Deming), 1951. Deming's work forms the basis of many TQM practices
- US – Malcolm Baldrige National Quality Award (in honour of the late secretary of commerce), mid 1980s
- Europe – European Quality Award (established by the European Foundation for Quality Management), 1993

There is an intimate connection between the quality delivered by a company and the corresponding customer satisfaction and company profitability. This is because higher levels of quality support higher prices while delivering high satisfaction at lower costs.

Quality is the totality of features and characteristics of a product or service that bear on its ability to satisfy stated or implied needs.

A company that satisfies most of its customers' needs most of the time is called a *quality time*.

Conformance quality is satisfied if all the units deliver the expected quality.

Performance quality, however, is different in that it is based upon the grade.
Eg. A Mercedes and Hyundai may both deliver Conformance Quality, but Mercedes can be said to deliver higher Performance quality.

The main responsibilities of a Marketing Manager are –

1. They must participate in formulating strategies and policies designed to give company total quality.
2. They must deliver marketing quality aside production quality.

In implementing TQM, a marketer's job could subsume the following –

1. Identifying customer's needs
2. Communicate these requirements to the product designers
3. Ensure that customer's orders are filled on time and correctly
4. Ensure customer is trained enough to use the product well
5. Ensure after sales service and satisfaction
6. Get improvement suggestions from the customers, convey them to respective depts.

Chapter 3 Winning Markets: Market Oriented Strategic Planning

Strategic planning consists of 3 actions broadly –

1. Managing a companies' portfolios
2. Assessing each business' strength by considering the market's growth rate and the company's position fit in that market.
3. Formulating a game plan for each of its businesses to achieve long-term objectives.

Strategic Planning is done in 4 levels –

1. *Corporate Strategic Plan* – It decides what resources to allocate to which business and what businesses to diversify into
2. *Division Plan* – It decides how much funds to allocate to the SBUs.
3. *SBU Plan* –
4. *Product Plan* –

✓ **Corporate and Division Strategic Planning**

This basically subsumes 4 activities –

1. Defining corporate mission
2. Establishing SBU
3. Assigning resources to each SBU
4. Planning new businesses, downsizing older ones

Defining the Corporate Mission –

A good mission statement provides employees with a shared sense of purpose, direction and opportunity.

A good mission statement has 3 characteristics –

1. They focus on a limited number of goals
2. They stress on major policies and values the company wants to honor
3. They define the major competitive scope within which the company will operate.
Some of such scopes are : industry scope, products scope, geographical scope, etc

Establishing SBUs –

Companies should define business units in terms of needs, not products.

A business can be defined in terms of three dimensions –

Customer groups, Customer needs and Technology.

Characteristics of an SBU are –

1. It is independent in terms of the policies it needs
2. It has its own set of competitors

Assigning Resources to each SBU –

The BCG Approach (Growth-share matrix) –

Plots the Market growth rate (% , Y-axis, 0 – 20%) against Relative market share (fraction, X-axis, 10 – 0.1). The area of the circle denotes the volume of the business. Based upon the position in the chart, the businesses are classified as –

1. Question marks
2. Stars
3. Cash cows
4. Dogs

After plotting the matrix, the company can judge the health of its portfolio and can take one of the following 4 actions to determine the budget to assign to each SBU–

1. Build – to increase market share, at the expense of short-term earnings, if necessary. Done on dogs
2. Hold – to preserve market share. Done on cash cows
3. Harvest – to increase short term flow, regardless of long-term effect. This generally diminishes the value of the SBU. Done so that the costs are reduced at a faster rate than the fall in sales. Done on losing cash cows, dogs and question marks
4. Divest – to liquidate the business. Done on question marks and dogs

The General Electric Model –

Plots the Market Attractiveness (Y-axis, 1 – 5) against the Business Strength (X-axis, 5 – 1). For each business the two dimensions are calculated after setting the values for the parameters under each of the two, and then using their weightage. The area of the circle is the size of the market, shaded part being the business's share.

The 9 cells are divided into 3 zones –

1. 3 cells on top left – strong SBUs in which the company should invest and grow
2. 3 diagonal cells – medium in overall effectiveness
3. 3 cells in bottom left – weak SBUs. Divest or harvest these.

Planning new Businesses, Downsizing old ones –

The company can try one the following 3 strategies to increase its business –

1. Intensive growth – a review of whether any opportunities exist for improving the existing business performance. This can be achieved in 4 ways (Anshoff's Model) –
 - a) Market penetration
 - b) Market development
 - c) Product development
 - d) Diversification
2. Integrative growth – By backward Integration, Forward Integration, or Horizontal integration.
3. Diversification growth – Exploiting opportunities in new businesses.

✓ **Business Strategic planning**

The unit strategic planning for a business consists of the following steps-

1. **Business Mission –**

Each business unit needs to come up with a mission within the broader company mission.

2. **SWOT analysis**

This is further carried out into parts

Opportunity and threat analysis (External Environment analysis)

In general companies need to identify the major macroeconomic forces (demographic, economic, technological, socio-cultural, etc.) and the major microeconomic forces (customers, competitors, suppliers, distributors, etc) that have an effect on its profitability. Further, they need to trace trends in these factors then identify which can be their opportunities and weaknesses.

A marketing opportunity is an area of buyer need in which a company can perform profitably.

A threat is a challenge posed by an unfavorable trend which, in absence of marketing action would lead to fall in profitability. A company needs to chalk out a strategy for dealing with these threats.

After the opportunity and threat analysis is done, a business's overall attractiveness can be identified.

Strengths and Weaknesses analysis (Internal Environment Analysis)

A company's internal strengths and weaknesses in various departments need to be identified periodically.

3. Goal Formulation

Goals are developed to facilitate the management in planning, implementation and control of achieving the targets.

Most businesses pursue a variety of objectives, which should ideally meet the following criteria

- the objectives must be placed hierarchically, in decreasing order of priorities
- they should be stated quantitatively
- the goals should be realistic
- the goals should be consistent with each other

4. Strategic formulation

Strategy is the roadmap for achieving the envisaged goals. Porter defined strategy as “*creation of a unique and valuable position involving different set of activities*”

Strategy can be formulated into 3 generic types –

Overall cost leadership – here a business aims at delivering its products at the lowest prices in the market and wins a large market share. Such businesses require to be good at engineering, purchasing, manufacturing and distribution. A disadvantage of this strategy is that some other company will eventually emerge with still lower costs.

Differentiation – here a business aims at achieving superior performance in an important customer area valued by a large chunk of the market. It could strive to be the service leader, the quality leader, the style leader or technology leader.

Focus – Here a firm concentrates on one or more narrow market segments. It first identifies such a segment and then pursues either cost leadership or differentiation in them.

Strategic Alliances

Companies are discovering that to achieve leadership they need to form strategic alliances with domestic or multinational companies that complement or leverage their capabilities and resources.

The strategic alliances could be in the form of marketing alliances in the following ways –

1. Product or service alliance – one company licenses the other to produce its product, or two companies jointly market their complementary product or a new product.
2. Promotional alliance – one company agrees to carry the promotion for another company's product or service
3. Logistics alliance – one company offers logistic services to another company's product.
4. Pricing collaboration – one more companies join in a special pricing collaboration.

5. **Program formulation**

After developing the principal strategies, companies must work out detailed supporting programs for them. After formulating the marketing programs, the costs and benefit scenario is calculated. Activity Based Costing should be applied to each program to determine whether the benefits form it outdo the costs.

6. **Implementation**

For the implementation of strategy, McKinsey has come up with a 7-S framework. The implementation part of this framework consists of

- Style : employees should share a common way of thinking and behaving
- Skills : these should be in consonance with the strategy
- Staff : includes hiring able people, training them and then assigning them to the right jobs
- Shared values: employees should share the same guiding values.

7. **Feedback and Control**

A firm needs to constantly track and monitor new developments in the internal and external environment. For when the marketplace changes, the company will have to rethink the implementations, programs, strategies, or even objectives.

A company's strategic fir with the environment will definitely erode, because the market environment changes faster than the 7-S s.

Drucker says it is important to "do the right thing" than "doing things right".

✓ **The Marketing Process**

The value delivery sequence –

The traditional physical process sequence assumes the company knows what to make and that the market will buy enough units to produce profits for the company. But such a sequence could only exist where the supplier calls the shots.

In the value delivery sequence there are 3 parts

1. "*Choose the value*" – the marketing staff does segmentation, targeting and positioning of the market.
2. "*Provide the value*" – after the STP process has chose the value, the product's specifications and services should be detailed, the price decided and then the product should be manufactured and distributed.
3. "*Communicate the value*" – the customers are communicated about the value of the product through the sales force, promotion and advertisement.

The marketing process consists of analyzing markets, researching and selecting markets, designing marketing strategies, planning marketing programs and organizing, implementing and controlling the marketing effort.

Analyzing market opportunities – A company should identify long term opportunities given its core competences and market experience. This needs reliable market research and information systems. Both, the Macro environment, consisting of demographic, socio-cultural, economic, technological, etc forces; and the Microenvironment, consisting of suppliers, marketing intermediaries, customers and competitors should be considered. A way to do it is to divide the market into many segments and evaluate the segments to find which segment serves the company best.

Developing marketing strategies – After deciding upon the product the company shall have to decide upon the product positioning, then initiate the product development, testing and launching. Also the strategy for the different life stages of the product: introduction, growth, maturity and decline have to be decided.

Planning marketing programs – It consists of deciding upon the following

1. *Marketing expenditure* – allotting the budget to meeting the marketing objectives, and amongst the products, channels, promotion media and sales areas, and in the marketing mix.
2. *Marketing mix-*
 - Product –
 - Price – the company has to decide upon the wholesale, retail pricing, discounts to be offered, allowances, etc.
 - Place – identify, recruit marketing facilitators to supply the products and service to the target market.
 - Promotion –

Managing the marketing effort –

This final step includes organizing the marketing resources and then implementing and controlling the marketing plan.

Three types of controls may be deployed –

1. *Annual plan control* – ensures whether the company is meeting the projections of current sales and profits.
2. *Profitability control* – manages the task of measuring the actual profitability of products, customer groups, trade channels and order sizes; and that of different marketing activities.
3. *Strategic control* – evaluates whether the company's strategy is appropriate to the market conditions.

✓

Contents of a marketing plan

- executive summary and table of contents – presents a brief overview of the proposal
- Current marketing situation – presents relevant data on sales, costs, profits, market, competitors, distribution, and macro environment.
- opportunity and issue analysis - SWOT

- objectives – defines the plan’s financial and marketing goals in terms of sales volume, market share and profit
- marketing strategy – presents broad approach to be used to meet the objectives
- Action programs – presents the marketing programs to be used to meet business objectives.
- projected profit and loss statement – forecasts the plans expected financial outcomes
- control – indicates how the plan will be monitored

Chapter4 Gathering Information and measuring market demand

The marketing environment is changing at an accelerating rate. Given the following changes, the need for real time market information is greater than at any time in the past:

- From local to national to global marketing
- From buyer needs to buyer wants
- From price to non price competition

Components of a modern marketing information system

Marketing information system consists of people, equipment and procedures to gather, sort, analyse, evaluate and distribute needed, timely and accurate information to marketing decision makers.

Internal records system

- **The order to payment system cycle**

Sales reps dispatch orders to firm. Sales dept prepare invoices and transmits copies to various departments. Out of stock items are back ordered. Shipped items are accompanied by shipping to various depts. Most of these are being automated lately.

- **Sales information system**

Provides upto minute information on sales, current accounts & customers. provides feedback and reports.

Marketing intelligence system is a set of procedures and sources used by managers to obtain everyday information about developments in the marketing environment.

Steps taken to improve quality of marketing intelligence:

- 1) Train and motivate sales force
- 2) Motivate distributors, retailers and other intermediaries
- 3) Learn about competitors by purchasing products, tradeshow
- 4) Setup customer advisory panel of largest or important customers
- 5) purchase information from outside suppliers like AC neilsen
- 6) Establish marketing information center to collect marketing intelligence

Marketing Research is the systematic design and collection, analysis and reporting of data and findings to a specific marketing situation facing the company.

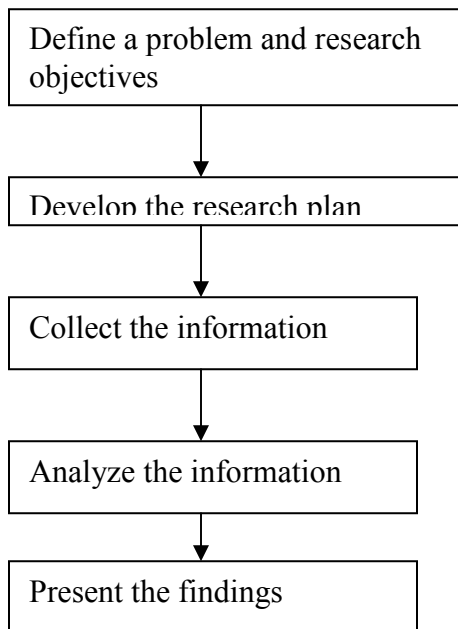
Suppliers of marketing research:

- 1) inhouse marketing research dept
- 2) engage b-school students or professors to design and carry out projects
- 3) use the internet for public domain information at low cost
- 4) checking out rivals through products, advts etc

5) Companies also purchase research from :

- ***Syndicated service research firms*** : they gather research and sell for a fee
- ***Custom research firms*** : They design and carry out specific projects customized for the company concerned
- ***Speciality line marketing research firm*** :provide specialised research services.Eg: field service firm does only interviews.

Marketing research process



The Marketing Research Process

Step 1: Define the Problem and Research Objectives

Management must not define a problem too broadly or too narrowly.

Example of an ideal problem definition:

“Will offering an in-flight phone service create enough incremental preference and profit for American Airlines to justify its cost against other possible investments American might make?”

Specific research objectives:

- 1) What are the main reasons that airline passengers place phone calls while flying?
- 2) What kinds of passengers would be the most likely to make calls?

- 3) How many passengers are likely to make calls, given different price levels?
- 4) How many extra passengers might choose American because of this new service?
- 5) How much long-term goodwill will this service add to American Airlines' image?
- 6) How important is phone service relative to improving other factors such as flight schedules, food quality, and baggage handling?

Not all research projects can be specific. Some research is **exploratory**- its goal is to shed light on the real nature of the problem and to suggest possible solutions or new ideas. Some research is **descriptive**- it seeks to ascertain certain magnitudes, such as how many people would make an in-flight call at \$25 a call. Some research is **causal**- its purpose is to test a cause-and-effect relationship. For example, would passengers make more calls if the phone were located next to their seat rather than in the aisle near the lavatory?

Step 2: Develop the Research Plan

This stage calls for developing the most efficient plan for gathering the needed information. The cost of the research plan must be known before it is approved. Designing a research plan calls for decisions on the data sources, research approaches, research instruments, sampling plan, and contact methods.

Data Sources

The researcher can gather **secondary data**, **primary data**, or both. Secondary data are data that were collected for another purpose and already exist somewhere. Primary data are data gathered for a specific purpose or for a specific research project. Primary data is costly while secondary data provide a starting point for research and offer the advantages of low cost and ready availability. The WWW is a powerful source of secondary data and can provide information on associations, business information, government information, international information.

When the needed data do not exist or are outdated, inaccurate, incomplete, or unreliable, the researcher will have to collect primary data. Primary data can be collected by individual and group interviews.

A customer or prospect database is an organized collection of comprehensive data about individual customers, prospects, or suspects that is current, accessible, and actionable for marketing purposes such as lead generation, lead qualification, sale of a product or service, or maintenance of customer relationships.

Data warehousing and data mining techniques are becoming increasingly popular. Companies are using data mining, a set of methods that extracts patterns from large masses of data organized in what is called a data warehouse. A company could benefit in several ways:

- Knowing which customers may be ready for a product upgrade offer
- Knowing which customers might buy other products of the company
- Knowing which customers would make the best prospects for a special offer

- Knowing which customers have the most lifetime value and giving them more attention and perks
- Knowing which customers might tend to exit and taking steps to prevent this

Example: Marriott's Vacation Club International has managed to reduce its volume of mail and yet increase its response rate by developing a model showing which customers in its database are most likely to respond to specific vacation offerings.

But data mining and data warehousing come with a heavy cost.

Research Approaches

Primary data can be collected in the following five ways:

Observational research: Fresh data can be gathered by observing the relevant actors and settings. The American Airlines researchers might meander around airports, airlines offices, and travel agencies to hear how travelers talk about the different carriers. This exploratory research might yield some useful hypotheses about how travelers choose air carriers.

Focus-group research: A focus group is a gathering of six to ten people who are invited to spend a few hours with a skilled moderator to discuss a product, service, organization, or other marketing entity. This is a useful exploratory step. With the development of the WWW, many companies are now conducting on-line focus groups.

Survey research: Surveys are best suited for descriptive research. Companies undertake surveys to learn about people's knowledge, beliefs, preferences, and satisfaction, and to measure these magnitudes in the general population.

Behavioral data: Customers leave traces of their purchasing behavior in store scanning data, catalog purchase records, and customer databases. Much can be learned by analyzing this data.

Experimental research: This is most scientific and captures cause-and-effect relationships.

Research Instruments

There are 2 main options:

- **Questionnaires**
- **Mechanical Instruments**

Questionnaires

Closed-end Questions

- Easier to interpret and tabulate

Name	Description
Dichotomous	2 possible answers (Yes/No)
Multiple-choice	3 or more answers
Likert scale	Agreement/disagreement scale (1 for strongly disagree, 5 for strongly agree)
Semantic differential	Scale connecting two bipolar words-the respondent selects the point that represents his or her opinion. American Airlines: Large -----Small
Importance scale	Scale that rates the importance of some attribute (1 for extremely important, 5 for not at all important)
Rating scale	Scale that rates some attribute from “poor” to “excellent”
Intention-to-buy Scale	Scale that describes the respondent’s intention to buy

Open-end Questions

- Useful in exploratory research

Name	Description
Completely unstructured	“What is your opinion of American Airlines?”
Word association	“What is the first word that comes to your mind when you hear the word TRAVEL?”
Sentence completion	Respondents complete an incomplete sentence
Story completion	Respondents complete an incomplete story
Picture	A picture of 2 characters is presented, with one making a statement. Respondents are asked to identify with the other and fill in the empty balloon.
Thematic Apperception Test (TAT)	A picture is presented and respondents are asked to make up a story about what they think is happening or may happen in the picture.

Mechanical Instruments

Mechanical devices are occasionally used in marketing research. Galvanometers measure the interests emotions aroused by exposure to a specific ad or picture. An audiometer is attached to TV sets in participating homes when the set is on and to which channel it is tuned. A tachistoscope may also help.

This is continuation of STEP 2 : Develop the research plan

Sampling plan after deciding on the research approach , the marketer researcher needs to draw up a sampling plan. For this he needs to make 3 decisions

1. sampling unit – who is to be surveyed..? the target population to be surveyed so as to have the right kind of population representation
2. sample size – how many people to be surveyed...large samples gives more accurate results but it may not always be feasible to sample the total population
3. sampling procedure – how should the sample be selected to have the right kind of representation. Probability sampling methods with confidence intervals for sampling errors

contact methods how to contact the subject (ppl to be surveyed)

- * mail questionnaire
- * telephone interviews
- * personal interviewing
- * arranged interviews
- * online interviewing

Attached with such interviews are incentives that should be given to respondents to attract them to answer such questions

STEP 3. collect the information

Collecting the information is most expensive and prone to error.

However technology (computers etc) are making things easier and enhancing the process of data collection and analysis.

STEP 4 Analyse the information

Develop frequency distributions, averages, measures of dispersion etc to analyse the information collected

STEP 5 Present the findings

Present the main findings to the marketing decision makers.

Overcoming barriers to the use of marketing research – why companies fail to use it sufficiently or correctly

1. narrow conception – they see it as a fact finding process.

2. uneven caliber of marketing researchers – hiring unprofessional and less competent workers to do market research leads to unsatisfactory results resulting in disappointment.
3. late and erroneous finding by market research – managers look for quick results...they are disappointed with high costs and the time required for such researches..
4. personality and presentational differences - differences in the style of line managers and marketing researchers often get in the way of productive relationships...

Seven characteristics of a good marketing research

1. scientific method
2. research creativity
3. multiple methods
4. independence of models and data
5. value and cost of information
6. healthy skepticism
7. ethical marketing

Mktng Decision Support Systems- is a coordinated collecn of data,systems, tools and techniques with supporting software and hardware bu which an orgn gathers and interprets relevant infofrom business and environ. And turns it into basis for mktng action eg brandaid, callplan,detailer etc

Diff types of Statistical tools –

1. Multiple regression - same as QM
2. Discriminant Analysis - ---do---
3. Factor Analysis – technique used to detrmine a few underlying dimensions of a larger set of correlated variables
4. Cluster anal . – separating objects into mutually exclusive groups of specified no. such that they are relatively homogenous
5. conjoint anal. – respondents rank preferences for each attribute...
6. multidimensional scaling – techniques to produce perceptual maps of competitive products/brands

Types of Models –

1. Markov process Model – shows probability to move frm current state to a future state
2. queuing model – shows waiting times and queue lengths
3. new product pretest models- estimates functional relations between customer attributes in a pretest situation of a marketing offer
4. sales response models – estimate relations b/w one or more mktng variables

Optimization routines –

1. Diff. Calculus – finds maxima and minima
2. Mathematical programming – optimization
3. Statistical decision theory – concept of decision tree
4. game theory
5. heuristics – using set of rules of thumb to reduce time/work and find a reasonably good solution

Measures of market demand – Demand can be measured at 6 product levels, 5 space levels and 3 time levels...

4 types of markets possible –

potential – who show a specific level of interest to the offer

available – have interest, income and access to the offer

served – that part which decides to pursue

penetrated – who are already buying

A market is the set of all actual and potential buyers of a market offer.

DEMAND MEASUREMENT

Market demand – total vol. that would be bought by a defined customer group. In a defined geographic area in a defined time period in a defined marketing environment under a defined marketing program.

There is a minimum market demand which will occur without any marketing also. As we increase marketing expenditure, demand increases and will stagnate at a point. This is an expandable market.

If there is no effect of marketing spending, it is a non-expandable market.

Only one level of industry marketing expenditure will occur. The marketing demand corresponds to this level is Market Forecast. (Kotler language)

Mkt Potential – Is the limit approached by market demand as expenditure reaches infinity. For a given marketing environment.

Company demand – Is the company's estimated share of market demands at alternate levels of company marketing effort in a given time period.

Company sales forecasts – is the level of company sales based on a chosen marketing plan in an assumed marketing environment.

Sales quota – is the sales goal set for a product line, company division or sales rep. It is used to define and push for sales efforts. It is kept higher than forecasts to give stretch targets.

Sales budget – is a conservative estimate of the expected vol of sales. Its used for current purchasing,prodn and cashflow decisions.

Company sales potential – Is the sales limit approached by company demand as company mktng efforts increase relative to competitors. Max is market potential.

Estimation of Demand ----

Total market potential - Broadly 2 ways

1. Multiply potential no of buyers with the avg qty purchased and the price
2. Chain ratio method – Multiplying a base no by several adjusting percentages.

Both essentially the same.They start with the population and keep reducing with assumed percentages w.r.t income/age groups and expenditures to arrive at a final figure

ESTIMATING CURRENT DEMAND

Marketing executives need to estimate total market potential, area market potential and total industry sales and market shares.

Total market potential

It is the maximum amount of sales that might be available to all the firms in the industry during a given period under a given level of industry marketing effort and given environmental conditions. A common way to estimate total market potential as follows: Estimate the potential no. of buyers times the average quantity purchased by a buyer times the price.

A variation on this method is the **chain ratio method**. It involves multiplying a base number by several adjusting percentages. Suppose a brewery is interested in estimating the market potential for a new light beer, it can be done as follows:

Demand for the new light beer = Population* personal discretionary in come per capita*average personal discretionary in come spent on food * average personal discretionary in come spent on food that is spent on alcoholic beverages* average personal discretionary in come spent on alcoholic beverages that is spent on beer* average personal discretionary in come spent on beer that is spent on light beer.

Area market potential

Companies need to measure the market potentials of different cities, states and nations. Two major methods of assessing market potentials are: the market build up method, which is used primarily by business marketers, and the multiple factor index method which is used primarily by consumer marketers.

Market build up method: It calls for identifying all the potential buyers in each market and estimating their potential purchases. This method gives us accurate results if we have a list of all potential buyers and a good estimate of what they buy.

Multiple factor index method: Like business marketers even consumer marketers also have to estimate the area market potentials. But the consumers of consumer companies are too numerous to be listed. Thus the most common method is the straightforward index method.

Industry sales and Market shares.

Identifying competitors and estimating their sales do this. The industry trade association will often collect and publish total industry sales, using this information each company can evaluate its performance against the whole industry. Another way to estimate is to buy reports from a marketing research that audits total sales and brand sales. These audits can give a company valuable information about its total product its total product category sales and its brand sales. It can compare its performance to the total industry and/or any particular competitor to see whether it is gaining or losing market share. Business marketers have typically harder time in estimating sales than consumer goods manufacturers do.

ESTIMATING FUTURE DEMAND

Very few products lend themselves to easy forecasting. In most markets total demand and company demand are not stable. Good forecasting becomes a key factor in company's success. The unstable the demand the more critical is forecast accuracy and the more elaborate is forecasting procedure.

A three-stage procedure is used to prepare a sales forecast. They prepare a macro economic forecast, followed by a industry forecast then by a company sales forecast.

Firms develop their forecasts internally and externally as:

Market research firms, specialized forecasting firms and futurist research firms.

All forecasts r built on three information bases : what people say, what people do and what people have done.

Survey of buyers intentions

Forecasting is the art of anticipating what buyers r likely to do under a given sat of conditions. The survey looks inquires into the purchase intentions of consumer, their present and future personal finances and their expectations about the economy. This can be analysed and major shifts in consumer preferences can be anticipated and production schedules and marketing plans changed accordingly.

Composite of sales force opinions.

Where buyer interviewing is impractical there companies ask their salespersons to estimate their future sales. Each of them estimates how much each current and prospective customer will buy of each of the company's products. To encourage better estimating the company could supply certain aids or incentives to sales force. the benefits are :

- 1) Better insights into developing trends
- 2) Greater confidence in sales reps and more incentive to achieve targets.
- 3) Provides detailed estimates broken down by product, territory, customer and sales reps.

But some sales reps may use their for their advantage like setting smaller forecasts for low targets and sometimes they are not aware of the recent major economic developments.

Expert opinion

Companies also obtain forecasts from experts including dealers, distributors, suppliers, marketing consultants and trade associations. Dealer estimates are subject to the same merits and demerits of sales reps estimates. The experts estimates are done by group discussion method or pooling of individual estimates method or Delphi method where every estimate is refined and re-refined.

Past sales analysis

Sales forecasting is also done on the basis of past sales.

Time series analysis (breaking down the past data into trend, cycle, seasonal and erratic), exponential smoothing (combining the past sales and recent ones by giving more weight to the latter), statistical demand analysis (impact level of each set of casual factors eg...income, price, marketing expenditure etc...) and economic analysis.

Chapter 5 Scanning the Marketing Environment

“Today you have to run faster to stay in the same places”

Successful companies take inside out view of their business. They recognize that environment is constantly spinning new opportunities and threats and understand the importance of continuously monitoring and adapting to the environment.

The major responsibility for identifying significant marketplace changes falls to the company's marketers. They must be trend trackers and opportunity seekers. Marketers have 2 advantages.

- They have disciplined methods – marketing intelligence and market research.
- They also spend more time with customers and more time watching competitors.

Analyzing Needs and trends in the macro environment

Successful companies recognize trends and respond profitably to unmet needs and demands.

- A **trend** is a direction or sequence of events that have some momentum and durability

We can draw distinction between *fads, Trends, and megatrends*.

A *fad* is unpredictable, short and without social, economic and political significance

Trends are more predictable and durable. It reveals the shape of the future – has longevity, is observable across several market areas and consumer activities, and is consistent with significant indicators occurring or emerging at the same time.

Megatrends have large social economic political and economical changes that are slow to form, and once in place they influence us for some time

A new product is more likely to be successful if it is in line with the strong trends than otherwise.

Identifying and responding to the major macroeconomic forces.

Companies and their suppliers, marketing intermediaries, customers, competitors and public all operate in a macroeconomic environment of forces and trends that shape opportunities and pose threats. These forces represent “noncontrollables” which a company must monitor and respond to. In the economic arena, companies and consumers are increasingly affected by **global forces**. These include:

- World trade enablers
- Asian economic power
- Rise of trade blocs
- International monetary crises
- Use of barter & countertrade
- Move towards market economies
- “Global” lifestyles

- Opening of “new” markets
- Emerging transnational firms
- Cross-border strategic alliances
- Regional ethnic & religious conflict
- Global branding

With rapidly changing environment, company must monitor six major forces. – *demographic, economic, natural, technological, political legal and social cultural.*

Demographic environment:

The first macroeconomic forces that the marketer monitors is the population because people make up the markets. Marketers are keenly interested in the size and growth rate of population in different cities, regions, and nations, age distribution and ethnic mix, educational levels, house hold patterns and regional characteristics and movements.

World population growth.

It’s a major concern because certain resources needed to support human life is limited. Also population is a concern because population growth is maximum in countries which can least afford it.

A explosive population growth has major impact on business. It does not mean growing markets unless these markets have sufficient purchasing power. Nonetheless companies that carefully analyze their markets can find major opportunities.

Population Age Mix

Population vary in their age mix. A population can be subdivided into 6 age groups : preschool, school-age children, teens, young adults (25-40), middle aged adults (40-65) and older adults (65+).

Ethnic Markets

Countries vary in ethnic & racial makeup. Each group has certain specific wants and buying habits. Marketers must be careful not to overgeneralize about ethnic groups.

Educational Groups

The population in any society falls into 5 educational groups : illiterates, high school, dropouts, high school degrees, college degrees, and professional degrees.

Household Patterns

The “traditional household” consists of a husband, wife and children (and sometimes grandparents). Yet in US one out of eight households today is “non traditional” and includes single live alones, adult live together, single parent families, childless married couples and empty nesters.

Geographical shifts in population

This is a period of great migratory movement between and within countries. Population movement also occurs as people migrate from rural to urban areas and then to suburban areas. Location makes a difference in goods and service preferences.

Shift from Mass market to Micromarkets

The effect of all this is fragmentation of the mass market into numerous micromarkets differentiated by age, sex, ethnic background, education, geography, lifestyle and other characteristics. Each group has strong preferences and is reached through increasingly targeted communication and distribution channels. Companies are abandoning the 'shotgun approach' that aimed at a mythical average consumer and are increasingly designing their products and marketing programs for specific micromarkets.

Demographic trends are highly reliable for the short and intermediate run. There is little excuse for a company's being suddenly surprised by demographic developments. The Singer Company should have known for years that its sewing machine would be hurt by smaller families and more working wives, and yet it was slow in responding. In contrast, think of the rewards marketers reap when they focus on a demographic environment. Some marketers are actively courting the home office segment of the lucrative SOHO market. Nearly 40 million Americans are working out of their with the help of electronic conveniences like cell phones, fax machines, and handheld organizers.

For example, *Kinko's copy centers*:

Founded in the 1970s as a campus photocopying business, Kinko's is now reinventing itself as the well-appointed office outside the home. Where once there were copy machines, the 902 Kinko's stores in this country and abroad now feature a uniform mixture of fax machines, ultra fast color printers, and networks of computers equipped with popular software programs and high-speed internet connections. People can come to Kinko's to do all their office jobs including teleconferencing. And as more and more people join the work-at-home trend, Kinko's, which charges \$12 an hour for computer use, is hoping to increase its share of industry revenue by getting people to spend more time-and hence, more money-at its stores. Besides adding state-of-the-art equipment, the company is talking to Starbucks about opening up coffee shops adjacent to some Kinko's. The new business model for the \$1billion company is 'Your branch office/open 24 hours'.

Economic Environment:

Markets require purchasing power as well as people. The available purchasing power in an economy depends on current income, prices, debt, savings, and credit availability. Marketers must pay close attention to major trends in income and consumer-spending patterns.

Income Distribution: Nations vary in level and distribution of income and industrial structure. There are four types of industrial structures:

1. Subsistence economies: Majority of people engage in simple agriculture, consume most of their output and barter the rest for simple goods and services. These economies offer few opportunities for marketers.
2. Raw-material-exporting economies: Economies rich in one or more natural resources but poor in other aspects. Much of their revenue comes from exporting these resources. Examples are Zaire (Copper) and Saudi Arabia (Oil). These

countries are good markets for extractive equipment, tools and supplies, material-handling equipment, and trucks. Depending on the number of foreign residents and wealthy native rulers and landlords, they are also a market for Western-style commodities and luxury goods.

3. Industrializing economies: Manufacturing accounts for 10 to 20 percent of GDP. Examples include Egypt, India and Philippines. As manufacturing increases, the country relies more on imports of raw materials, steel, and heavy machinery and less on imports of finished textiles, paper products, and processed foods. Industrialization creates a new rich class and a small but growing middle class, both demanding new types of goods.
4. Industrial economies: Major exporters of manufactured goods and investment funds. They buy manufactured goods from another and also export them to other types of economies in exchange for raw materials and semifinished goods. The large and varied manufacturing activities of these nations and their sizable middle class make them rich markets for all sorts of goods.

Marketers often distinguish countries with five different income-distribution patterns: very low incomes; mostly low incomes; very low, very high incomes; low, medium, high incomes; mostly medium incomes.

Market for Lamborghinis that cost more than \$150,000 would be very small in countries with the first or second type income patterns, the largest would be third type (Portugal), which is one of the poorer countries in Western Europe, but one with enough wealthy families to afford expensive cars.

Since 1980, the wealthiest fifth of the U.S. population has seen its income grow by 21%, while wages for the bottom 60% have stagnated or dipped. According to the Census Bureau Statisticians, the 1990s have seen a greater polarization of the income in the United States than at any point since the end of World War 2. This is leading to a 2-tier U.S. market, with affluent people buying expensive goods and working-class people spending more carefully, shopping at discount stores and factory outlet malls, and selecting less expensive store brands. Conventional retailers who offer medium-price goods are most vulnerable to these changes. Companies that respond to the trend by tailoring their products and pitches to these two very different Americas stand to gain a lot.

Examples:

1. The Gap: At Gap's Banana Republic stores, jeans sell for \$58. Its Old Navy stores sell a version for \$22. Both chains are thriving.
2. The Walt Disney Company: Owns the rights to A.A.Milne's Winnie-the-Pooh and his make-believe fiends and markets two distinct Poohs. The original line-drawn figures appear on the china, pewter spoons, and expensive kid's stationery found in upscale specialty stores like Nordstrom and Bloomingdale. The downscaled Pooh sells at Wal-Mart and other discount stores.
3. The National Basketball Association sells front-row seats in New York's Madison Square garden for \$1000 apiece. But fearing the loss of fans who cant afford the typical \$200 for a family night out at a sports event, NBA marketers have

launched an array of much more affordable merchandise and entertainment properties such as traveling basketball exhibitions.

Savings, Debt and Credit Availability

Consumer expenditures are affected by consumer savings, debt, and credit availability. Japanese save about 13.1% of their income and Americans save 4.7%. The result is that Japanese banks were able to loan money to Japanese companies at a much lower interest rate than the U.S. banks could offer to U.S. companies. Hence, Japanese companies expanded faster. U.S. consumers have a high debt-to-income ratio, which slows down further expenditures on housing and large-ticket items. Credit is available in the U.S. but at high interest rates, especially to lower-income borrowers. Marketers must pay attention to major changes in incomes, cost of living, interest rates, savings, and borrowing patterns because they can have a high impact on business, especially for companies whose products have high income and price sensitivity.

Natural Environment:

The deterioration of the natural environment is a major global concern. In many cities, air, chemical and water pollution have reached dangerous levels. Chemicals create hole in the ozone layer and cause 'green-house effect'. In Europe, 'green' parties have pressed for public action to reduce industrial pollution. In the U.S. watchdog groups like Sierra Club and Friends of the Earth carried these concerns into political and social actions.

Steel companies and public utilities have had to invest billions of dollars in pollution-control equipment and more environmentally friendly fuels. The auto industry has had to introduce expensive emission control in cars. Soap industry has had to increase its product biodegradability.

Marketers need to be aware of the threats and opportunities associated with four trends in the natural environment: the shortage of raw materials, the increased cost of energy, increased pollution levels, and changing roles of governments.

Shortage of raw Materials: Earth's raw materials consist of the infinite, the finite renewable, and the finite non-renewable. Infinite resources such as water and air pose no immediate problem. Environmental groups have lobbied for a ban on certain propellants used in aerosol cans because of the potential damage they can cause to the ozone layer. Water shortages and pollution are already major problems in some parts of the world.

Finite renewable resources like forests and food must be used wisely. Forestry companies are required to reforest timberlands in order to protect the soil and to ensure sufficient wood to meet future demand. Because the amount of arable land is fixed and the urban areas are constantly encroaching on farmland, food supply can also be a problem. Finite non-renewable resources-oil, coal, platinum, zinc, silver- will pose a serious problem as the point of depletion approaches. Firms making products that require these increasingly scarce minerals face substantial cost increases. They may not find it easy to pass these cost increases on to customers. Firms engaged in R&D have an excellent opportunity to develop substitute materials.

Increased Energy Costs

One finite nonrenewable resource, oil, has created serious problems for the world economy. Oil prices shot up from \$2.23 a barrel in 1970 to \$34 a barrel in 1982, creating a frantic search for alternative energy forms. Coal became popular again and companies searched for practical means to harness solar, nuclear, wind, and other forms of energy. In the solar energy field alone, hundreds of firms introduced first generation products to harness solar energy for heating homes and other uses. Other firms searched for ways to make a practical electric automobile, with a potential prize of billions for the winner.

The development of alternative sources of energy and more efficient ways to use energy and the weakening of the oil cartel led to a subsequent decline in oil prices. Lower prices had an adverse effect on the oil exploration industry but considerably improved the income of oil using industries and consumers. In the mean time, the search continues for alternative sources of energy.

Increased Pollution Levels

Some industrial activity will inevitably damage the natural environment. Consider the dangerous mercury levels in the ocean, the quantity of DDT and other chemical pollutants in the soil and food supply, and the littering of the environment with bottles, plastics, and other packaging materials.

Research has shown that about 42 percent of U.S. consumers are willing to pay higher prices for green products. This willingness creates a large market for pollution control solutions such as scrubbers recycling centers and landfill systems. It leads to a search for alternative ways to produce and package goods. Smart companies are initiating environment friendly moves to show their concern. 3M runs a pollution prevention pays program that has led to a substantial reduction in pollution and costs. Dow built a new ethylene plant in Alberta that uses 40% less energy and releases 97 percent less wastewater. AT&T uses a special software package to choose the least harmful materials, cut hazardous waste, reduce energy use, and improve product recycling in its operations. McDonald's and Burger King eliminated their polystyrene cartons and now use smaller, recyclable paper wrappings and paper napkins.

New concern over the toxic nature of dry cleaning solvents has opened up opportunities for a new breed of green cleaners although these new businesses for an uphill battle. See the marketing for the Millennium "A new guard of green cleaners vies for concerned customers."

Changing Role of Governments

Governments vary in their concern and efforts to promote a clean environment. For example, the German government is vigorous in its pursuit of environmental quality, partly because of the strong green movement in Germany and partly because of the ecological devastation in the former East Germany. Many poor nations are doing little about pollution largely because they lack the funds or the political will. It is in the richer nations' interest to help the poorer nations control their pollution, but even the richer nations today lack the necessary funds. The major hopes are that companies around the

world will accept more social responsibility and that less expensive devices will be invented to control and reduce pollution.

A New Guard of Green Cleaners Vies for Concerned Customers

You need to get your business suit cleaned for a sales conference in Miami, and your flight leaves in 24 hours. Are you going to go to the dry cleaner on the corner, which uses environmentally damaging, possibly carcinogenic chemicals? Or are you going to go across town and use a wet cleaner, who will get your clothes clean without damaging you or the environment and make them smell a lot less toxic? If you are like most consumers, you will choose convenience and the quick fix over concerns about health and environment.

Perchloroethylene, or perc the solvent used by the majority of dry cleaners, has been labeled a probable human carcinogen by the EPA. More conclusive reports on its damaging effects are expected soon. Yet when it comes to products that enhance their own or their clothing's appearance, consumers are notably indifferent to environmental concerns. In a 1996 survey of 30 dry cleaners in suburban Pittsburgh, Dan Kovacks asked customers to their will being, Unable to think up alternatives most said they would just get clothes dry cleaned less frequently.

Yet a new guard of environmentally friendly dry cleaners is willing to bet that consumers will choose green over toxic if green alternatives are readily available. There are already 6000 dry cleaning stores using alternative cleaning materials. About 95 % of those use odorless petroleum based solvents, which actually get rid of stains that seemed impervious to perc. A much smaller group of stores are wet cleaners going back to soap and water basics. All the alternatives with names such as cleaner by nature, eco mat and greener cleaner are price competitive with their toxic counterparts. Cleaner by nature which opened up smack between two traditional dry cleaners in Denver broke even only six months after opening. Its owner Chris comfort plans a second store in boulder.

Although dry cleaners are the quintessential small business, the green cleaning trend could open up opportunities for giant multinational corporations. Exxon corporation has come up with a new petroleum solvent called DF 2000 which is widely used in Europe. Hughes environmental systems, a unit of Raytheon corporation and global technologies, Inc, of el Segundo California have teamed up to market a new method for cleaning clothes using liquid carbon dioxide. Procter and gamble has introduced a perc free alternative for home use, Dryel, which allows people to do their dry cleaning at home. Yet as a testimony to the resistance faced by companies in this burgeoning product category, Procter and gamble advertises Dryel's convenience, not its green advantage.

TECHNOLOGICAL ENVIRONMENT

One of the most dramatic forces shaping people's lives is technology. Technology has released such wonders as penicillin, open heart surgery and the birth control pill. It has released such horrors as the hydrogen bomb, nerve gas and the submachine gun. It has also released such mixed blessings as the automobile and video games.

Every new technology is a force for creative destruction. Transistors hurt the vacuum tube industry xerography hurt the carbon paper business autos hurt the railroads and television hurt newspapers. Instead of moving into the new technologies many old industries fought or ignored them and their businesses declined.

The economy's growth rate is affected by how many major new technologies are discovered. Unfortunately, technological discoveries do not arise evenly through time the rail road industry created a lot of investment and then investment petered out until the auto industry emerged. Later, radio created a lot of investment, which then petered out until television appeared. In the time between major innovations the economy can stagnate.

In the mean time, minor innovations fill the gap: freeze dried coffee, combination shampoo and conditioner antiperspirant deodorants and the like. Minor innovations involve less risk but critics argue that today too much research effort is going into producing minor improvements rather than major breakthroughs.

New technology creates major long run consequences that are not always foreseeable. The contraceptive pill led to smaller families more working wives and larger discretionary incomes – resulting in higher expenditures on vacation travel, durable goods and luxury items.

The marketer should monitor the following trends in technology: the pace of change the opportunities for innovation, varying R&D budgets and increased regulation.

Accelerating Pace of Technological Change

Many of today's common products were not available 40 years ago. John Kennedy did not know personal computers digital wristwatches video recorders or fax machines. More ideas are being worked on the time lag between new ideas and their successful implementation is decreasing rapidly; and the time between introduction and peak production is shortening considerably. Ninety percent of all the scientist who ever lived are alive today and technology feeds upon itself.

The advent of personal computers and fax has made it possible for people to telecommute that is work at home instead of traveling to offices that may be 30 or more minutes away. Some hope that this trend will reduce auto pollution bring the family closer together and create more home centered entertainment and activity. It will also have substantial impact on shopping behavior and marketing performance.

Unlimited Opportunities for innovation

Scientists today are working on a startling range of new technologies that will revolutionize products and production processes. Some of the most exciting work is being done in biotechnology, solid-state electronics robotics and materials sciences. Researchers are working on AIDS cures, happiness pills, painkillers totally safe contraceptives and non-fattening foods. They are designing robots for firefighting, underwater exploration and home nursing. In addition scientists also work on fantasy products such as small flying cars three dimensional television, and space colonies. The challenge in each case is not only technical but also commercial to develop affordable versions of these products.

Companies are already harnessing the power of virtual reality the combination of technologies that allows users to experience three dimensional computer generated environments through sound, sight and touch. Virtual reality has already been applied to gathering consumer reactions to new automobile designs, kitchen layouts, exterior home designs, and other potential offerings.

Varying R&D Budgets

The United States leads the world in annual R&D expenditures (\$74 billion) but nearly 60% of these funds are still earmarked for defense. There is a need to transfer more of this money into research on material science, biotechnology, and micro mechanics. Japan has increased its R&D expenditures much faster than has the US and is spending it mostly on non-defense related research in physics, biophysics, and computer science.

A growing portion of U>S R&D expenditures is going into the development side of R&D raising concerns about whether the US can maintain its lead in basic science. Many companies are content to put their money into copying competitors products and making minor feature and style improvements. Even basic research companies such as Dupont bell laboratories and Pfizer are proceeding cautiously. Much of the research is defensive than offensive. And increasingly research directed toward major breakthroughs is being conducted by consortiums of companies rather than by single companies.

Increased Regulation of Technological change

As products become more complex the public needs to be assured of their safety. Consequently government agencies powers to investigate and ban potentially unsafe products have been expanded. In the US the federal food and drug administration must approve all drugs before they can be sold. Safety and health regulations have also increased in the areas of food, automobiles, clothing, electrical appliances and construction. Marketers must be aware of these regulations when proposing developing and launching new products.

POLITICAL – LEGAL ENVIRONMENT

Marketing decisions are strongly affected by developments in the political and legal environment. This environment is composed of laws, government agencies, and pressure groups that influence and limit various organizations and individuals. Sometimes these laws also create new opportunities for business. Mandatory recycling laws have given the recycling industry a major boost and spurred the creation of dozens of new companies making new products from recycled materials:

Wellman – in 1993, Wellman introduced Ecospun post consumer recycled fiber (PCR), made from recycled soda bottles and sold 800000 pounds in that first year alone. Today, wellman boasts 15m pounds in sales and is partnering with domestic fabric mills like Milliken & Company, Malden and Dyersburg. At the outdoor retailer winter market in 1998, wellman introduced its new EcoSpun squared fiber, which has moisture-management properties and was designed specifically for a performance apparel market anxious to jump aboard the recycling bandwagon.

LEGISLATION REGULATING BUSINESS

Business legislation has three main purposes:

- To protect companies from unfair competition
- To protect consumers from unfair business practices
- To protect the interests of the society from unbridled business behavior

Major purpose of business legislation and enforcement is to charge businesses with the social costs created by their products or production processes.

Laws have been on an increase over the years.

Example being:

Norway bans several types of sales promotion-trading stamps, contests, premiums-as unfair instruments

In India food companies special permission to launch brands that duplicate what already exists in the market

Central concern: At what point of time do the costs of regulation exceed the benefits?

Each law may have legitimate rationale but may sap initiative and retard economic growth.

Marketers must have good knowledge of the major laws protecting competition, consumers and society. Companies generally establish legal review procedures and promulgate ethical standards to guide their marketing standards. As more and more business takes place in cyberspace marketers must establish new parameters for doing business ethically.

America Online has been highly successful but has lost millions due to consumer complaints regarding unethical marketing tactics.

In 1998 America Online agrees to pay 2.6 Million dollars penalty and revamp its business practices to settle deceptive marketing complaints brought by 44 state attorney generals.

GROWTH OF SPECIAL INTEREST GROUPS

Numbers of special interest groups have increased.

Political Action Committee (PACs) lobby with the government for various issues.eg minority rights, consumer and women rights.

Companies have established departments to deal with such groups.

Important force affecting business – Consumerist movement

Organized movement to strengthen rights and powers of buyers in relation to sellers.

Companies in turn have set up consumer affairs departments to help formulate policies and respond to consumer complaints.

Whirlpool Corporation is one of the companies to have established toll free numbers for its consumers.

These groups have put more restraints on marketers. Marketers have to clear their plans with the legal, public relations, consumer affairs and public affairs departments.

SOCIAL CULTURAL ENVIRONMENT

Society shapes our beliefs, values and norms

Views of themselves:

In 1960-70 “pleasure seekers” sought fun, change and escape. They bought dream cars, dream vacations etc. Today, people are more conservative in behaviors and ambitions. More cautious and value driven.

Views of others:

People are concerned more about homeless, crime and other social problems. At the same time people are seeking their “own kind” and avoiding strangers. These trends portend a growing market for social support products and services that promote direct relations between human beings such as health clubs, cruises and religious activity. They also suggest a growing market for “social surrogates”, things that allow people who are alone to feel that they are not. E.g. Television, chat rooms on the Internet, video games.

Views of organizations:

People vary in their attitudes towards organizations
They are willing to work for them in spite of being critical about them
There has been overall decline in organizational loyalty
People see work as a chore required for money and not as a source of satisfaction
This outlook has several marketing implications:
Companies need to find new ways of generating employee and customer confidence.
Need to make sure that they are good corporate citizens and that their consumer messages are honest.
Hence companies are turning to social audits and public relations to improve their image.

Views of society:

Attitudes towards society can be as follows

Preservers- who defend it

Makers- who run it
Takers- those who take what they can from it
Changers- those who want to change it
Seekers- those who are looking for something deeper
Escapers- those who want to leave it

Makers tend to be achievers who eat well, dress well and live well.
Changers live more frugally driving smaller cars and a simple lifestyle
Escapers are a major market for music, movies, surfing and camping

Views of nature:

Some feel

- Subjugated by it
- Others feel harmony with it
- And still others seek mastery over it

People have awakened to nature's fragility. They recognize that it can be destroyed by human activities.

Love of nature leading to camping, boating, fishing etc.
Business has responded with hiking boots, tenting equipment and other gear
Tour operators are packaging more tours to wilderness areas
Marketing communicators are using more scenic backgrounds
Food operators have found growing market for "natural" products

Views of the universe:

Religious conviction and practice has been waning through the years. Church attendance has fallen steadily. Some impulse has been re directed to an interest in eastern religions, mysticism, occult and the human potential movement.

Every trend also has a counter trend. An example being the rise of religious fundamentalism across the globe.

Cultural characteristics of interest to marketers:

High persistence of core values
Existence of sub cultures
Shifts of values through time

High persistence of core values:

People living in a particular society hold many core beliefs and values that tend to persist.

Most Americans still believe in work, getting married, in giving to charity and being honest.

Core beliefs are passed on by parents and are reinforced by major social institutions.

Secondary beliefs are more open to change.

E.g. believing in the institution of marriage is a core belief whereas believing that people need to get marry early is a secondary belief.

Marketers must aim at changing and molding secondary beliefs rather than core beliefs.

Existence of Sub Cultures:

These are groups with shared values emerging from their special life experiences or circumstances.

E.g. Star trek fans, Black Muslims etc.

To the extent that different sub groups exhibit different wants and consumption behavior marketers can choose particular subcultures as target markets.

Marketers have always loved teenagers because they are trendsetters in fashion, music etc. Frito lay says that it has seen a rise in chip snacking amongst grown ups. The reason being that they bought them while they were teenagers.

Shifts of Cultural Values over time

Although core values are fairly persistent cultural swings do take place.

Marketers have a keen interest in spotting cultural shifts that might bring new marketing opportunities or threats.

Several firms offer social cultural forecasts.

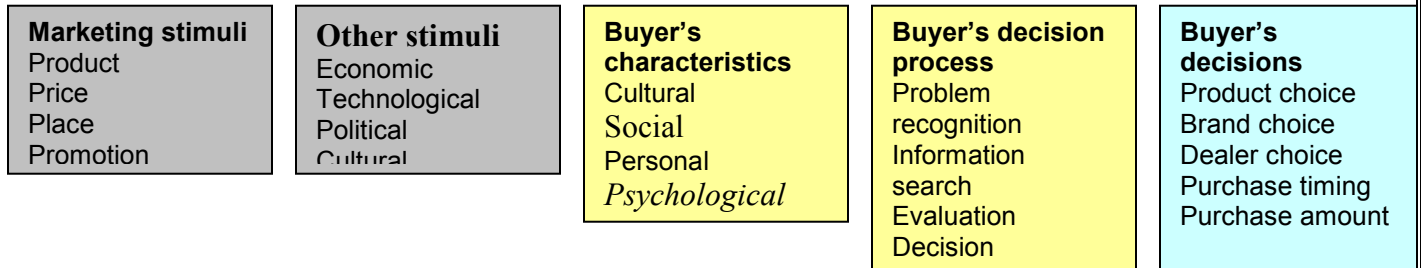
For example, the percentage of people who value physical fitness and well-being has risen steadily over the years.

Marketers of health foods and exercise equipment cater to this trend with appropriate products and communications.

In 1995 Taco Bell introduced a new lower fat "Border Lights menu". The center for Science in the public interest, a consumer advocacy group in Washington D.C praise the menu as being "more than a marketing gimmick"

CHAPTER –6 Analyzing Consumer markets & Buying Behavior

Model of consumer behaviour



Major Factors influencing Buying Behaviour

Cultural Factors

- Culture : values, perceptions, preferences and behaviours.
- Subculture : nationalities, religions, racial grps & geographic regions.
- Social Class : homogeneous & enduring divisions, hierarchically ordered, members share common values.
Indicated by occupation, income, education, etc.

Social Factors

- Reference Groups : all groups that have a direct (*membership groups*) or indirect influence on attitudes or behavior. These groups
 1. expose us to new behaviors & lifestyles
 2. influence attitudes & self concept
 3. create pressures for conformity that influence brand choice
- Family : Most important & influential primary reference group.
Family of orientation – parents & siblings
Family of procreation – spouse & children

Roles and Statuses

A person participates in many groups – family, clubs, and organizations. The person's position in each group can be defined in terms of role and status. A **role** consists of the activities that a person is expected to perform. Each role carries a *status*. People choose products that communicate their role and status in society. Thus CEOs drive Mercedes, etc. Marketers are aware of the status symbol potential of products and brands.

PERSONAL FACTORS

A buyer's decisions are also influenced by personal characteristics. These include the buyer's age and stage in the life cycle, occupation, economic circumstances, lifestyle and personality and self-concept.

Age and stage in the life cycle

People buy different goods and services over a lifetime.

Consumption is shaped by the family life cycle. Marketers often choose life cycle groups as their target market. Yet target households are not always family based: there are also single households, gay households and co-habitor households.

Some recent work has identified psychological life cycle stages. Adults experience certain passages or transformations as they go through life. Marketers pay close attention to changing life circumstances – divorce, widowhood, remarriage – and their effect on consumption behavior.

Occupation & economic circumstances

Occupation also influences a consumption pattern. A company can even specialize its products for certain occupational groups.

Product choice is greatly affected by economic circumstances: spendable income (level, stability, time pattern), savings and assets (including the % that is liquid), debts, borrowing power, and attitude towards spending Vs saving. Marketers of income-sensitive goods pay constant attention to trends in personal income, savings and interest rates. If economic indicators point to a recession, marketers can take steps to redesign, reposition, and re price their products so they continue to offer value to target customers.

Stages in the Family Life Cycle

1. Bachelor stage: young, single not living at home
 - Few financial burdens
 - Fashion opinion leaders
 - Recreation oriented.
 - Buy: basic home equipment, furniture, cars, vacations
2. Newly married Couple: Young no children
 - Highest purchase rate & highest average purchase of durables
 - Cars, appliances, furniture, vacations
3. Full nest I: youngest child under 6
 - Home purchasing at peak.
 - Liquid assets low
 - Interested in new products, advertised products
 - Buy: washers, dryers, TV, baby food, vitamins, dolls,
4. Full Nest II: youngest child 6 or over
 - Financial position better
 - Less influenced by advertisements
 - Buy larger sized packages, multiple unit deals
 - Buy: cleaning material, bicycles, piano
5. Full Nest III: older married couple with dependent children
 - Financial position still better
 - Less influenced by advertising
 - High average purchase of durables
 - Auto, boats, dental services, magazines
6. Empty Nest I: older married couple, no children living with them, head of house in labor force
 - Home ownership at peak

Interested in travel, recreation, self education
Not interested in new products
Buy: vacations, luxuries, home improvements

7. Empty Nest II: older married couple, no children living with them, head of house retired

Drastic cut in income
Keep home
Buy: medical appliances, medical care products

8. Solitary survivor: in labor force

Income still good but likely to sell home

9. Solitary survivor: retired

Same medical and product needs as other retired group
Drastic cut in income
Special need for attention, affection, security

Psychological Factors:

4 major psychological factors that influence a person's buying choices:

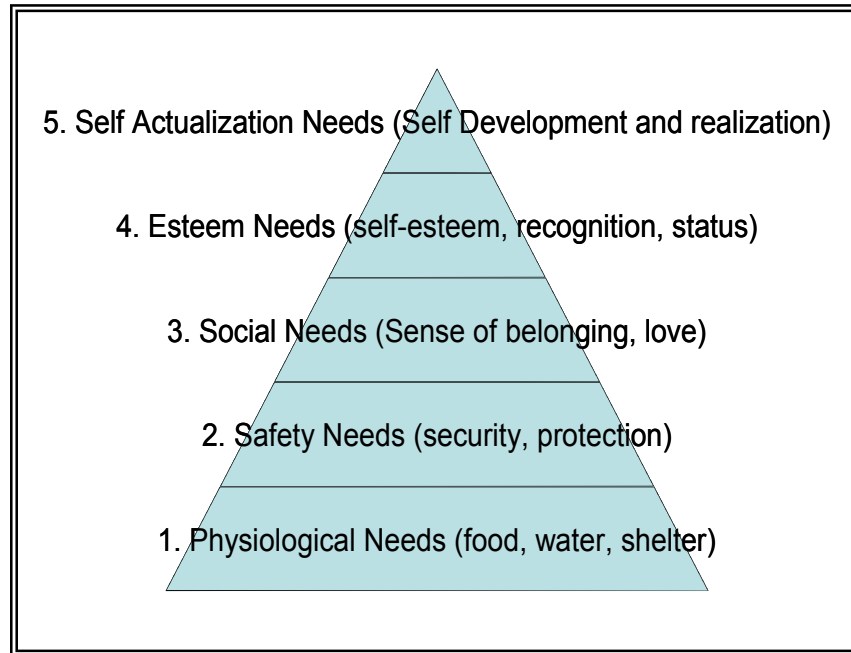
1. Motivation: A person has many needs at a given time –
 - i. Biogenic Needs – Arising from psychological states of tension such as hunger, thirst, discomfort.
 - ii. Psychogenic needs – Arising from psychological states of tension such as need for recognition, esteem or belonging.
 - iii. Motive: A need becomes a motive when it is aroused to a sufficient level of intensity causing a person to act.

➤ Theories related to Motivation:

- i. Freud's Theory:
 - Psychological forces shaping a person's behavior are largely unconscious.
 - "Laddering" can be used to trace a person's motivations from the stated instrumental ones to the more terminal ones.
 - This helps the marketer decide at what level the message/appeal is to be developed.
 - Motivation researchers collect consumer interviews for insights using techniques like word association, sentence completion, picture implementation & role playing.

Motivational positioning: The whisky example – Whisky can attract someone who seeks social relaxation, status or fun. Hence whisky brands have specialized in these three kinds of appeals.

- ii. Maslow's theory: Maslow's theory helps marketers understand how various products fit into the plans goals and lives of consumers.



- iii. Herzberg's Theory: Two-factor theory
 - Dissatisfiers – Factors that cause dissatisfaction.
 - Satisfiers – Factors that cause satisfaction.
 - The Seller should do his best to avoid dissatisfiers.
 - The manufacturers should identify the major satisfiers or motivators of purchase in the market and then supply them.
- 2. Perception: How a motivated person acts is influenced by his or her perception
 - Perception is the process by which an individual selects organizes and interprets information inputs to create a meaningful picture of the world.
 - Perception is individual.
 - Selective Attention:
 - i. People are more likely to notice stimuli that relate to current need
 - ii. People are more likely to notice stimuli that they anticipate
 - iii. People are more likely to notice stimuli whose deviations are large in relation to the normal size of the stimuli
 - Selective Distortion: It is the tendency to twist information into personal; meanings and interpret information in a way that will fit a persons preconceptions. Marketers cannot do much about this.
 - Selective Retention: People tend to forget much that they learn but tend to retain information that supports their attitudes and beliefs. (Marketers use drama and repetitions in sending messages to their target market)
- 3. Learning: When people act they learn.

- Learning involves changes in an individual's behavior arising from experience.
 - Learning is produced through interplay of:
 - i. Drives – A strong internal stimulus impelling action
 - ii. Stimuli
 - iii. Cues – Minor stimuli that determine when, where and how a person responds
 - iv. Responses
 - v. Reinforcement
4. Beliefs and Attitudes:
- A belief is a descriptive thought that a person holds about something.
 - Beliefs may be based on knowledge, opinion or faith. They may or may not carry emotional charge.
 - An attitude is a person's enduring favorable or unfavorable evaluations, emotional feelings, and action tendencies towards some object or idea

Buying roles:

Initiator – Influencer – Decider – Buyer – User

Buying behavior:

Complex buying behavior – three-step process – develops belief about the product, attitude about the product and then makes a thoughtful choice.

Dissonance reducing buying behavior – consumer is highly involved in a purchase but sees little difference in brands. Marketing communication should supply beliefs and evaluations that help the consumer feel good about his/her brand choice.

Habitual buying behavior – bought under conditions of low involvement and absence of significant brand differences.

Variety seeking buying behavior – characterized by low involvement but significant brand differences.

	High Involvement	Low Involvement
Significant differences between brands	Complex buying behavior	Variety seeking buying behavior
Few differences between brands	Dissonance reducing buying behavior	Habitual buying behavior

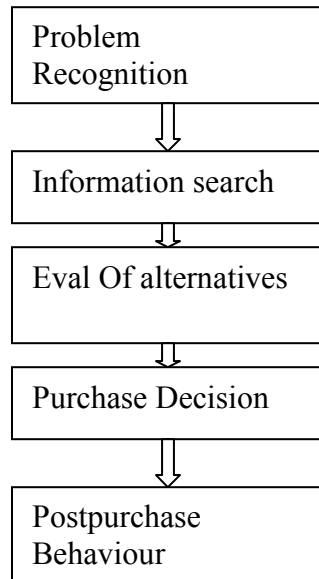
Stages of the Buying Decision Process

Ways to find out the buying decision process by marketers:

- 1) Introspective Method: they would think how they would behave
- 2) Retrospective Method: Ask people to recall their buying decision process
- 3) Prospective process: Ask prospective customers to think aloud

4) Prescriptive process: Ask customers the ideal way to buy the product

Five stage Process of Consumer Buying Decision



Problem Recognition

The buyin process starts when the customer feels the need for the product

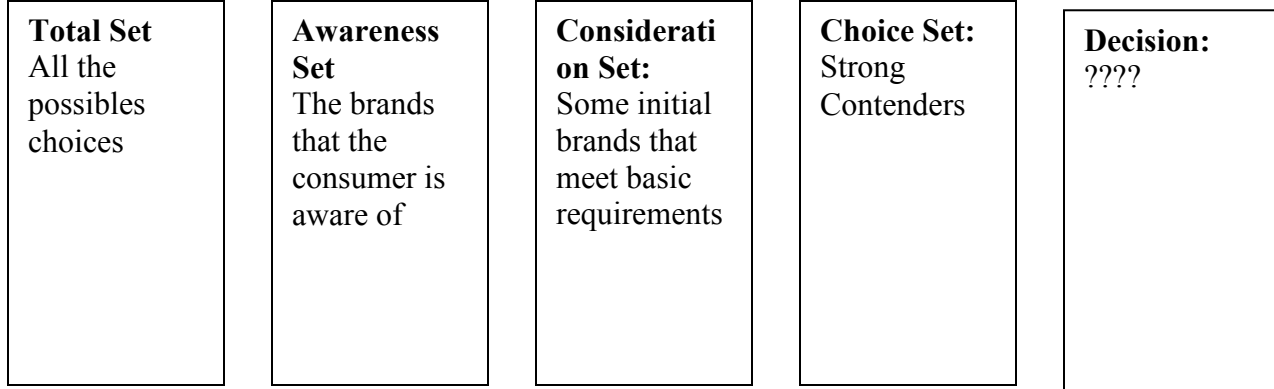
Information Search:

An inclined customer wud look for more information. At the first level it is called **heightened attention**. He simply becomes more receptive for information

At the next level is the **active information search** lookin for more information from friend, reading material, etc.

- Sources of information for the customer:
- Personal Sources: family, friends
- Commercial sources: Ads, sales people
- Public sources: Mass media
- Experimental sources: Handling, examining

Successive sets involved in consumer Buyin decision process:



Evaluation of IDEAS

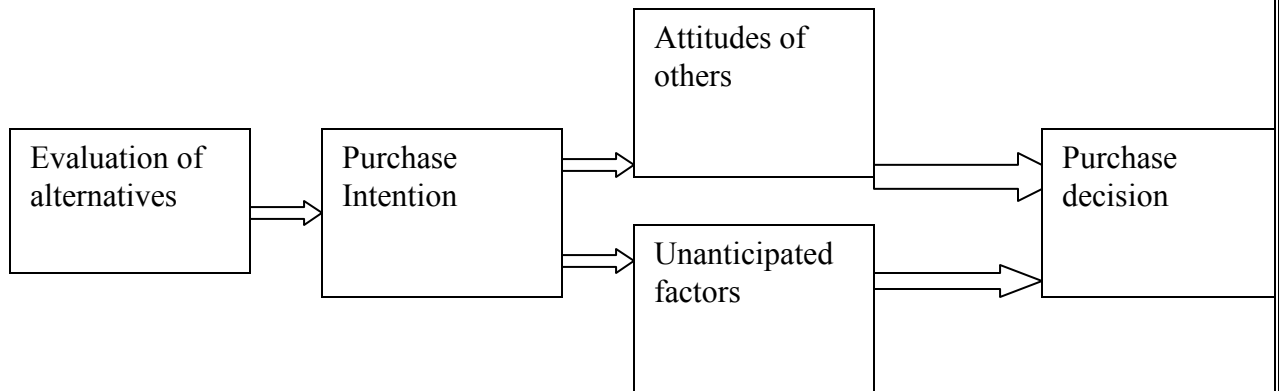
The consumer is tryin to satisfy his needs , get some benefits and finally look at the product as a bundle of benefits.

The consumer wud give weightages to the various attributes to the product and find out the total points to the product.

Some methods which can help change the consumers perception of the product

- 1) Real repositioning: redesign the product
- 2) Psychological repositioning: Alter the belief of the brand
- 3) Competitive repositioning: Alter belief about the competitor's brand

Purchase Decision



Postpurchase behaviour:

Postpurchase Satisfaction: the customer may either be satisfied, delighted or dissatisfied after the purchase. these feelings make a lot of difference to the customers perception and behaviour towards the company.

Postpurchase actions: the customer may take different actions depending upon his satisfaction level. The dissatisfied customer may stop buying (*exit option*) or the customer may be tell his friends not to buy the product (*voice option*)

Postpurchase use and disposal: Marketers need to monitor what the consumer does with the product after purchase and how it is disposed off to maintain environmental friendliness of the product.

CHAPTER 7 ANALYZING BUSINESS MARKETS AND BUSINESS BUYING BEHAVIOR

1. What is organizational buying?

Organizational Buying is the decision making process by which formal organizations establish the need for purchased products and services and identify, evaluate and choose between alternative brands and suppliers.

Business market versus consumer market

Business Market consists of all the organizations that acquire goods and services used in the production of other products and services that are sold, rented or supplied to others. Main industries comprising this are agriculture, forestry, fisheries, manufacturing, mining, banking, insurance, etc.

Characteristics that contrast with consumer market

- Fewer buyers
- Larger buyers
- Close supplier- customer relationship (customization)
- Geographically concentrated buyers- reduces selling costs, also because of regional shifts of certain industries
- Derived demand- ultimately demand is derived from that for consumer goods, so one must closely monitor the buying patterns of ultimate consumers
- Inelastic demand- not too affected by price, especially inelastic in short run because it is not easy to make changes in production methods
- Fluctuating demand- more volatile than that for consumer goods and services. Acceleration effect: a certain rise in consumer demand can cause a much larger increase in the demand for plant and equipment necessary to produce that additional output.
- Professional purchasing- Business goods are purchased by trained purchasing agents who must follow purchasing policies, constraints and requirements, for example, requests for quotations, proposals and purchase contracts.
- Several buying influences- More people influence buying decisions. Buying committees often consist of technical experts and even senior management.
- Multiple sales calls
- Direct purchasing- from manufacturers instead of intermediaries especially in the case of items that are technically complex or expensive.
- Reciprocity- buyers selecting suppliers who also buy from them.
- Leasing- instead of buying heavy equipment.

Buying Situations

There are three types:

- Straight rebuy- Purchasing department reorders on a regular basis. The buyer chooses from suppliers on an approved list. The suppliers make an effort to maintain product and service quality and propose “automatic reordering systems”. The “out-suppliers” attempt to offer something new or exploit dissatisfaction with existing supplier.
- Modified rebuy- The buyer wants to modify product specifications, prices, delivery requirements and other terms. This involves additional decision participants on both sides. The “in-suppliers” become nervous and “out-suppliers” try to offer a better deal.
- New task- The purchaser buys a product or service for the first time.

Stages in New task buying: Awareness, Interest, Evaluation, Trial and Adoption.

Mass media have the greatest effect at the awareness stage, sales-people at the interest stage and technical sources at the evaluation stage.

The new task situation is said to be the marketer’s greatest opportunity and challenge. Some companies use a *Missionary sales force* consisting of their best people for this.

The numbers of decisions for the business buyer are the fewest in the straight rebuy and the maximum in the new task.

Systems buying and selling

Systems buying is said to happen when business buyers buy a total solution to their problems from one seller, for example, government soliciting bids from prime contractors (who can then sub-contract); turnkey solutions, etc.

Systems selling has been adopted by several sellers as a marketing tool, for example, auto part manufacturers selling whole systems such as the seating system, the door system, the breaking system, etc.

Systems contracting is said to occur when a single supply source provides the buyer with his entire requirement of MRO (maintenance, repair and operating) supplies. This helps the buyer lower costs in inventory (which is maintained by seller), reduced time on supplier selection and price protection. This is a key strategy for large scale industrial projects.

2. Participants in the business buying process

The Buying Center

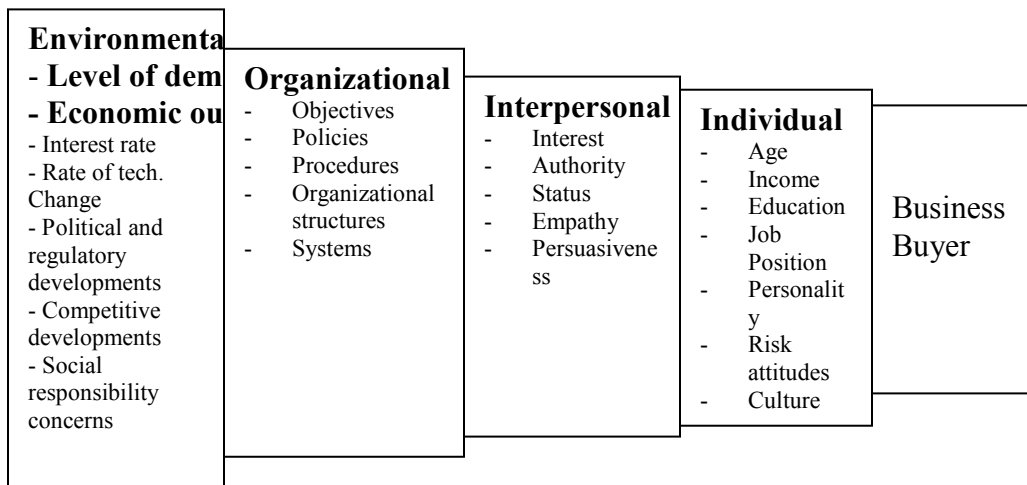
The **Buying center** is composed of all those individuals and groups who participate in the decision making process, who share some common goals and risks arising from the decisions.

- **Initiators:** Those who request that something be purchased.
- **Users:** Those who will use the product or service.
- **Influencers:** People who influence the buying decision. They help define specifications and provide information about alternatives.
- **Deciders:** People who decide on product requirements or on supplies.
- **Approvers:** people who authorize the proposed actions of deciders and buyers.
- **Buyers:** People who have formal authority to select the supplier and arrange the purchase terms.
- **Gatekeepers:** People who have the power to prevent sellers or information from reaching the buying center.

When a buying center includes many participants the business marketer will not have the time or resources to reach all of them. Small sellers concentrate on reaching the key buying influencers whereas the large sellers go for multilevel in depth selling to reach as many participants as possible.

Major Influences

The **major influences** on buying behavior are: Environmental, Organizational, Interpersonal and individual.



Environmental factors: Business marketers can do little to stimulate total demand in this environment. They can only fight harder to maintain or gain market share.

Organizational factors: Every organization has specific purchasing objectives, policies, procedures, organizational structures and systems.

Interpersonal factors: Buying centers have several participants with different interests, authority, status, empathy and persuasiveness. Whatever information the marketer can discover about personalities and inter personal factors will be useful.

Individual factors: Each buyer carries personal motivations, perceptions, preferences as influenced by his age, income, education, job position, personality attitudes towards risk and culture.

3. The Purchasing/Procurement Process:

Business buyers buy goods and services to make money or to reduce operating costs or to satisfy a social or legal obligation. Business buyers try to obtain the highest benefit package relation to a market offering's costs.

There are three company-purchasing orientations:

1. **Buying-** discrete transactions, relations are arms-length and adversarial, buyer focus is short term and tactical. Buyers assume that "value pie" is fixed, and they must bargain hard to maximize benefits. Buyers use two tactics: commoditization and multi-sourcing.
2. **Procurement-** Buyers seek quality improvements and cost benefits. More collaborative with smaller no of suppliers working in close cooperation with customers. The goal is to establish win win relationship.
3. **Supply management-** Purchasing is more of a strategic value adding operation. Focus is on improving value chain from raw materials to end-users. Buyer behaves as a lean enterprise operating under demand pull rather than supply push.

Stages in the process

1. Problem recognition:

Most common events leading to problem recognition: company decides to develop new product, machine breaks down, purchased material turns out to be defective, purchases senses opportunity to obtain materials at cheaper price.

2. General need description:

Determination of needed item's general description and characteristics (viz reliability, durability, price) & quantity. Marketers may assist buyers in this stage.

3. Product specification:

Buying organization will develop technical specifications for the product and assign a product value analysis (PVA) engineering team to the project.

PVA is an approach to cost reduction in which components are carefully studied to determine if they can be redesigned or standardized or made by cheaper methods of production.

4. Supplier search:

Identify the most appropriate suppliers. Suppliers who lack the required production capacity or suffer from a poor reputation get rejected. Those who qualify may be visited by the buyer's agents, who will inspect supplier's manufacturing sites. After this stage, buyer will end up with a short list of qualified suppliers.

5. Proposal solicitation:

Buyer invites proposals from suppliers. After evaluating proposals, buyer will invite a few suppliers to make formal presentations.

6. Supplier Selection:

Buyer will first specify desired supplier attributes like price, reputation, reliability, flexibility and assign weightages according importance. They will be rated then and the best will be identified.

Another decision to make is how many suppliers to have

7. Order – Routine specification:

After selecting supplier, buyer lays the purchase conditions related to final order, tech specs, delivery etc. a blanket contract is signed for supplier to keep ready stock with the buyer over a specified period of time

8. Performance review:

Buyer periodically reviews its suppliers using any of 3 methods

- Ask end users for feedback
- Evaluation using weighted score method
- Find out cost of poor performance and adjust price accordingly

Buy Flow map describes major steps in the business buying processes.

4. Institutional and Government Markets

Institutional markets consist of schools, hospitals, nursing homes, prisons and other institutions that must provide goods and services to people in their care. These are characterized by low budgets and captive clientele. The focus here is on quality and cost minimization and profit are not objectives.

Characteristics

- Governments invite bids for contracts and award to lowest bidder.
- Might make exceptions for superior quality or reputation
- Favor domestic suppliers over foreign ones
- Governments have a lot of red tape and bureaucracy which tends to put off most people from doing business with them

Governments have traditionally never seen a whole package – but have always bargained on price and used that as a decision factor. They are moving towards web based procurement and more transparency in their dealings. Marketing people have realized that where product features are advertised, differentiation doesn't really help and similarly for price as well.

Chapter 8 Dealing With the Competition

1. Michael Porter's 5 forces:

- a) Threat of intense segment rivalry (competition within the industry)
- b) Buyers' power
- c) Suppliers' power
- d) Threat of potential entrants (threat of mobility)
- e) Threat of substitutes

2. Industry – group of firms that are close substitutes for each other. Classified according to degree of product differentiation, presence or absence of entry, mobility, and exit barriers, cost structure, degree of vertical integration, degree of globalization.

3. Degree of differentiation -

Pure monopoly – Only 1 firm provides a particular product or service in the region / country / area (regulated monopoly / unregulated monopoly)

Oligopoly – Small no. of large firms provide a range of products or services – highly differentiated or standardized. Pure oligopoly – few companies, commodity markets. Differentiated oligopoly – few companies, partially differentiated products along certain features like quality / features – each competitor seeks leadership along one of these major attributes.

Monopolistic competition – Many competitors, differentiated (wholly or partially) products, competitors focus on market segments which can meet customer needs in a superior way and command a price premium.

Pure competition – commodity markets, many players, no advertising unless it can create psychological differentiation (e.g. cigarettes, cement)

4. Barriers

Mobility barriers – barriers of entry into new markets

Exit barriers (many stay on as long as they cover all their variable and part of their fixed costs)

5. Cost structure

More modern equipment, greater efficiency, lower costs

6. Degree of Vertical Integration

Backward / Forward integration to lower costs and / or gain a larger share of the value stream. A vertically integrated company can manipulate prices in various parts of the value stream and earn more profits where taxes are lowest.

7. Degree of globalization

Compete on a global basis in order to achieve economies of scale and keep up with the latest advances in technology

8. Competitor analysis

Once the primary competitors are analyzed, the company needs to ascertain the characteristics, i.e. strategies, objectives (what is each company seeking in the marketplace – history, management, financial situation, expansion plans etc.), strengths, weaknesses, reaction patterns of the competitors.

A strategic group is a group of firms following the same strategy in a given target market.

Six competitive positions of a firm in its target market – dominant, strong (can take independent action without endangering its long term position regardless of competitors' actions), favourable (more than average opportunity to improve), tenable (satisfactory enough to continue, but improvement opportunity is less than average), weak (change or exit), non-viable (divest).

Three variables to monitor while analyzing its competitors – Share of market, share of mind, share of heart.

Reaction patterns of competitors – Laidback competitor, Selective competitor (reacts to certain types of attacks), Tiger competitor (reacts to every move), Stochastic competitor (no predictable behaviour)

Competitive equilibrium (Bruce Henderson) :

If competitors are nearly identical and make their living in a similar way, then their competitive equilibrium is unstable as differentiation is hard to maintain.

If a single factor (e.g. a cost breakthrough or technical advancement achieved by one firm) is the critical factor, then competitive equilibrium is unstable as competitors can defend their share only at a great cost.

If multiple factors may be critical factors, then it is possible for each competitor to have some advantage and be differentially attractive to some customers. The more factors that may provide a competitive advantage, the more competitors can coexist.

The fewer the number of critical factors, the fewer the number of competitors.

A ratio of 2 to 1 in market share between any two competitors seems to be the equilibrium point at which it is neither practical nor advantageous for either competitor to increase or decrease share. At this level, the costs of extra promotion or distribution would outweigh the gains in market share.

9. Four main steps to designing a competitive intelligence system:

Setting up the system

Collecting the data

Evaluating and analyzing the data

Disseminating information and responding

10. Selecting competitors to attack and to avoid

Customer value analysis – to reveal the company’s strengths and weaknesses relative to various competitors

Identify the major attributes customers value

Assess the quantitative importance of the different attributes

Assess the company’s and competitors’ performances on the different customer values against their rated importance

Examine how customers in a specific segment rate the company’s performance against a specific major competitor on an attribute-by-attribute basis

Monitor customers’ values over time

11. Classes of competitors

Strong vs. weak

Close vs. distant (companies should avoid trying to destroy their closest competitor – Porter)

Good vs. bad (do not play by the rules, set unreasonable prices, try to buy share rather than earn it, take large risks, invest in overcapacity, upset the industrial equilibrium)

12. Competitive Strategies

A. Market Leader Strategies

<i>New demand</i>	<i>win market share</i>	<i>Improve productivity</i>	<i>Defend position</i>
New users	Win customers	Improve costs	Defend statically
New uses	Win competitors	Improve product mix	Defend proactively
More usage	Win loyalty	Improve added value	Defend reactively

Defending market share – Position defence (build an impregnable fortress around one’s territory), Flank defence (erect outposts, i.e. new products/ alternatives) to protect a weak front or serve as an invasion base for counterattack, e.g. Starbucks coffee launching non-coffee products like tea and juice (‘teazzi’), Counteroffensive defence (hit back to counter the competitor’s price cut or promotional blitz), Mobile defence (stretch your domain over new territories that can serve as future centres for defence and offence).

Market broadening – shift focus from the current product to the underlying generic need. Do not carry this too far lest you fault upon the two fundamental military principles – the principle of the objective (pursue a clearly defined, decisive and attainable objective) and principle of mass (concentrate your efforts at a point of enemy weakness.)

Market Diversification – shift focus to unrelated industries. Eg: Tobacco companies moving into beer, liquor, soft drinks, etc, as a result of curbs on the cigarette industry.

Contraction Defense – Planned contraction by large companies (strategic withdrawal) – giving up weaker territories and assigning resources to stronger territories – concentrate competitive strength – pruning of product lines – Eg: GE, Heinz, etc.

Expanding Market Share – to improve profitability as it rises with its relative market share of the served market. Eg: GE – No. 1 or No. 2 in every market. Some industries have a V-shaped relationship curve between market share and profitability – Few large profitable firms – many small focused profitable firms – many medium-sized low profitable firms – Looks at total market and not market segments

Increase in costs as a result of increase in market share beyond a point (say 50%). This is due to cost of legal work, public relations and lobbying. Pushing for higher market share not justified as a result of few scale or experience economies, unattractive market segments, high exit barriers, etc.

Share Gaining companies outperform competitors in:

- ❖ New Product activity
- ❖ Relative product quality
- ❖ Market expenditures

Ways to protect and increase market shares derived from P&G and Caterpillar:

P&G:

- ❖ Customer Knowledge
- ❖ Long term outlook
- ❖ Product innovation
- ❖ Quality Strategy
- ❖ Line-extension strategy
- ❖ Brand-extension strategy
- ❖ Multi-brand Strategy
- ❖ Heavy Advertising & Media pioneer
- ❖ Aggressive sales force
- ❖ Effective sales promotion
- ❖ Competitive toughness

- ❖ Manufacturing efficiency – cost cutting
- ❖ Brand Management system

Caterpillar:

- ❖ Premium performance
- ❖ Extensive and efficient dealership system
- ❖ Superior service
- ❖ Superior parts management
- ❖ Premium price
- ❖ Full line strategy
- ❖ Good financing

Market challenger strategies – first define strategic objective and opponent(s)

- ❖ Attack the market leader: high risk-high payoff strategy. Makes sense if the leader isn't serving the market well. Targeting unsatisfied customers – out innovate competitor across whole segment.
- ❖ Attack firms of its own size that are under performing and are under financed: they charge excessive prices, have ageing products, etc.
- ❖ Attack small & regional firms:

General Attack Strategy:

Frontal Attack: match opponents products, pricing, advertising & distribution. Win through sheer greater manpower & resources.

Modified Frontal Attack: price cutting vis-à-vis opponent. Can work if market leader doesn't retaliate or competitor can convince of better/equal quality products.

Main principle of offensive warfare – “Concentration of strength against weakness”

Flank Attack:

- a) Geographical – challenge opponent in spot areas where he is underperforming
- b) Segmental – serve uncovered market needs

Rush in to fill gaps developing in market due to shifts. Flank attack is attractive to a challenger with fewer resources than the opponent.

Encirclement maneuver: capture a wide slice of opponent's market through a 'blitz'. Launch a grand offensive on several fronts. Can be pursued by firms having superior resources.

Bypass Strategy: bypass the enemy and attack easier markets to broaden resource base. 3 ways:

- a) Diversifying into unrelated products
- b) Diversifying into new geographical markets

c) New technologies to supplant existing products

Guerilla Attack: small intermittent attacks to harass and demoralize opponents and secure permanent footholds. Conventional & unconventional means – selective price cuts, intense promotional blitzes, occasional legal actions.

Specific Attack Strategies: (Beyond the above broad strategies)

- ❖ Price Discount
- ❖ Cheaper Goods
- ❖ Prestige Goods
- ❖ Product Proliferation
- ❖ Product Innovation
- ❖ Improved services
- ❖ Distribution innovation
- ❖ Manufacturing cost reduction
- ❖ Intensive advertising promotion

Market-Follower Strategies

Product imitation could be better than product innovation.

In industries with low image differentiation, comparable service quality, price sensitivity. There is high possibility of price wars. Strategy against short run gains but for long term sustainability.

Market follower – know to hold on to current customers – win a fair share of new customers – distinctive advantages in location, services, financing – low manufacturing costs – high product & service quality – new market penetration

Four Broad Strategies:

- ❖ Counterfeiter: duplicate leader's product & package – sell it in the black market thru disreputable dealers
- ❖ Cloner: emulate leader's products, name, and packaging, with slight variations
- ❖ Imitator: copy some things from the latter but maintain differentiation in packaging, advertising, pricing, etc.
- ❖ Adapter: take the leader's products and adapt or improve them. Choose to sell to different markets. Grows into the future challenger.

MARKET NICHER STRATEGY

This strategy involves avoiding competing with large firms by targeting small markets which are low volume but highly profitable. The profits are higher because of higher margin as compared to mass market. The specialization of niche market can be of following type.

1. End user specialist – customized computer hardware and software.
2. Vertical level specialist- copper firm producing raw mat or comp or finished prod
3. Customer size spec- small customer neglected by others
4. Specific customer spec- selling entire output to GM or Sears
5. Geographic spec – selling in one particular location
6. Product line spec – lenses of microscope or ties
7. Job shop spec – customizing for individuals , Customized cars
8. Quality price spec – HP operated on high price and high quality
9. Service spec – bank accepting loans on phone and hand delivery of money
10. Channel spec – soft drink selling thru only gas stations

Operating in one niche is dangerous so either shud continuously create new niches or multiple niches operation.

Companies can be Competition oriented or Customer oriented

Competitor oriented – Constant watch on competitor and actions are more reactive.

Customer oriented – identify new opportunities and make strategy , more proactive.

CHAPTER 9 Identifying Market Segments and Selecting Target Markets

A Company cannot serve all customers in a broad market – customers are too numerous and diverse in their requirements. The company needs to identify the market segments that it can serve more effectively.

Many companies embrace *target marketing* where sellers distinguish the major market segments, target one or more of those segments, and develop products and marketing programmes tailored to each. Instead of scattering the marketing effort (shotgun approach) they focus on the buyers they have the greatest chance of satisfying (Rifle approach).

Target marketing requires three steps:

- Identify and profile distinct group of buyers who might require separate products or marketing mixes – *market segmentation*.
- Select one or more market segments to enter – *market targeting*.
- Establish and communicate the products' key distinctive benefits to the target market – *market positioning*.

Levels and Patterns of Market Segmentation

Levels of market segmentation

Market segmentation is an effort to increase a company's precision marketing.

Mass marketing: In this sellers engages in mass production, mass distribution and mass promotion of one product for all buyers. Model T-ford, Coca-Cola etc are example of mass marketing.

Mass marketing creates a large potential market, which leads to the lowest cost, which in turn can lead to lower prices or higher margins. But with the increasing splintering of the market, mass marketing gets more difficult.

Four levels of marketing:

- **Segment Marketing:** A market segment consists of a large identifiable group within a market with similar wants, purchasing power, geographical location, buying attitudes or buying habits. For example, for an auto company might have four broad segments: customers seeking basic transportation or high performance or luxury or safety.

Each segment buyers are assumed to be quite similar in needs and wants. Anderson and Narus urge to present *flexible market offering* instead of a standard offering (“one size fits all”) to all members within the segment. A flexible market offering consists of two parts:

- *Naked Solution:* Product and service element that all segment members value
- *Options:* That some segment members value, each option carries extra charge.

For example seat, food and drinks offered to the economy class passenger of an airline are *naked Solution* while extra amount charged for an alcoholic beverage/ Internet facility to those who are ready to pay for it would be *option*.

Benefits of Segment Marketing are:

- The company can create more fine tuned product or services offering and price it appropriately for target audience
 - Choice of distribution channel and communication channel becomes much easier
 - The company also may face fewer competitions in a particular segment.
- **Niche Marketing:** A niche is more narrowly defined group, typically a small market whose needs are not well served. Marketers usually identify niches by dividing a segment into sub segments or defining a group seeking a distinctive mix of benefits. Niches are fairly small and attract very few competitors. Large companies loose pieces of their market to nichers and Dalgic has labelled this confrontation as “Guerrillas against gorillas”. Niche marketing requires more decentralization and changes in the way normal business is done. Niche marketers understand their customers so well that customer’s willingly pay a premium. Attractive niches are characterized as:
- Customers in the niche have a distinct set of needs
 - They will pay a premium to the firm that best satisfies their needs
 - The niche is not likely to attract other competitors
 - The nichers gain certain economies trough specialization
 - The niche has size, profit and growth potential

Linneman and Santon, “There are riches in the niches”

Blattberg and Deighton, “Niches too small to serve profitably today will become viable as marketing efficiency improves.”

The low cost of setting up shop on the Internet is a key factor on making it more profitable to serve even more seemingly miniscule niches.

- **Local Marketing:** Marketing programmes being tailored to the needs and wants of local customer groups – trading areas, neighbourhood, individual stores. Disadvantages of local marketing are – it drives up the manufacturing and marketing cost by reducing the economies of scale, logistical problems become magnified and a brands overall image may be diluted if the product and message differ in different localities.
- **Individual Marketing:** Ultimate level of marketing – “segment of one”, “customised marketing”, “one-to-one marketing”. Tailors, cobblers etc. B2B marketing today is customised. *Mass customisation* is the ability to prepare on a mass basis individually designed products and communication to meet each customer’s requirements. New technologies such as computers, Internet, databases, robotic production, email, fax etc. permit companies to adopt mass customisation.
- For mass customisation marketers need to set up – toll free phone number and email ids for customers suggestions, complaints, feed back, involve customer more during the product specification process, sponsor web pages containing full details about the products and services offered, guarantees and locations etc.

Patterns of Market Segmentation

Way to build up market segments – *preference segments*. Three different patterns

- **Homogeneous Preferences:** Markets where all customers have roughly same preference. The market shows no natural segments.
- **Diffused Preferences:** Consumer preferences are scattered through out the space – consumers vary widely in their preferences. The first brand to enter the market is likely to position itself in the centre to appeal the most people. A brand in the centre minimizes the total customer dissatisfaction.
- **Clustered Preferences:** The market reveals distinct preference clusters – *natural market segments*. The first firm to enter the market has three options-
 - *Position in the center to appeal to all groups*. It will develop only one brand, competitors would enter and introduce brands in the other segments
 - *Position in the largest market segment* – concentrated marketing
 - *Develop several products positioned in a different segment*.

Market segmentation procedure

3-step procedure

1. Service stage: the researcher conducts exploratory interviews and focused groups to gain insights into consumer motivations attitudes and behaviours. Then the researcher prepares a questionnaire and collects data on attributes and their importance ratings, brand awareness and brand ratings, product usage patterns, attitudes towards product category and demographics, geographic, psychographics and media graphics of the respondents.
2. Analysis Stage: under this he applies factor analysis to the data to remove highly correlated variables then apply cluster analysis to create specific number of maximally different segments
3. Profiling stage: each cluster is profiled according to its distinguishing attitudes, behaviour, demographics, psychographics and media graphics and media patterns. Each segment is given a name depending on its dominant characteristics. Market segmentation should be redone periodically because they change.

Way to discover new segments is to discover the hierarchy of attributes that consumers examine while choosing a brand. This process is called ***market partitioning***.

The hierarchy of attributes can reveal customer segments. Buyers who first decide on price are price dominant. Those who first decide on type of car (eg sports, passenger) are type dominant. Those who first decide on the car brand are brand dominant. Each segment may have different demographics, psychographics and media graphics.

SEGEMENTING CONSUMER AND BUSINESS MARKETS

Basis for segmenting consumer markets:

2 broad groups of variables are used to segment consumer markets. Some researchers try to form segments by looking at consumer characteristics: demographic, geographic, and psychographic. Then they examine whether these customer segments exhibit different needs or product responses.

Methods of Segmentation

Geographic segmentation: it calls for dividing the market into different geographic units such as nations, states, regions, counties, and cities. The company can operate in one or few geographic areas or operate in all but pay attention to local variations.

Demographic segmentation: in this the market is divided into groups on the basis of variables such as age, family, size, life cycle, gender, income, occupation, education, religion, race, generation, nationality, social class. These variables are the most popular basis for distinguishing customer groups. One reason is that consumer wants, preferences, usage rates are often associated with demographic variables. Another reason is that demographic variables are easier to measure even when the target market is defined in non-demographic terms. The link back to demographic characteristics is needed in order to estimate the size of the target market and the media that should be used to reach it efficiently.

Geographic	
Region	Pacific, mountain, west north central
City or metro size	Under 5000 etc
Density	Urban rural
Climate	Northern, southern

Demographic	
Age	
Family size	
Family life cycle	
Gender	
Income	
Occupation	
Education	
Religion	
Race	
Generation	
Nationality	
Social class	
Psychographics	
Life style	
Personality	
Behavioural	
Occasions	
Benefits	
User status	
Usage rate	
Loyalty status	
Readiness stage	Unaware, aware, informed, interested, desirous
Attitude towards product	Enthusiastic, positive, indifferent

Age and life cycle stage: consumer wants and abilities change with age. Gerber realized this and began expanding beyond its baby food lines. Nevertheless age and life cycle can be tricky variables.

Gender: gender segmentation has been applied to clothing hairstyling cosmetics and magazines. Other marketers also noticed opportunity for gender segmentation for eg the cigarette market where brands like Virginia slims was launched to reinforce female image.

Income: it is a long standing practice in such product and service categories e.g. Automobile, clothing and cosmetic and travel.

Generation:

- ❖ Baby boomers born between 1946-64
- ❖ Generation X born between 1964-84 – more sophisticated in evaluating products, turn off by advertising that has too much hype or takes itself too seriously
- ❖ Cohort segmentation: cohorts are groups of people who share experiences of major external events that have deeply affected their attitudes and preferences. Members of cohort groups feel the bonding with each other for having shared the

same major experiences. Advertising to a cohort group should be done using icons and images prominent in their experiences.

Social Class: has a strong influence on preference in cars clothing home furnishing, leisure activities reading habits and retailers. The taste of social class can change with years.

Psychographic segmentation:

Buyers are divided into different groups based on personality and values. People within the same demographic group can exhibit very different psychographic profiles.

Lifestyle: people generally exhibit more lifestyle than are suggested by social classes generally the goods they consume express their lifestyle such as cosmetics, alcoholic beverages, furniture etc.

Personality: Marketers can use personality variables to segment markets. They endow their products with brand personalities that correspond to consumer personalities.

Values: some marketers segment by core values, the belief systems that underlie consumer attitudes and behaviours. Core values go much deeper than behaviour or attitude and determine at a basic level people's choices and desires over long term. Marketers who segment by values believe that by appealing to people's inner selves it is possible to influence their outer selves- their purchase behaviour.

Behavioral Segmentation

Buyers are divided into groups on the basis of their knowledge of, attitude toward, use of, or response to a product.

Starting points for constructing market segments

Occasions:

Distinguish buyers according to the occasions they develop a need, purchase a product, or use a product

Benefits:

Buyers classified on the basis of the benefits they seek

User status:

Market segmentation into non-users, ex-users, potential users, first time users and regular users of a product.

Usage rate:

Market segmented into light, medium and heavy product users.

Loyal status:

Consumers can be divided into 4 groups according to the brand loyalty status:

- Hard-core loyals – one brand all the time

- Split loyals – loyal to 2 or 3 brands
- Shifting loyals – consumers who shift from one brand to another
- Switchers – no loyalty to any brand

Markets

- Brand loyal markets – high % of hard-core brand loyal buyers

A company can learn a great deal by analyzing degrees of brand loyalty

Analysis of:

- Hard-core loyals: the company can identify products' strengths
- Split loyals: company can pinpoint which brands are most competitive with its own.
- Shifting loyals: company can learn about its marketing weaknesses and attempt to correct them.

Buyer readiness stage:

A market consists of people in different stages of readiness to buy a product.

Stages of readiness:

- Aware of product
- Informed about product
- Interested in product
- Desirous of buying the product
- Intention to buy product

Attitude:

Five attitude groups can be found in the market:

- Enthusiastic
- Positive
- Indifferent
- Negative
- Hostile

Multi-Attribute segmentation (geocustering)

Marketers no longer talk about the average consumer or even limit their analysis to only a few market segments. Increasing trend towards combining several variables in an effort to identify smaller, better defined target groups.

Answers to the following questions for multi-attribute segmentation

- Which clusters contain our most valuable customers?
- How deeply have we already penetrated these segments?
- Which markets, performance sites and promotional media provide us the best opportunities for growth?

Geocustering captures the increasing diversity of the population, and marketing to micro segments has become accessible even to small organisations as database costs decline, PCs proliferate, software becomes easy to use, data integration increases and as the Internet grows.

Basis for segmenting business markets

Segmentation variables for business markets:

Demographic

- *Industry*: which industries to serve
- *Company size*: what size companies to serve
- *Location*: what geographical areas to serve

Operating variables

- *Technology*: what customer technologies should we focus on
- *User or non-user status*: should we serve heavy users, medium users, light users, or non-users?
- *Customer capabilities*: should we serve customers needing many or few services

Purchasing approaches

- *Purchasing-function organisation*: should we serve companies with centralized or decentralized
- *Power structure*: should we serve companies that are engineering dominated
- *Nature of existing relationships*: should we serve companies with which we have a strong relationships or simply go after the most desirable companies
- *General purchase policies*: should we serve companies that prefer leasing or service contracts or systems purchases or bids?
- *Purchasing criteria*: should we serve companies that are seeking quality or service or price?

Situational factors

- *Urgency*
- *Specific application*: focus on specific application rather than all applications
- *Size or order*

Personal characteristics

- *Buyer seller similarity*
 - *Attitudes towards risk*
 - *Loyalty*
-

Business buyer stages

- First-time prospects – prefer to deal with a company rep
- Novices -
- Sophisticates – may want to conduct more of their buying over electronic media

Business segments among business buyers

- *Programmed buyers*: view the product as not very important to their operation
- *Relationship buyers*: regard the product as moderately imp and r knowledgeable abt competitive offerings
- *Transaction buyers*: see the product as v imp to their operations. Price, service sensitive
- *Bargain hunters*: see the product as v important. Demand deep discounts and highest service.

To be useful market segments must be

Measurable Substantial accessible Differentiable Actionable

Evaluation of market segments

- 2 factors to be looked at : (a) segment's overall attractiveness (b) company's objectives and resources**

Selecting the market segments

- **Single market concentration**: firm gains strong knowledge of segment's needs and achieves strong market presence
- **Selective specialization**: firm selects a no. of segments, each objectively attractive and appropriate
- **Product specialization**: firm specializes in making a certain product that it sells to several segments
- **Market specialization**: firm concentrates on serving many needs of a specific customer group
- **Full market coverage**: firm attempts to cover all customer groups with all the products they might need.
 - Undifferentiated marketing**: firm ignores market segment differences and goes after the whole market with one offer
 - Differentiated marketing**: firm operates in several market segments and designs different programs for each segment

Costs expected to be higher in differentiated marketing

- Product modification costs
- Manufacturing costs
- Administrative costs

- Inventory costs
 - Promotion costs
-

Additional considerations:

- 3 other considerations must be taken into account in evaluating and selecting segments:
 - Ethical choice of target markets
 - Segment interrelationships and supersegments
 - Segment-by-segment invasion plans
 - Intersegment cooperation

Chapter 10 Positioning the Market Offering Through the Product Life Cycle

Companies are constantly trying to differentiate their market offering from competitors'. They dream up new services and guarantees, special rewards for loyal users, new conveniences and enjoyments.

How to differentiate

It is a 3-step process:

1. Defining the customer value Model: The Company first lists all the product and service factors that might influence the target customers' perception of value.
2. Building the customer value hierarchy: 4 factors come under this head. Consider a fine restaurant
 - a. Basic: the food is edible and delivered in a timely fashion.
 - b. Expected: there is good china and tableware, a linen tablecloth and a napkin etc (These factors make the offering acceptable but not exceptional)
 - c. Desired: the restaurant is pleasant and quiet and the food is especially good and interesting.
 - d. Unanticipated: the restaurant serves a complimentary sorbet between the courses and places candy on the table after the last course is served.
3. Deciding on the customer value package: now the company chooses that combination of tangible and intangible items, experiences, and outcomes designed to outperform competitors and win the customers' delight and loyalty.

Differentiation Tools

Differentiation is the act of designing a set of meaningful differences to distinguish the company's offerings from competitors' offerings.

The BCG competitive Advantage Matrix: The Boston consulting group has distinguished four types of industries on the number and available competitive advantages and their size.

Number of Approaches to Achieve Advantage

		<i>Few</i>	<i>Many</i>
Size of the Advantage	<i>Large</i>	Volume	Specialized
	<i>Small</i>	Stalelated	Fragmented

Here we will examine how a company can differentiate its market offering along five dimensions: **product, services, personnel, channel and image.**

Product differentiation

Product differentiation can be made on the basis of **form, features, Performance, conformance, durability, reliability, reparability, style, and design.**

Form

It essentially means differentiating on the basis of size, shape, physical structure. Although aspirin is essentially a commodity, it can be differentiated by dosage size, shape, coating, action time, and so on.

Features

These are characteristics that supplement the product's basic functions. Japanese car companies often manufacture cars at three "**trim levels**". This lowers manufacturing and inventory costs. Each company must decide whether to offer feature customization at a higher cost or a few standard packages at a lower cost.

Performance Quality

It refers to the level at which the product's primary characteristics operate. *Study shows a significantly positive correlation between relative product quality and ROI.*

Three strategies are available:

- a) *Where the manufacturer continuously improves the product, often produces the highest return and market share.*
- b) *To maintain product quality at a given level.*
- c) *To reduce product quality through time. Some companies cut quality to offset rising costs; others reduce quality deliberately in order to increase current profits, although this course of action hurts long-run profitability.*

Conformance Quality

Buyers expect products to have a high conformance quality, which is the degree to which all the produced units are identical and meet the promised specifications. The problem with low conformance quality is that the product will disappoint some buyers.

Durability

Durability, a measure of the product's expected operating life under natural or stressful conditions, is a valued attribute for certain products. Buyers will generally pay more for products that have a long-lasting reputation. However, this rule is subject to some qualifications. The extra price must not be excessive. Furthermore, the product must not be subject to rapid technological obsolescence.

Reliability

Buyers normally will pay a premium for more reliable products. Reliability is a measure of the probability that a product will not malfunction or fail within a specified time period.

Reparability

Buyers prefer products that are easy to repair. Repairability is a measure of the ease of fixing a product when it malfunctions or fails. Ideal reparability would exist if users could fix the product themselves with little cost or time.

Style

Style describes the products look and feel to the buyer. Buyers are normally willing to pay a premium for products that are attractively styled. Style has the advantage of creating distinctiveness that is difficult to copy. On the negative side strong style, does not always mean high performance. We must include packaging as a styling weapon, especially in food products, cosmetics, toiletries, and small consumer appliances. The package is the buyers first encounter with the product and is capable of turning the buyer on or off.

Design: The Integrating Force

As competition intensifies, design offers a potent way to differentiate and position a company's products and services. In increasingly fast-paced markets, price and technology are not enough. Design is the factor that will often give the company its competitive edge. Design is the totality of features that affect how a product looks and functions in terms of customer requirements. Design is particularly important in making and marketing durable equipment, apparel, retail services, and packaged goods. The designer has to figure out how much to invest in form, feature development, performance,

conformance, durability, reliability, reparability, and style. To the company, a well designed product is one that is easy to manufacture and distribute. To the customer, a well designed product is one that is pleasant to look at and easy to open, install, use, repair, and dispose off. The designer has to take all these factors into account.

Services Differentiation

When the physical product cannot easily be differentiated, the key to competitive success may lie in adding value added services and improving their quality. The main service differentiators are **ordering ease, delivery, installation, customer training, customer consulting, and maintenance and repair.**

Ordering Ease

Ordering ease refers to how easy it is for the customer to place an order with the company.

Delivery

It refers to how well the product or service is delivered to the customer. It includes speed, accuracy, and care attending the delivery process.

Installation

It refers to the work done to make a product operational in its planned location. Differentiating at this point in the consumption chain is particularly important for companies with complex products. Ease of installation becomes a true selling point especially when the target market is technology novices.

Customer Training:

Refers to training the customer's employees to use the vendor's equipment properly and efficiently.

Customer Consulting:

Refers to data, information systems and advising services the seller offers to the buyers.

Maintenance and Repair:

It describes the service program for helping customers keep purchased products in good working order.

Miscellaneous Services:

Companies can find other ways to differentiate customer services. They can offer an improved product warranty or maintenance contract.

PERSONNEL DIFFERENTIATION

Companies can gain strong competitive advantage through having better trained people. Better-trained personnel exhibit 6 characteristics:

- ❑ Courtesy: Respectful, friendly and considerate
- ❑ Competence: Skill and knowledge
- ❑ Credibility: Trustworthy
- ❑ Reliability: perform service consistently and accurately
- ❑ Responsiveness: Quick response to customer problems
- ❑ Communication: Make an effort to understand the customer and communicate clearly.

CHANNEL DIFFERENTIATION:

Companies can gain competitive advantage through the way they design their distribution channels' coverage, expertise and performance.

IMAGE DIFFERENTIATION:

Buyers respond differently to company and brand images.

Identity and **Image** need to be distinguished.

Identity is the way the company aims to identify or position itself or its product.

Image is the way the public perceives the company and its products.

An **effective image** does 3 things:

- ❑ Establishes product character and value proposition
- ❑ Conveys the character in distinctive way so as not to confuse it with competitors'
- ❑ Delivers and emotional power beyond mental image.

The image must be **communicated** for it to work. The communication can be through:

- ❑ Symbols: Logos
- ❑ Media: to convey a story, a mood, a claim-something distinctive.
- ❑ Atmosphere: Physical settings
- ❑ Events: By sponsoring of events

DEVELOPING AND COMMUNICATING A POSITIONING STRATEGY

All products can be differentiated to some extent. But not all differences are meaningful or worthwhile. A difference is worth establishing to the extent that it satisfies the following criteria:

- Important: the difference delivers a highly valued benefit to a sufficient number of buyers.
- Distinctive: the difference is delivered in a distinctive way.
- Superior: the difference is superior to other ways of obtaining the benefit.
- Preemptive: the difference cannot be easily copied by competitors.
- Affordable: the buyer can afford to pay the difference.
- Profitable: the company will find it profitable to introduce the difference.

Failures

The Westin Stamford hotel in Singapore advertises that it is the world's tallest hotel. But a hotel's height is not important to many tourists.

Success

Brands can sometimes differentiate on irrelevant attributes. P&G differentiates its Folger's instant coffee by its "flaked coffee crystals" created through a "unique patented process".

Positioning is the act of designing the company's offering and image to occupy a distinctive place in the target market's mind.

The end result of positioning is the successful creation of a market-focused value proposition, a cogent reason why the target market should buy the product.

Positioning According to Ries and Trout:

Positioning starts with a product. A piece of merchandise, a service, a company, an institution, or even a person.....but positioning is not what you do to a product. Positioning is what you do the mind of the prospect. That is, you position the product in the mind of the prospect.

A competitor has three strategic alternatives:

1. the first is to strengthen its own current position in the consumer's mind. Avis acknowledged its second position in the rental cars business and claimed: "We're number two. We try harder."
2. grab an unoccupied position. United Jersey Bank, noting that giant banks were usually slower in arranging loans, positioned itself as "the fast-moving bank"
3. Ries and Trout argue that, in an over advertised society, the mind often knows brands in the form of *product ladders*, such as Coke-Pepsi-RC Cola. The top firm is remembered best. The marketer should identify an important attribute or benefit that a brand can convincingly own.

4. the fourth strategy is the exclusive club strategy. Eg. – the idea that it is one of the big three.

Ries and Trout essentially deal with communication strategy for positioning or repositioning a brand in the consumer's mind. Yet they acknowledge positioning requires that every tangible aspect of product, price, place and promotion must support the chosen positioning strategy.

How many Differences to Promote

Each company must decide how many differences (eg., benefit, features) to promote to its target customers. Many marketers advocate promoting only one central benefit - a company should develop a *unique selling proposition*(USP) for each brand and stick to it. Each brand should select an attribute and tout itself as “number one” on that attribute.

Number-one positioning include

- best quality
- best service
- lowest price
- best value
- safest
- fastest
- most customized
- most convenient
- most advanced technology

not everyone agrees that single-benefit positioning is always best. *Double-benefit positioning* may be necessary if two or more firms claim to be best on the same attribute.

There are even cases of successful triple-benefit positioning. Smith Kline Beecham promotes its Aquafresh toothpaste as offering three benefits: anticavity protection, better breath, and whiter teeth. The challenge is to convince consumers that the brand delivers all three. In doing this, Beecham “countersegmented”; that is, it attracted three segments instead of one.

The companies must avoid 4 major major positioning errors:

1. Under Positioning: some companies discover that buyers have only a vague idea of the brand. The brand is seen as just another entry in a crowded marketplace.
2. Over Positioning: buyers have too narrow an image of the brand. Eg. – consumer might think that diamond rings at Tiffany start at \$5,000 when in fact tiffany now offers affordable rings starting at \$1,000
3. Confused Positioning: confused image of the brand resulting from the company making too many claims or changing the brand's positioning too frequently.
4. Doubtful Positioning: buyers may find it hard to believe claims in view of the product's features, price or manufacture.

Statistical analysis of a company so as to decide the positioning is done to arrive at its perceptual map. For e.g.: in the case of a theme park company the dots on the maps represented the tourist attractions. The closer the tourist attractions, the closer the tourist minds. The arrows showed the satisfactions that people look for in tourist attractions.

The different positioning strategies that are available are:

- ❖ **Attribute positioning:** Company positions itself on attribute, such as size or number of years in existence.
- ❖ **Benefit positioning:** - The product is positioned as a leader in a certain benefit.
- ❖ **Use or application positioning:** - Positioning the product as best for some use or application
- ❖ **User positioning:** - Positioning the product as best for some user group
- ❖ **Competitor positioning:** - The product claims to be better than the competitor
- ❖ **Product category positioning:** - The product is positioned as the leader in a certain product category
- ❖ **Quality or price positioning:** - The product is positioned as offering the best value

Communicating the company's positioning:

Once the co. has developed a clear positioning strategy, it must communicate that positioning effectively.

Product life cycle marketing strategies

To say that a product has a life cycle is to assert four things:-

- ❖ Product has a limited life
- ❖ Product sales pass through distinct stages, each posing different challenges, opportunities, and problems to the seller
- ❖ Profits rise and fall at different stages of the product life cycle
- ❖ Products require different marketing, financial, manufacturing, purchasing and HR strategies in each stage

Four stages of a product life cycle

- ❖ **Introduction:** A period of slow sales growth as the product is introduced in the market. Profits are non-existent at this stage because of the heavy expenses done for the product introduction
- ❖ **Growth:** - period of rapid market acceptance and substantial profit improvement

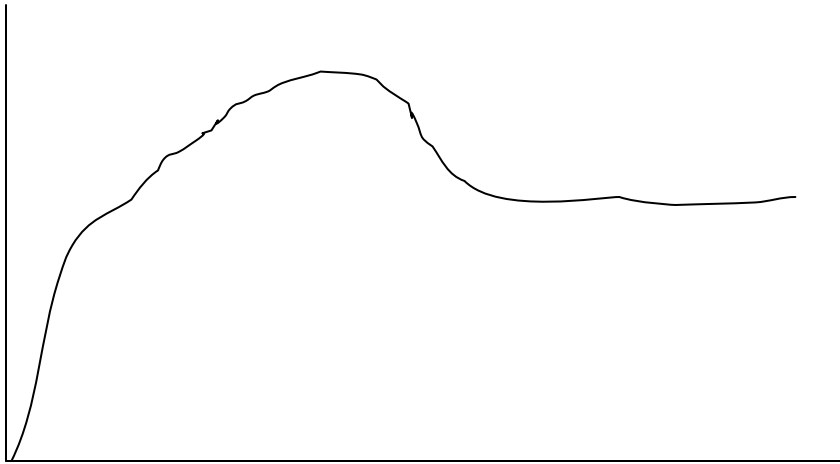
- ❖ **Maturity**:- period of slowdown in the sales growth because the product has achieved acceptance by most potential buyers. Profits decline or stabilize
- ❖ **Decline**:- Sales show a downward drift and profits erode

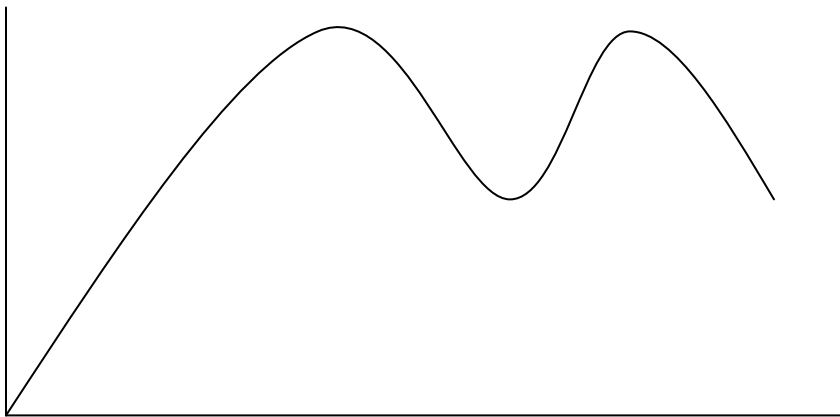
The PLC concept can be used to analyze a product category, form, a product itself and a branded product

- ❖ **Product Categories** have the longest life cycles. Many product categories stay in the maturity stage indefinitely and grow only at population growth rate. E.g.; - typewriters, newspapers, fax machines etc.
- ❖ **Product forms** follow the standard PLC more faithfully. E.g.: - Electric and Electronic typewriters
- ❖ **Standard products** follow either the standard PLC or one of its variants
- ❖ **Branded products** can have a short or long PLC. E.g.; - Ivory, Jell-O have a very long PLC

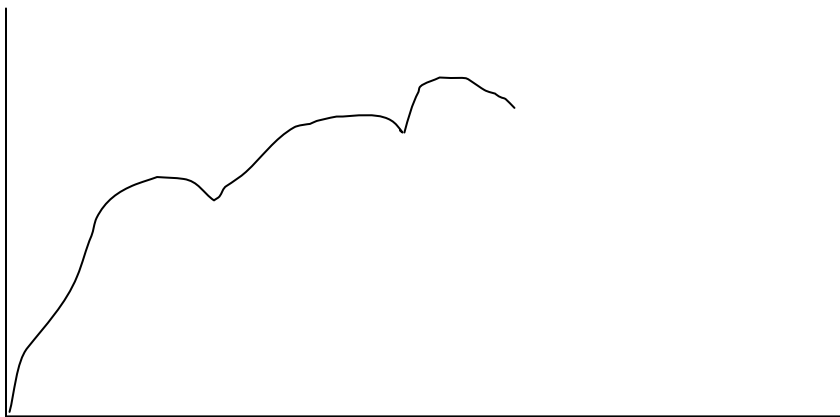
Other shapes of the PLC

Growth slump maturity pattern. E.g.:- Small kitchen applications





Cycle-Recycle pattern: Typically characteristic of pharmaceutical companies, it often describes the sale of new drugs. The company promotes its new drug and this produces the first cycle. Later sales start declining and the company gives the drug another promotion push, which produces a second cycle which of smaller magnitude and direction.



Scalloped PLC: Sales pass through a succession of life cycles based on the discovery of new-product characteristics, uses or users. E.g Sales of Nylon products because of its many uses – parachutes, hosiery, shirts, etc that continue to be discovered over time.

Style, Fashion and Fad Life Cycles

Style: Basic and distinctive mode of expression appearing in a field of human endeavour. Styles appear in homes (colonial ranch), clothing (formal, casual, funky) and art (realistic, abstract). Style can last for generations

Fashion: Currently accepted or popular style in a given field. Fashion pass through four phases: distinctiveness, emulation, mass fashion and decline

Fads: Fads are fashions that come quickly into public view, are adopted with great zeal, peak early and decline very fast. Their acceptance cycle is very short and tend to attract only a limited following of those who are searching for excitement want to distinguish themselves from others. E.g. tattoos and body piercing

MARKETING STRATEGIES: INTRODUCTION STAGE

Sales growth tends to be slow at this stage because it takes time to roll a new product and fill dealer pipelines. The key reasons are:

- Delays in the production capacity
- Technical problems
- Delays in obtaining adequate distribution through retail outlets
- Customer reluctance to change established behaviours
- Product complexity
- Fewer buyers

Profits are negative or low in the introduction stage because of low sales and heavy distribution and promotion expenses because much money is needed to attract distributors

Promotional expenditures are at the highest ratio to sales because:

- Need to inform potential consumers
- Induce product trial
- Secure distribution in retail outlets

Prices tend to be high because costs are high due to:

- Relatively low output rates
- Technological problems in production
- High required margins to support the heavy promotional expenditures

Strategies that can be pursued:

- **Rapid skimming:** Launching a new product at a high price and a high promotional level. This strategy makes sense when a large part of the potential market is unaware of the product; those who become aware of the product are eager to have it and can pay the asking price; and the firm faces potential competition and wants to build brand preference
- **Slow skimming:** Launching the new product at a high price and low promotional. This strategy makes sense when the market is limited in size; most of the market is aware of the product; buyers are willing to pay a high price; and potential competition is not imminent.
- **Rapid promotion:** Launching the product at a low price and spending heavily on promotion. This strategy makes sense when the market is large, the market is unaware of the product, most buyers are price sensitive, there is strong potential competition,

and the unit manufacturing costs fall with the company scale of production and accumulated manufacturing experience

- Slow penetration: Launching the new product at a low price and low level of promotion. This strategy makes sense when the mkt is large, is highly aware of the product, is price sensitive, and there is some potential competition.

Pioneer advantage

Speeding up innovation time is essential in the age of shortening product life cycles. Companies that first reach practical solutions will enjoy “first-mover” advantages in the market. Most studies indicate that being market pioneer gains the most advantage – Amazon.com, Campbell, Coca-Cola.

Sources of pioneer’s advantage

- Consumers often prefer pioneers brands.
- Pioneers brand also establishes the attributes of the product class should possess
- Economies of scale
- Technological leadership
- Ownership of assets

Disadvantages of a pioneer

- Products too crude
- Improperly positioned
- Product development costs exhausted innovator’s resources
- Lack of resources to compete against a big firm
- Managerial incompetence

Inventor: First to develop patents in a new product category
 Product Pioneer: First to develop a working model
 Market Pioneer: First to sell in new-product category

Long Range product expansion strategy

	MI	M2	M3
PI			
P2			
P3			

P= product
 M=market

The pioneer should analyse the profit potential of each segment as shown above singly or in combination and decide on a market expansion path.

Characteristics	Introduction	Growth	Maturity	Decline
<u>Sales</u>	Low Sales	Rising sales	Peak sales	Declining sales
<u>Costs</u>	High	Average	Low	Low
<u>Profits</u>	-ve	Rising	High	Declining
<u>Customers</u>	Innovators	Early Adopters	Middle Majority	Laggards
<u>Competitors</u>	few	growing	Stable	Declining
<u>Marketing Objectives</u>	Create Product Awareness and trial	Maximize market share	Maximize mkt share while defending profit	Reduce expenditure and milk brand.
<u>Strategies</u>				
<u>Product</u>	Offer a basic product	Offer product extensions, service, warranty	Diversify brands and items.	Phase out weak models
<u>Price</u>	Charge cost-plus	Price to penetrate market	Price to match or best competitors	Cut price
<u>Distribution</u>	Build selective distribution	Build intensive distribution	Build more intensive distribution system	Go selective: phase out unprofitable outlets
<u>Advertising</u>	Build product awareness among early adopters and dealers	Build awareness and interest in the mass market.	Stress brand differences and benefits	Reduce to level needed to retain hard core loyal
<u>Sales promotion</u>	Use heavy sales promotion	Reduce to take advantage of heavy consumer demand	Increase to encourage brand switching	Reduce to minimal levels.

The Competitive Cycle

Five stages of competitive life cycle:

- Sole supplier: 100% production capacity and sales
- Competitive penetration: New competitor comes in and begins commercial sales
- Share stability: Overcapacity and cyclical slowdown
- Commodity competition
- Withdrawal

Product life Cycle

Pages 312-315

Marketing Mix Modifications

Product managers may also try to stimulate sales by modifying other marketing mix elements.

Prices: Would price cut attract new buyers? If so, should list price be lowered, or should price be lowered through price specials, volume or early purchase discounts, freight cost absorption or easier credit term.

Distribution: can the company obtain more product support and display in existing outlets? Can more outlets be penetrated? Can the company introduce the product into new distribution channels?

Advertising: Should advertising expenditure be increased? Should message or copy be changed? Should the media mix be changed? Should the timing, frequency or size of ads be changed?

Sales Promotion: should the company setup sales promotion-trade deals, cents-off coupons, rebates, warranties, gifts and contests?

Personal selling: should the number or quality of salespeople be increased? Should the basis for sales force specialization be changed? Should sales territories be revised? Should sales force incentives be revised? Can sales call planning be improved.

Services: can the company speed up delivery? Can it extend more technical assistance to customers? Can it extend more credit?

Markets often debate what tools are most effective during mature stage. For Example, would the company gain more by increasing advertising expenditure or sales promotion because the consumers have reached equilibrium in their buying habits and preferences and psychological persuasion (advertising).

The major problem with marketing mix modifications is that they can be imitated. The firm may not earn that much and could still erode their profits.

Marketing strategies: Decline stage

Sales decline for a number of reason like technological advances, consumer tastes, increasing domestic or foreign competition. All lead to overcapacity, increased price reduction and profit erosion.

As sales and profit decline, some firms withdraw from the market, others reduce number of products in the market or withdraw from weaker market segments or cut down on product promotion.

But most companies do not have a developed well-thought-out strategy of handling their product ageing where both sentiments and logic plays a role. Logic saying, sales would improve when economy improves or when marketing strategy is revised, or if its contribution is covering costs if not giving profits.

Unless there are strong reasons to retain a product, it could prove very costly for the firm. E.g.: even if the costs are covered, the weaker products take a lot of management's time which could otherwise have been used to make other products profitable. Also failing to eliminate weak products also delays introduction of new products into the markets.

In handling the ageing products, the company faces the following tasks

1. Establish a system of identifying weak products, e.g., use product reviews.
2. Some firms leave declining markets earlier than others depending upon the exit barriers.

Harrigan's five decline strategies

1. Increase firm's investment (to dominate market).
2. Maintain the firm's investment level until the uncertainties are resolved.
3. Decrease firm's investment level selectively, by dropping unprofitable customer groups, while strengthening the firm's investment in lucrative business.
4. Harvesting the firm's investment to recover cash quickly.
5. Divesting the business quickly by disposing off its assets as advantageously as possible.

But the appropriate decline strategy depends on the industry's relative attractiveness and the company's competitive strength.

Harvesting or divesting strategies

Harvesting calls for gradually reducing a product's or business's costs while trying to maintain sales. Company can reduce quality, sales force etc.

If the company were planning to divest, it would first look for a buyer and would try to increase the business attractiveness.

When a company decides to drop a product, it faces further decisions. Like if the product has a large goodwill, it may decide to sell it to another firm.

Product life cycle concept: Critique

PLC is the best tool to interpret product and market dynamics. It helps managers characterize the main marketing challenges in each stage of product life cycle and develop more alternative marketing strategies.

PLC critiques:

1. The life cycle patterns are too variable in their shape and duration.
2. PLC lacks what living organisms have- namely, a fixed sequence of stages and a fixed length of each stage.
3. A product may appear mature when it has only reached a plateau before up-surge.

Page 316-321

Market Evolution – As PLC focuses on what is happening to a particular product or brand rather than on what is happening to the overall market it yields a product oriented picture rather than a market oriented picture. Firms need to visualize a markets evolutionary path as it is affected by new needs competitors technology channel and other development.

Stages in marketing evolution

I. Emergence – In this stage firm tries to find the latent demand in the market for the product and tries to develop that product. For e.g. during old days there was a need for calculating devices batter than ABACUS. When preferences of buyer scatter evenly it is known as *diffused preference market*. The entrepreneur's has three options

- a. New product only for one need – single niche strategy-better for small firms
- b. Two or more products for larger market (multiple niche market)
- c. Product for middle market (mass market)-Large firm strategy

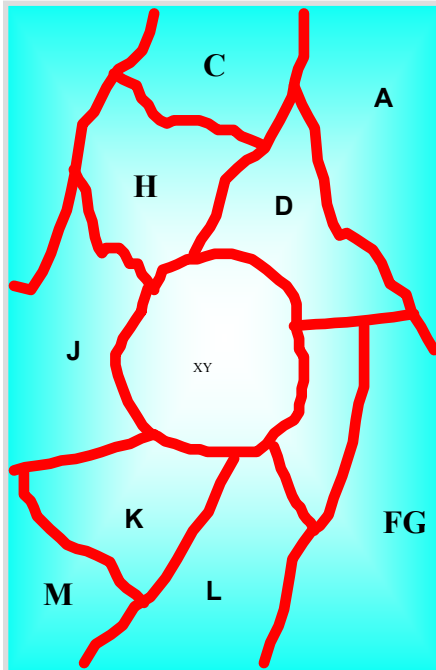
II. Growth – When the market is in growing stage new firms enter and they have three options of launching new product

- a. New product only for one need – single niche strategy-better for small firms
- b. two or more products for larger market (multiple niche market)
- d. Product for middle market (mass market)-Large firm strategy

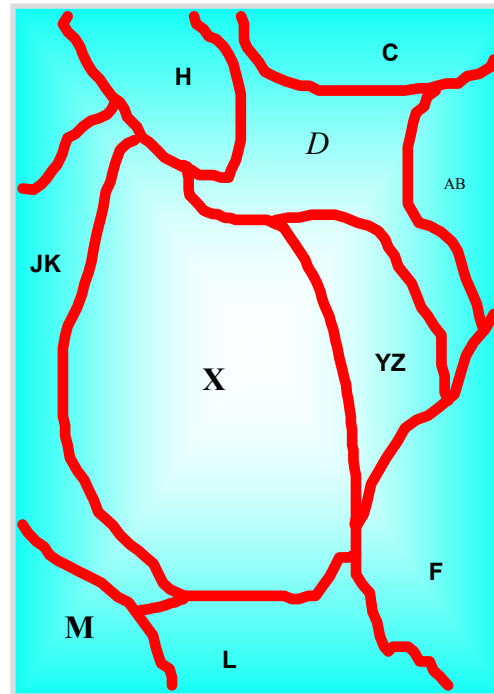
III. Maturity – With entry of competitor in each segment of market reach maturity stage. As market growth slows down the market splits into finer segments and high market fragmentation occur (same is represented in picture in which each letter represent one company). This is followed by a market consolidation caused by the emergence of a new attribute that has a strong appeal (as shown by X in second picture). Example is P&G toothpaste Crest that dominated market on attribute of protecting tooth decay.

IV. Decline- Eventually demand for the present product begins to decrease either due decline in total demand or introduction of new replacement.

(a) Market-fragmentation stage



(b) Market-consolidation stage



Dynamics of Attribute Competition

Competition produces a continuous round of new product attributes. Any new attribute quickly copied by competition. Each new attribute if successful creates a competitive advantage for the firm, leading to higher than average market share and profits.

Four approaches to discover new attributes

1. **Customer survey process** – what benefit to be added and desired level. Then look into the cost of developing and Competition response
2. **Intuitive Process** – Just based on gut felling and experience without the help of any research.
3. **Dialectal process** – By moving in opposite direction to where market is moving. E.g. making cheap jeans to fashionable garments

4. **Need Hierarchy process** – New attribute emerge from need hierarchy process (Maslow theory) we would predict that the first automobile would provide basic transportation and be designed for safety later it became for social needs.

MARKETING STRATEGIES: GROWTH STAGE

The salient features of the growth stage are:

1. Rapid climb in sales.
2. New competitors enter the market and introduce new product thereby expanding distribution.
3. Prices almost remain the same.
4. Promotional expenditures remain the same.
5. Decline in Promotion-sales ratio.
6. Profits increase because of promotion.
7. unit-manufacturing cost falls.

Strategies used at this stage:

Sustain rapid market growth through

1. Improves product quality.
2. Add new features.
3. Enter new segments.
4. Increase distribution coverage.
5. Lower price to attract buyers.

MARKETING STRATEGIES: MATURITY STAGE

The salient features are:

1. Sales growth will slow down.
2. This stage lasts longer.
3. Challenges to marketing management.
4. Overcapacity because of sales slow down.
5. Intense competition because of point 4
6. Increase advertising and R&D budgets.
7. Weaker competitors withdraw from the market.
8. Basic market drive is to increase market share.
9. Abandon weaker products and concentrate on profitable products.

Three sub stages in this stage:

Growth phase:

- a. Sales growth rate starts to decline.
- b. No new channels of distribution

Stable phase:

- a. Sales flatten because of market saturation.
- b. Future sales governed by replacement demand and population growth only.

Maturity phase:

- a. Absolute level of sales starts to decline

b. Customer start switching to new products and substitutes.

Strategies

The strategies for the managers to face this situation is to adopt

- A) *Market modification*
- B) *Product modification and*
- C) *Marketing mix modification*

A) Market modification:

Now in order to expand the market volume the company follows the strategy formulated as

$\text{Volume} = \text{number of brand users} \times \text{usage rate per user}$

Expand the number of brand users by

1. Trying to convert nonusers.
2. Enter new market segments.
3. Win competitors customers.

Expand Volume by

1. Get the new customers to increase the usage.
2. Interest users to use more of the product on each occasion.
3. Try to discover new product uses and then convince people to use them.

B) Product modification:

This can be done through

1. Improving quality

This basically aims at increasing the product's functional performance through durability, reliability, speed and taste.

2. Feature improvement

This aims at adding new features like size, weight, additives, accessories etc., this expands product's versatility, safety and convenience.

Advantages of the strategy:

- a) Builds company's image.
- b) Win loyalty of market segments.

Disadvantage:

- a) Feature improvements are easily imitated.
- b) Needs first mover advantage.

3. Style improvement

This aims at increasing the product's aesthetic appeal.

Advantages are:

- a) This gives a unique market identity.

Disadvantages are:

- a) Difficult to predict the liking of people.
- b) Requires discontinuing of old style risking losing customers.

C) Marketing mix modification

This is done through asking question on certain marketing mix elements.

- a) Prices:
 - Would a cut attract new customers?
 - Is it better to raise price to signal quality?
- b) Distribution:
 - Can more outlets be penetrated?
 - Can the company obtain more market support?
- c) Advertising:
 - Should the expenditures be increased?
 - Should the media mix be changed?
- d) Sales promotion:
 - Should we set up sales promotion?
- e) Personal selling:
 - Should the number or quality of sales people be increased?
 - Can we improve sales planning?
- f) Services:
 - Can the company speed up the sales delivery.
 - Can we extend more credit?

Chapter 12 Developing New Products

Developing New Market Offerings

(“Who should ultimately design the product? The customer, of course”)

A company can add new products through acquisition or development. The acquisition route can take three forms. The company can buy other companies, it can acquire patents from other companies, or it can buy a license or franchise from another company. The development route can take two forms. The company can develop new products in its own laboratories. Or it can contract with independent researchers or new product development firms to develop specific new products.

Booze, Allen and Hamilton has identified six categories of new products:

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

CHALLENGES IN NEW-PRODUCT DEVELOPMENT

Companies that fail to develop new products are putting themselves at a great risk. Their existing products are vulnerable to changing customer needs and tastes, new technologies, shortened product life cycles, and increased domestic and foreign competition.

Why do new products fail?

- ❑ A high-level executive pushes a favorite idea through in spite of negative market research findings
- ❑ The idea is good, but the market size is overestimated
- ❑ The product is not well designed
- ❑ The product is incorrectly positioned in the market, not advertised effectively or overpriced
- ❑ Development costs are higher than expected
- ❑ Competitors fight back harder than expected

Several other factors that hinder new-product development:

- ❑ *Shortage of important ideas in certain areas*: There may be ways left to improve some basic products (such as steel, detergents).
- ❑ *Fragmented products*: Keen competition is leading to market fragmentation. Companies have to aim their new products at smaller market segments, and this can mean lower sales and profits for each product.

- ❑ *Social and governmental constraints:* New products have to satisfy consumer safety and environmental concerns. Governments require slowing down innovation in drugs, toys and some other industries.
- ❑ *Costliness of the development process:* A company typically has to generate many ideas to find just one worthy of development. Furthermore, the company often faces high R&D, manufacturing and marketing costs.
- ❑ *Capital Shortages:* Some companies with good ideas cannot raise the funds needed to research and launch them.
- ❑ *Faster required development time:* Companies that cannot develop new products quickly will be at a disadvantage. Companies must learn how to compress development time by using computer-aided design and manufacturing techniques, strategic partners, early concept tests, and advanced marketing planning. Alert companies use *concurrent new-product development*, in which cross-functional teams collaborate to push new products through development and to market.
- ❑ *Shorter product life-cycles:* When a new product is successful, rivals are quick to copy it.

Factors for developing successful new products:

1. Unique, superior product
2. Well-defined product concept prior to development
3. Technological and marketing synergy
4. Quality of execution in all stages
5. Market attractiveness

“New product development is most effective when there is teamwork among R&D, engineering, manufacturing, purchasing, marketing and finance. The product idea must be researched from a marketing point of view and a specific cross-functional team must guide the project throughout its development”

EFFECTIVE ORGANIZATIONAL ARRANGEMENTS

New product development requires senior management to define business domains, product categories and specific criteria. The Gould Corporation established the following acceptance criteria:

- ❑ The product can be introduced within 5 years
- ❑ The product has a market potential of at least \$50 million and a 15% growth rate
- ❑ The product would provide at least 30% return on sales and 40% on investment
- ❑ The product would achieve technical or market leadership

ORGANIZING NEW PRODUCT DEVELOPMENT

Companies handle the organizational aspect of new-product development in several ways. The most common are:

Product Managers: Many companies assign responsibility for new-product ideas to product managers. In practice, this system has several faults. Product managers are so busy managing existing lines that they give little thought to new products other than

line extensions. They also lack specific skills and knowledge needed to develop and critique new products.

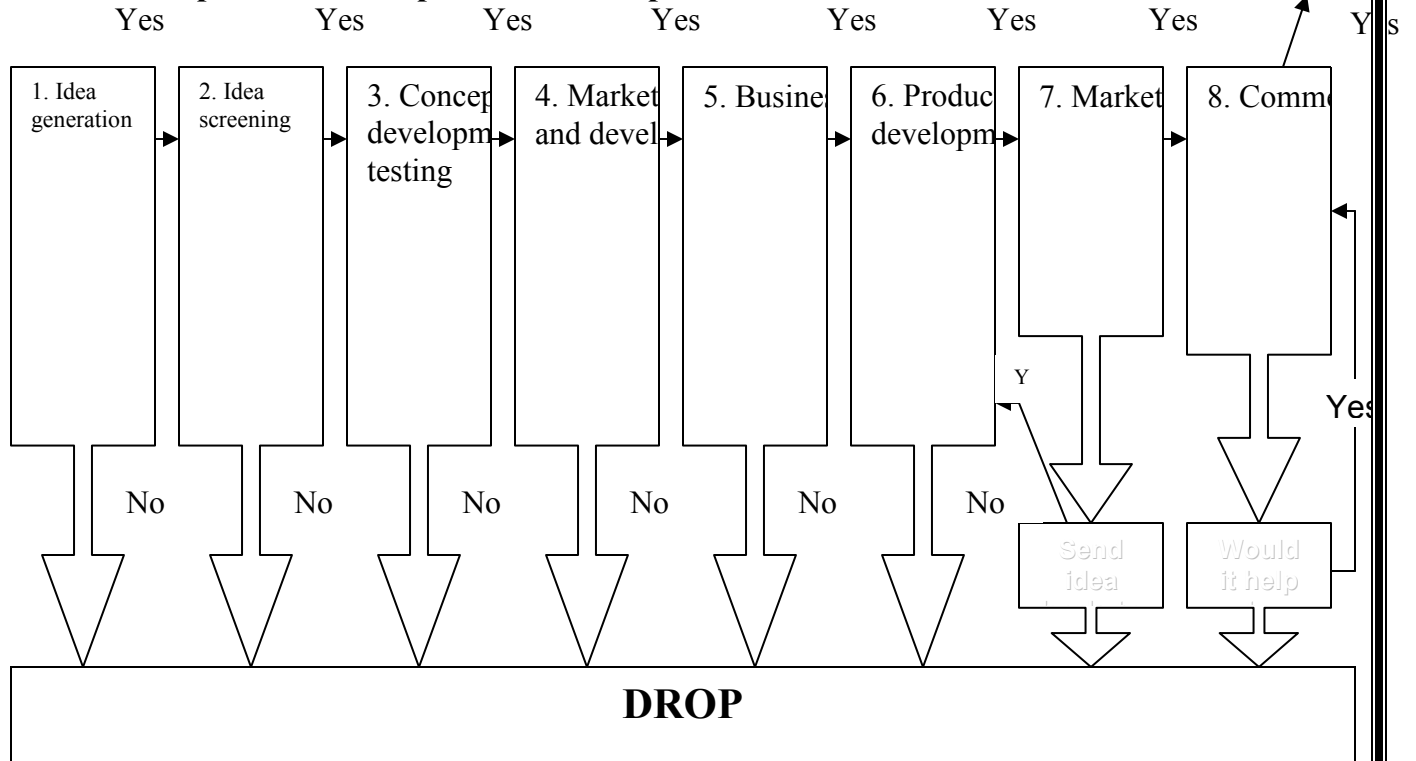
New-product managers: This position professionalizes the new-product function. However, like product managers, new-product managers tend to think in terms of modifications and line extensions limited to their product market.

New-product committees: Many companies have a high-level management committee charged with reviewing and approving proposals.

New-product departments: Large companies often establish a department headed by a manager who has substantial authority and access to top management. The departments' major responsibilities include generating and screening of new ideas, working with the R&D department, and carrying out field-testing and commercialization.

New-product venture teams: A venture team is a group brought together from various operating departments and charged with developing a specific product or business. They are 'intrapreneurs' who are relieved of their other duties a given a budget, a time frame, and a 'skunkworks' setting. Skunkworks are informal places, sometimes garages, where intrapreneurial teams attempt to develop new products.

The new-product development decision process



Managing the Development Process

Steps:

- Idea Generation
- Idea Screening
- Concept Development and Testing

- Marketing Strategy Development
- Business Analysis
- Product Development
- Market Testing
- Commercialization

Idea Generation

- ▶ Customer needs and wants are the logical place to start the search for ideas
- ▶ Companies can learn great deal by studying their *lead users* – those customers who take most advanced use of the company's products and who recognize the need for improvements before other customers do
- ▶ Ask employees new ways of improving production, products and services
- ▶ Find good ideas by researching competitor's products and services
- ▶ Company sales representatives, intermediaries and top management are good sources for ideas
- ▶ Even though ideas flow from various channels, the chances of them being noticed depend upon persons in the organization taking the role of *product champion*

Idea Screening

- ▶ Idea to be submitted to idea manager and then to be reviewed by idea committee
- ▶ Must avoid two types of errors:
 - Drop Error –Dismissal of an otherwise good idea
 - Go Error – Permitting a poor idea to move into Development and Commercialization
- ▶ Three types of product failures:
 - Absolute Product Failure – Product loses money, sales do not cover variable costs
 - Partial Product Failure – Product loses money, sales cover variable costs and part of the fixed costs
 - Relative Product Failure – Product yields a profit that is less than the company's target rate of return
- ▶ Screening is done because product development costs rise substantially with each successive stage
- ▶ Executive committee reviews each idea against a set of criteria:
 - Overall Probability of Success = (Prob. Of technical completion) X (Prob. Of commercialization given technical completion) X (Prob. Of economic success given commercialization)

Concept Development and Testing

- ▶ **Rapid prototyping** Each concept represents a category concept that defines the product's competition
- ▶ Product concept has to be turned into a brand concept
- ▶ Concept testing involves presenting the product concept to appropriate target consumers and getting their reactions
- ▶ The more the tested concepts resemble the final product or experience, the more dependable concept testing is
- ▶ Concept testing entails presenting consumers with an elaborated version of the concept:

- After receiving information about product, customer responds to following questions:

Question	Product Dimension Measured
Are the benefits clear to you and believable	Communicability and believability
Will the product fill your need	Need Level
Do other products currently meet this need and satisfy you	Gap Level – The greater the gap, the higher the expected consumer interest. $\text{Need Level} \times \text{Gap Level} = \text{Need Gap Score}$ Higher score means customer has strong need not being filled by existing products
Is price reasonable in relation with value	Perceived value
Would you (definitely, probably not, definitely not) buy the product	Purchase Intention
Who would use and when and how often	User targets, purchase occasions, purchasing frequency

- ▶ **Conjoint Analysis** – a method for deriving the utility values that customers attach to varying levels of product’s attributes

Marketing Strategy Development

Once the testing is over, the next stage is development of a preliminary marketing strategy plan for the introduction of the new product. The plan consists of three parts.

First – describes the target market’s size, structure, and behavior; the planned product positioning; and the sales, market share, and profit goals sought in the first few years.

Second – outlines the planned price, distribution strategy, and marketing budget for the first year.

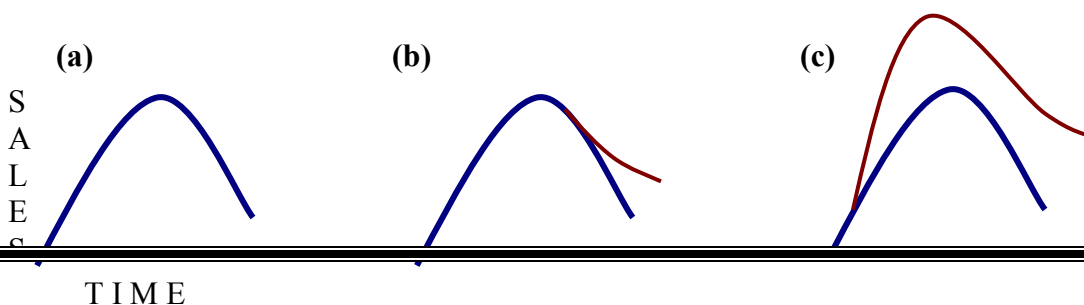
Third – describes the long run sales and profit goals and marketing mix strategy over time.

Business Analysis

After the management develops the product concept and the marketing strategy, it can evaluate the proposal’s business attractiveness. Management needs to prepare sales, cost, and profit projections and to determine whether they satisfy company objectives. If they do the project concept can move to the product-development stage. As new information comes in the business analysis undergoes revision and expansion.

Estimating total sales

It is necessary to estimate whether the sales will be high enough to yield satisfactory profits. Total estimated sales are a sum of estimated first time sales, replacement sales, and repeat sales. Sales estimation depends upon whether the product is a one-time purchase (a), an infrequent purchase (b) or a frequent purchase (c).



For (a) the sales never reach zero if new buyers keep entering the market.

For (b), the sales forecasting calls for one-time sales (blue line) and replacement sales (red line)

For (c), here Repeat purchases are important. The plateau represents state of steady repeat purchases.

Management has to estimate the first-time purchases in each period; it has to research product's *survival-age distribution* (the number of units to fail in year one, two, three and so on).

Estimating costs and profits

After sales forecast, the management estimates the expected costs and profits. Costs are estimated by the R&D, manufacturing, marketing and finance departments.

The following type of sales, cost and profit projection is done

1. Sales revenue (estimated figure on the assumptions about market growth, company's share and factory realized price)
2. Cost of goods sold (estimates)
3. Gross margins
4. Development cost (includes product development and market research cost)
5. Marketing costs (advertisement, sales force and administration)
6. Allocated costs (overheads)
7. Gross contribution
8. Supplementary contribution (Dragalong income and cannibalized income)
9. Net contribution
10. Discounted contribution (at the rate of 15% per year)
11. Cumulative discounted cash flow

Other financial tools like Break even analysis and Risk analysis is also used for this purpose.

Managing the Development Process: Development to commercialization

Product Development

After the business test the concept moves on to R&D for development of physical product. This step involves huge costs. At this stage the company decides whether the idea can be translated in to a commercially feasible product.

The job of translating the target customer requirements into a working prototype is helped by a set of methods known as *quality function deployment* (QFD). It involves listing of customer attributes (CAs), collected by market research, and turns them into engineering attributes (EAs). QFD improves communication between markets, engineers and the manufacturing people.

The R&D first develops a prototype and ensures that it includes all that the customer wants.

The R&D people not only design the product's functional characteristics but also communicate its psychological aspects through physical cues. Marketers inform the R&D about the attributes customer seek and how consumers judge whether these attributes are present.

Once the prototype is ready it undergoes rigorous functional and customer tests.

Alpha testing – the testing done within the firm to see how it performs on different functions.

Beta testing – it enlists a set of customers to use the product and give their feedback on their experiences. This is mainly helpful when the customers are heterogeneous and potential applications are not fully known.

Customer testing can take a variety of forms, from bringing the customer into the lab to giving them samples to use in their homes.

Consumer preferences can be measured in several ways. Suppose there are three items A, B and C.

Rank holder method – The consumer is asked to rank the three items in order of preference. It is a simple method, but it doesn't reveal the intensity to which the customer likes the product.

Paired comparison method – presenting pairs of items and asking them to select the preferred item from each pair. This method gives more accurate results as it is easier to select between two items.

Monadic-rating method – rating the liking of each product on a scale. This gives the individual's preference order as well as the level of liking.

Market Testing

After management is satisfied with functional and psychological performance, the product is ready to be dressed up with a brand name and packaging, and put to a market test. The new product is introduced to an authentic setting to learn how large the market is and how consumers and dealers react to handling, using, and repurchasing the product.

Consumer-Goods Market Testing

In testing consumer goods the company seeks to estimate four variables:

- Trial
- First repeat
- Adoption
- Purchase frequency

The company hopes to find all these variables at high levels. Here we describe the major methods of consumer goods market testing, from the least costly to the most costly.

Sales-Wave Research

In sales-wave research, consumers who initially try the product at no cost are reoffered the product, or a competitor's product, at slightly reduced price. They might be reoffered the product five-six times, with the company noting how many customers selected that company's product again and their reported level of satisfaction.

Simulated Test Marketing

Simulated test-marketing calls for finding 30 to 40 qualified shoppers and questioning them about brand familiarity and preferences in a specific product category.

These people are then invited to a brief screening of both well-known and new commercials or print ads. This method has several advantages like

- Gives fairly accurate results
- Shorter time span
- Very low cost

Controlled Test Marketing

In this method, a research firm manages a panel of stores that will carry new products for a fee. The company with the new product specifies the number of stores and geographic locations it wants to test. It allows the company to test the impact of in-store factors and limited advertising on buying behavior. This technique also exposes the product and its features to competitor's scrutiny.

Test Markets

The ultimate way to test a new consumer product is to put it into full-blown test markets. The company chooses a few representative cities, and the sales force tries to sell the product on carrying the product and giving it good shelf exposure.

Here the management faces several questions like:

- *How many test cities?* - Most test uses between two and six cities. The greater the maximum possible loss, the greater the number of contending marketing strategies.
- *Which cities?* - Each company must develop test city selection criteria.
- *Length of test?* - Market test last anywhere between a few months to a year. The longer the product average repurchase period, the longer the test period necessary to observe the repeat purchase test.
- *What Information?* - Warehouse shipment data will show gross inventory buying but will not indicate weekly sales at retail level. Store audits will show retail sales and competitor's market shares but will not reveal buyer characteristics.
- *What action to take?* - If the test market shows high trial and repurchase rates, the product should be launched nationally. If the product shows high trial rate but low repurchase rates, customers are not satisfied and product should be redesigned or dropped.

In a fast changing market place, the companies are eager to get to the market first. Test marketing slows them down and reveals their plans to competitors.

Business-Goods Market Testing

Business goods can also benefit from market testing. Expensive industrial goods and new technologies will normally undergo alpha testing and beta testing. During beta testing vendor's technical people observe how test customers use the product, a practice that often exposes unanticipated problems of safety and servicing and alerts the vendor to customer training and servicing requirements.

Benefits of test customers are as follows:

- Can influence product design
- Gain experience with new product ahead of competitors
- Can receive the price break in return for cooperation
- Enhance their reputation as technological pioneers

Commercialization

If the company goes ahead with commercialization, it will face its largest cost to date. The company will have to contract for manufacture or build or rent a full scale manufacturing unit. It can build a smaller plant than called for by the sales forecast. Another major cost is marketing.

When (Timing)

In commercializing a new product, market entry timing is critical. The company faces three choices:

- *First Entry*- The first entering the market usually enjoys the 'first mover advantage' of locking up key distributors and customers and gaining reputational leadership.
- *Parallel Entry*- The firm might time its entry to coincide with competitor's entry. The market may pay more attention when two companies are advertising the new product.
- *Late Entry*- The firm might delay its launch until after the competitor has entered. The competitor will have borne the cost of educating the market.

Where (Geographic Strategy)

The company must decide whether to launch the new product in a single locality, a region, several regions, the national market, or the international market. Most will develop a planned market roll out over the time. Company size is an important factor here. Large companies will introduce their product into a whole region and then move out to the next region. Most companies design their product for the domestic market. If the product does well, the company considers exporting to other countries.

To Whom (Target Market Prospects)

A company must target its initial distribution and promotion to the best of prospect groups. Should have already profiled the prime prospects with the following characteristics.

- a) early adopters
- b) heavy users
- c) opinion leaders
- d) reachable at a low cost

Objective: generate strong sales as soon as possible to motivate the sales force and attract further prospects

How (Introductory Market Strategy)

Action plan to for launching a new product is a must. Example of iMac from Apple, launched with a massive blitz

Coordination of activities involved for launch, network planning techniques can be used such as **Critical path scheduling**. Develop master chart, showing sequence of simultaneous activities, etc.

The consumer Adoption Process

How do potential customers learn about new products, try them and adopt or reject them?

- a) Adoption: individual decision to become a regular user of a product
- b) Consumer adoption process :
- c) Consumer loyalty process

Technique – mass market approach: distribute product everywhere and advertise to everyone on an assumption that everyone is a potential buyer. Drawback: 1) heavy

marketing expenditure required and 2) involved wasteful expenditure towards people who may not be potential customers.

New approach to marketing: heavy user target marketing: - product is initially aimed at heavy users, if such can be identified and are heavy adopters.

The early adopter theory states that

- 1) Persons within a target market differ in the amount of elapsed time between their exposure to a new product and their trying it.
- 2) Early adopters share some traits that differentiate them from late adopters
- 3) Efficient media exist for reaching early adopters
- 4) Early adopters tend to be opinion leaders and helpful in advertising the new products to other potential buyers

The theory of diffusion and consumer adoption helps marketers identify early adopters

Stages in the adoption process

Innovation →perceived by someone as new

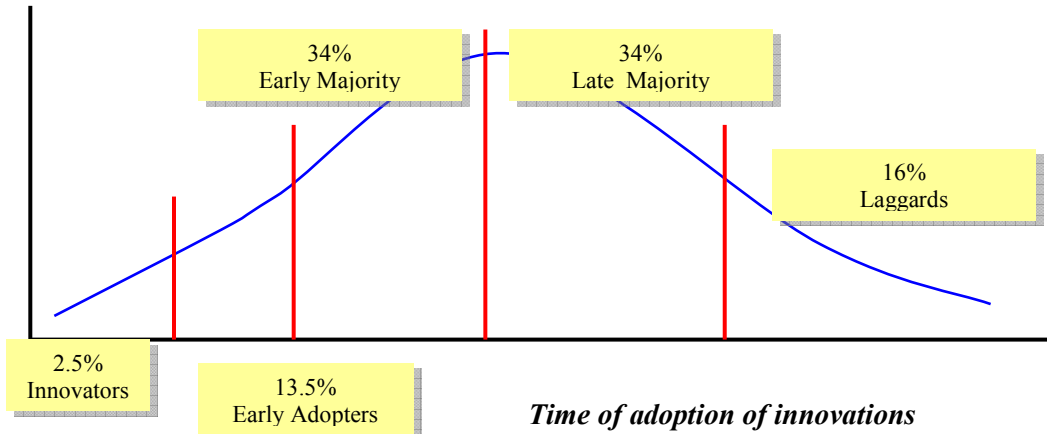
- 1) Awareness: consumer becomes aware of innovation – no information
- 2) Interest: Stimulated to seek information about innovation
- 3) Evaluation: Consumer considers whether he/she should try the new innovation
- 4) Trial: Consumer tries innovation to improve his/her estimate of value
- 5) Adoption: Decides to make full and regular use of the innovation

Factors influencing the adoption process

Following are the characteristics of the adoption process:

- 1) differences in individual readiness to try new products
- 2) effect of personal influence
- 3) differing rates of adoption
- 4) Differences in organizations' readiness to try new products.

People differ in readiness to try new products



Degree to which an individual is relatively earlier in adoption new ideas than the other members of his social system. Consumption pioneers and early adopters are the two types of members

- Innovators: venturesome
- Early adopters: guided by respect, opinion leaders in their community and adopt new ideas early but carefully.
- Early Majority: Are deliberate, adopt new idea before an average person, but are not leaders.
- Later majority: are skeptical, adopt an innovation only after a majority has tried it.
- Laggards: tradition bound, suspicious of change; mix with other tradition bound people

Any firm should research the demographic, psychographic and media characteristics of innovators and early adopters and direct communication specifically to them.

Personal influence plays a large role

Effect one person has on another's attitude or purchase probability. This influence is of greater significance in some situations and for some individuals than for others. More influence on late adopters

Characteristics of the innovation affect rate of adoption

Some products catch on immediately (rollerblades example); others take a long time (auto engines etc). Some characteristics that determine this are:

1. Relative advantage: the degree to which innovation appears superior to existing products.
2. Compatibility: innovation should match the values and experiences of the individuals

3. Complexity: The degree to which the innovation is relatively difficult to understand or use
4. Divisibility: The degree to which the innovation can be tried on a limited basis
5. Communicability: The degree to which the beneficial results of use are observable or describable to others.

Organizations also vary in readiness to adopt innovations.

Adoption is associated with variables in the organization's environment - community progressiveness, community income – the organization itself – size, profits, and pressure to change – and the administrators – education level, age, and sophistication.

CHAPTER 13 Product & Product Mixes

Definition: A product is anything that can be offered to a market to satisfy a want or need

Product Levels

There are 5 following levels:

1. **Core benefit:** fundamental service or benefit that the customer is really buying.
2. **Basic product:** the form taken by the service or benefit.
3. **Expected product:** a set of attributes and conditions that expected by the buyer.
4. **Augmented product:** a product that exceeds customer's expectations. This is the level at which all competition takes place (however in LDCs competition takes place at the expected product level)
5. **potential product:** the scope encompasses all the possible augmentations and transformations. This is the step for innovation and differentiation.

Product Hierarchy

7 levels are:

1. **Need family:** core need. E.g. security
2. **Product family:** all the product classes that can satisfy a core need. E.g. savings.
3. **Product class:** a group of products having a certain functional coherence. E.g. financial instruments.
4. **Product line:** a group of closely related product w.r.t (e.g. life insurance)
 - functions
 - same customers
 - channels
 - price range
5. **Product Type:** a group of items within a product line that share one of the possible forms of the product.
6. **Brand:** the associated name used to identify the source or character of a product. E.g. prudential.
7. **Item:** a distinct unit within a brand or product line. E.g. prudential renewable term life insurance.

Product Classifications

This has been done on the basis of characteristics:

1. *Durability & Tangibility:*
 - a. **Non-durable goods-** tangible goods normally consumed in one or few uses. Make them available in many locations, charge a small markup and advertise heavily. E.g. beer, soap.
 - b. **Durable goods-** tangible goods that survive many uses. Require more personal selling & service, command a higher margin and guarantees. E.g. refrigerators, clothing.
 - c. **Services-** intangible, inseparable, variable and perishable products. Require quality control, supplier credibility and adaptability. E.g. haircuts and repairs.
2. *Consumer-Goods Classification:*
 - a. **Convenience Goods-** purchased frequently, immediately and with minimum of effort. E.g. tobacco, soaps, newspapers.

- b. **Shopping Goods**- products are compared on the basis as suitability, quality, price and style. E.g. furniture, clothing.
- c. **Speciality Goods**- goods with unique characteristics or brand identifications for which the customer is willing to make a special purchasing effort. E.g. cars, stereo, photographic components.
- d. **Unsought Goods**- consumer does not know about or does not normally think of buying. Require advertising and personal selling. E.g. smoke detectors, life insurance, cemetery plots, encyclopedias.

Industrial Goods Classification:

Mainly classified in terms of how they enter the production process and their relative cost lines.

1. **Material & Parts**- enter the manufacturer's product completely. E.g. raw material (farm & natural) and manufactured materials (component materials and parts).
2. **Capital Items**- long lasting goods that facilitate developing or managing the finished product. Includes installations and equipment.
3. **Supplies & business services**- short lasting goods and services that facilitate developing or managing the finished products.

Product-Line Decisions

Product-line analysis

Product line managers need to know the sales and profits of each item in their line in order to determine which items to build, maintain, harvest or divest.

Sales & Profits

A high concentration of sales in a few items means line vulnerability. These items must be carefully monitored and protected.

Market Profile

The product line manager should review how the line is positioned against competitor's lines. The product map is useful for designing product-line marketing strategy. Another benefit of product mapping is that it identifies market segments.

After performing a product-line analysis, the product-line manager has to consider decisions on product-line length, line modernization, line featuring and line pruning.

Product-line length

A product line is too short if profits can be increased by adding items; the line is too long if profits can be increased by dropping items.

A company lengthens its product line in two ways: by line stretching and line filling.

Line stretching occurs when a company lengthens its product line beyond its current range.

Down market stretch

A company positioned in the middle market may want to introduce a lower price line for any of three reasons:

1. The company may notice strong growth opportunities in the down market as mass retailers attract a growing no. of shoppers who want value-priced goods.
2. The company may wish to tie up lower-end competitors who might otherwise try to move upmarket.
3. The company may find that the middle market is stagnating or declining.

Upmarket stretch

Companies may wish to enter the high end of the market for more growth, higher margins, or simply to position themselves as full-line manufacturers.

Two-way stretch

Companies serving the middle market might decide to stretch their line in both directions.

Line filling

A product line can also be lengthened by adding more items within the present range. There are several motives for line filling: reaching for incremental profits, trying to satisfy dealers who complain about lost sales because of missing items in the line, trying to utilize excess capacity, trying to be leading full-line company, and trying to plug holes to keep out competitors.

Line modernization

In rapidly changing product markets, modernization is carried on continuously. Companies plan improvements to encourage customer migration to higher-valued, higher-priced items.

Line featuring and line pruning

Product-line managers must periodically review the line for pruning. The product line can include deadwood that is depressing profits. The weak items can be identified through sales and cost analysis.

Another occasion for pruning is when the company is short of production capacity. Companies typically shorten their product lines in periods of tight demand and lengthen their lines in periods of slow demand.

Brand Decisions

What is a 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.

A brand is essentially a **seller's promise** to deliver a specific set of features, benefits and services.

A brand conveys up to 6 levels of meanings.

- Attributes
- Benefits
- Values
- Culture
- Personality
- User

Branding is important because

- Buyers are more interested in benefits than attributes.
- Competitors can easily copy attributes.
- Current attributes may become less desirable later.

Brand Equity

The amount **power** and **value** the brand has in the market place is called the Brand Equity. Other aspects are brand awareness, brand acceptability, and brand loyalty.

The **competitive advantages** of having higher brand equity are

- Reduced marketing costs.
- More trade leverage in bargaining with distributors.
- Can charge a premium price over its competitors.
- Launch extensions will be easy under a brand name.

Brand ladder

In the past consumers viewed brands in a category arranged in a brand ladder with their favorite brand at top and remaining brands in descending order of preference

Brand parity

Brand ladder is now being replaced with brand parity, which means that consumers think that many brands are equivalent. Instead of a strongly preferred brand consumers buy from a set of acceptable brands choosing from whichever is on sale on a particular day

Consumers in today's world are more price-sensitive. Companies have reduced their advertising budgets. The endless stream of brand extensions and line extensions has blurred brand identity and led to a confusing amount of brand proliferation. Leading brand marketers need to invest in heavy and continuous R&D to bring out new brands, line extensions, features, and quality improvements. They must sustain a strong "pull advertising program to maintain high consumer brand recognition and preference. They must find ways to partner with major mass distributors in joint search for logistical economies and competitive strategies that produce savings

Technology companies in particular have been adept at achieving levels of brand recognition through less conventional marketing approaches. Examples: America Online and Sun Microsystems

Rx for Brand Awareness: Nine Brand Strengtheners

- 1) Develop Creative Advertising – e.g. United Colors of Benetton
- 2) Sponsor well regarded events – e.g. AT&T sponsoring golf tournaments
- 3) Invite your customers to join a club – e.g. Harley Davidson's HOG Club
- 4) Invite the public to visit your factory or offices – e.g. Cadbury's Theme Park
- 5) Create your own retail units – e.g. Sony
- 6) Provide well-appreciated public service – e.g. Nestle Nestops
- 7) Give visible support to some social causes – e.g. The Body Shop's support for helping the homeless
- 8) Be known as a value leader – e.g. IKEA
- 9) Develop a strong spokesperson or symbol to represent the company – e.g. Richard Branson (Virgin)

Brand-Name Decision

Four strategies are available:

- 1) Individual names: The advantage is that the company does not tie its reputation to the product. E.g. this policy is followed by General Mills.
- 2) Blanket Family Names: Development cost is less since there is no need to spend heavily on advertising to cause brand awareness. E.g. Heinz and General Electric
- 3) Separate family names for all products: Companies often invent different family names for different quality lines within the same product class. E.g. Sears, Craftsman
- 4) Company trade name combined with individual product names: Some manufacturers tie their company name to an individual brand name for each

product. The company name legitimizes and the individual name individualizes the new product e.g Kellogg

Desirable Qualities of a brand name

- 1) It should suggest some thing about the product's benefits, e.g. Craftsman, Beauty-rest
- 2) It should suggest product qualities such as action or color, e.g. Sunkist, Spic and Span
- 3) It should be easy to pronounce, recognize and remember, e.g. Tide, Crest
- 4) It should be distinctive, e.g. Kodak, Exxon
- 5) It should not carry poor meanings in other languages and countries, e.g. the brand name "Nova" for cars means "doesn't go" in Spanish

Brand name research procedures:

- 1) Association Tests – what images come to mind?
- 2) Learning Tests – how easily is the name produced?
- 3) Memory Tests – how well is the name remembered?
- 4) Preference Tests – which names are preferred?

Brand Strategy Decision

Brand Strategy Decision involves five key choices.

Line Extension

This means **existing brands** extended to new sizes, flavors, forms, colors in the **existing product category**. Some companies also introduce branded variants that are specific brand lines supplied to specific retailers or distribution channels. Line extensions involve risks and have provoked heated debate among marketing professionals. **But line extensions have a better chance of survival than brand-new products**. It is also fueled by fierce competition in some cases.

Brand Extension

This means brand names extended to a new product category. Brand extension strategy offers some of the same benefits like line extensions. But brand extension can bring with it disadvantages too. The new product may fail and damage the image of the old products. Brand dilution may occur if the brand lose its specific positioning in the minds of the customers. But some brand extensions like that of Virgin have been very successful.

Multibrands

New brands introduced in the same product category. This happens sometimes when the company wants to **establish different features or appeal to different buying motives**. A multibranding strategy also enables the company to lock up more distributor shelf

space and to protect its major brand by creating flanker brands. But cannibalization can be a major pitfall.

New Brand

New brand name adopted for a new category product.

Cobranding

This means brands bearing two or more well-known names. It is also called dual branding. Now cobranding can take variety of forms. One is **ingredient cobranding**, as when Betty Crocker's brownie mix includes Hershey's chocolate syrup. Another form is **same-company cobranding**, Nestle advertises Maggi noodles and tomato ketchup together. Still another form is **joint venture cobranding**, as in Maruti Zen with Kenwood stereos. Finally there is **multiple-sponsor cobranding**, as in Toshiba laptops with Intel Pentium III processors.

Brand Repositioning

Brand repositioning is specially required when the brand and the product associated with it reaches the **decline stage**. It is also sometimes needed when **the initial positioning was wrong**.

Packaging and Labelling:

Packaging includes activities of designing and producing the container for a product

Container is called package,
Primary package – Bottle of Old Spice
Secondary – Cardboard box
Shipping package – Corrugated box

Issues –

Factors affecting the increasing importance of packaging

1. Self Service – Packaging becomes an “impulse purchase” stimulus
2. Consumer affluence – People are willing to pay more for attractive packaging
3. Co. and brand image – contribute to brand recognition
4. Innovation opportunity – Scope for innovation

Key decisions : What the package should do → Size, dimensions, attributes, etc →
Engineering testing → Consumer testing

Emphasis should be given to environmental factors such as bio-degradable material, etc.

Labelling :

May be a simple tag, or fundu designed graphic. May contain only brand name, or loads of info.

May perform any of the foll Functions: Identifies the product, grades the product, describes the product, promotes the product.

Legal issues become important in labeling, wherein

Open dating – to describe product freshness

Unit pricing – product cost in std measurement units

Grade labeling – rate the quality level

Percentage labeling – percentage of each important ingredient

Are being demanded by consumer groups

Chapter 14 : Designing and Managing Services

‘Every business is a service business: You are not a chemical company you are a chemical services business’

Service industry is quite varied. It includes the govt. sector with its hospitals, police, post office, schools etc. The private non-profit sector with its colleges, hospitals, foundations is also in the service business. Business sector with its airlines, banks, hotels, insurance companies is also in service sector. Many workers in the manufacturing sector such as accountants and legal staff are really service providers. In fact they make up the “service factory” providing services to the “goods factory”.

We define a service as follows:

A service is any act or performance that one party can offer to another that is essentially intangible and does not result in ownership of anything. Its production may or may not be tied to a physical product.

Services are also popping up on the internet. A little surfing on the web will turn up virtual service providers.

Categories of Service Mix

A company’s offerings to the marketplace can be classified as:

1. Pure tangible good: The offering consists primarily of a tangible good such as soap, toothpaste. No services accompany the product.
2. Tangible good with accompanying services: The offering consists of a tangible good accompanied by one or more services. For e.g.: more technologically sophisticated goods (cars and computers) are more dependent for its sales on quality and availability of its accompanying customer services
3. Hybrid: The offering consists of equal parts of goods and services. For e.g. Restaurants are recognized for both goods and services
4. Major service with accompanying minor goods and services: The offering consists of a major service along with additional services or supporting goods. For e.g. Airline passengers buy transportation service and also get food, drinks etc.
5. Pure Service: The offering consists primarily of a service. Examples include massage, baby sitting etc.

Based on these distinctions following generalizations can be made:

1. Services vary as to whether they are equipment based (automated car washes) or people based (accounting services). People based services vary as to whether they are provided by unskilled or skilled professionals.
2. Some services require client’s presence (brain surgery) and some do not (car repair). If the client is present then service provider has to consider his needs as well.

3. Services differ as to whether they meet a personal need (personal services) or a business need (business services). Service providers develop different programs for personal and business markets.
4. Service providers differ in their objectives (profit or non profit) and ownership (private or public). The marketing programs of a private investor hospital will differ from that of a private charity hospital.

Characteristics of services & their marketing implications:

Services have four major characteristics that greatly affect the design of marketing programs: intangibility, inseparability, variability and perishability.

Intangibility:

Services are intangible. Unlike physical products they cannot be seen, tasted, felt, heard or smelled before they are bought. The person getting a face lift cannot see the exact results before the purchase and the patient in the psychiatrist's office cannot know the exact outcome.

To reduce uncertainty buyers will look for signs or evidence of service quality. They will draw inferences from place, people, equipment, price etc that they see. Therefore the service provider's task is to "manage the evidence", to "tangibilize the intangible".

Suppose a bank wants to position itself as a "fast bank". It could tangibilize this positioning strategy through a number of marketing tools:

Place: The physical setting must connote quick service. The exterior and interior must have clean lines. The layout of desks must be planned carefully

People: Personnel should be busy. There should be sufficient number of employees to share the workload.

Equipment: computers, copying machines, desks should look "state of art".

Communication material: test and photos should suggest efficiency and speed.

Symbols: The name and symbols should suggest fast service.

Price: The bank could advertise that it will deposit \$5 in account of any customer who waits for 5 minutes.

Service marketers must be able to transform intangible services into concrete benefits.

Inseparability

Services are typically produced and consumed simultaneously. This is not true of physical goods which are manufactured, put into inventory, distributed through multiple resellers and consumed later. If a person renders the serviced, the provider is part of the service. Because the client is also present as the service is produced provider-client interaction is a special feature of services marketing. Both provider and client affect the outcome.

In case of entertainment and professional services, buyers are very interested in the specific provider. It is not the same concert if pearl jam is indisposed and replaced by

Mary Osmond or if a legal defense will be supplied by John Nobody because F Lee Bailey is unavailable. When clients have strong provider preferences, price is raised to ration the preferred provider's limited time.

Several strategies exist for getting around this limitation. The service provider can learn to work with larger groups. Psychotherapists have moved from one on one therapy to small group therapy to groups of over 300 people in a large hotel ballroom. The service provider can learn to work faster the psychotherapist can spend less minutes with one patient so that he sees more patients. The service organization can train more service providers and build up client confidence, as H&R Block has done with its national network of trained tax consultants.

Variability

Services are variable. **Some surgeons are not as dexterous as others are.** Service buyers are aware of this variability and often talk to others before selecting a service provider.

Service firms can take three steps towards quality control. The first is investing in good hiring and training procedures. Recruiting the right service employees and providing with excellent training is crucial regardless of whether employees are highly skilled professionals or low skilled workers.

The second step is **standardizing the service performance process throughout the organization.** This is helped by preparing service blueprint that depicts events and processes in a flowchart with the objective of recognizing potential fail points. The third step is **monitoring customer satisfaction through suggestion and complaint systems,** customer surveys and comparison shopping.

Perishability

Services cannot be stored. **The perishability of services is not a problem when demand is steady.** When demand fluctuates, service firms have problems. Sasser has described several strategies for producing a better match between demand and supply in a service business.

On the demand side :

- Differential pricing like weekend discount prices for car rentals
- Non peak demand can be cultivated. McDonalds opened a breakfast service, hotels developed minivacation weekends.
- Complementary services can be developed during peak time to provide alternatives to waiting customers such as cocktail lounges in restaurants
- Reservation systems are a way to manage the demand levels Airlines, hotels and physicians employ them extensively.

On the supply side :

- Part time employees can be hired to serve peak demand. Colleges have part time teachers when enrolment grows up.
- Peak time efficiency routines can be introduced. Employees perform only essential tasks during peak periods.
- Increased customer participation can be encouraged. Consumers fill out their own medical records or bag their own groceries.
- Shared services can be developed. Several hospitals can share medical equipment purchases.
- Facilities for future expansion can be developed. Amusement parks buy surrounding land for future development.

Marketing strategies for service firms :

Until recently, service firms lagged behind manufacturing firms in their use of marketing. Many service businesses are small and do not use formal marketing or management techniques. There are also professional service businesses (law and accounting firms) that formerly believed it was unprofessional to use marketing. Other service businesses had so much demand or so little competition (hospitals) that they saw no need for marketing. But this has now changed.

Traditional four P's marketing approaches work well for goods but additional elements require attention in service businesses. Booms and Bitner suggested **three additional P's for service marketing : Process, people and physical evidence**. Because most services are provided by people, the selection, training and motivation of employees can make a huge difference in customer satisfaction. Ideally employees must exhibit competence, a caring attitude, responsiveness, initiative, problem solving ability and goodwill. Service companies like Federal Express and Marriott trust their people enough to empower their front line personnel to spend up to \$100 to resolve a customer problem.

Companies also try to demonstrate their service quality through physical evidence and presentation. A hotel will develop a look and observable style of dealing with customers that carries out its intended customer value proposition whether it is cleanliness, speed or some other benefit. Finally service companies can choose between processes to deliver their service. Restaurants have developed some different formats as cafeteria style, fast-food buffet, and candlelight service.

Service encounters are affected by several elements. Customer when enters a bank for loan also sees interiors, equipment, furniture. The customer sees bank personnel and deals with the bank officer. All this is "visible" to the customer. Not visible is the whole backroom production process and organization system that supports the visible business. Thus the service outcome, and whether or not people will remain loyal to a service provider, is influenced by a host of variables.

Gronroos has argued that **service marketing needs internal and interactive marketing also along with external marketing**.

Internal – the work to train and motivate employees

Interactive marketing is the employees skills in serving the client. He should have the functional quality.

There are **three types of qualities** : 1. search qualities – they are the characteristics the buyer can evaluate before purchase 2. experience quality – characteristics that the buyer can evaluate after purchase and 3. credence quality- they are hard to evaluate even after consumption

Services are generally high on experience quality and credence quality

Service companies face three tasks – increase competitive differentiation; service quality ; and productivity

Increasing differentiation :

Hard to achieve differentiation.

Price a major factor especially for fairly homogeneous services

The alternative to price competition is to develop a :

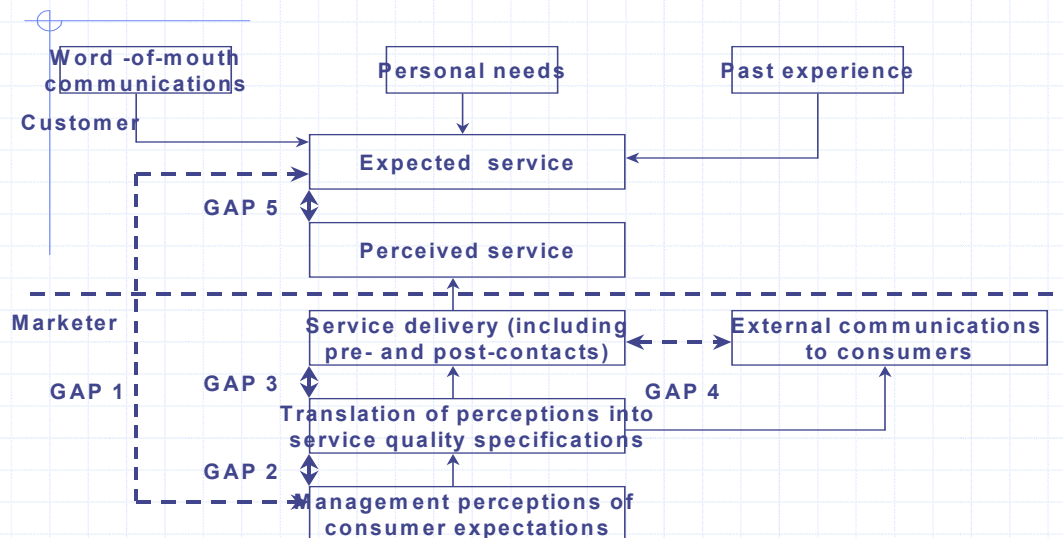
- **Differentiated offer** : various innovative features. Customers expect what is called primary service packaging and to this can be added secondary service packaging like airlines did it in case of movies, frequent fliers, tie ups, etc.
Many Companies are using web to offer the above
The difficulty is that most service innovations are easily copied but the first mover advantage is still there though low.
- **Delivery** : A service company can hire and train better people to deliver its services. It can even develop a more attractive physical environment where the service can be delivered e.g. Music world or design a better delivery process e.g. McDonalds.
- **Image** : service cos can differentiate their images through symbols and branding. Like AMEX Credit Cards.

Managing Service Quality

A service firm may win by delivering consistently higher quality service than competitors and exceeding customer expectation. These expectations are formed by their past experience word of mouth and advertising. After receiving the service customers compare perceived service with expected service. If perceived service falls below the expected service customers lose interest in the provider. If the perceived service meets or exceeds expected service they are apt to use the provider again.

A **Parasuraman Zeithaml and berry model** for service quality that highlights the main requirement. The model identifies five service gaps that cause unsuccessful delivery

Gaps in Service Quality



Gap between Consumer expectation and management perceptions of consumer expectation :- Management does not always correctly perceive what customers want. Hospital administrators may think patients want better food, but patients may be concerned more with nurse responsiveness.

Gap between management perceptions and service quality specifications :- Management might correctly perceive customer expectation but not set a specified performance standard. Hospital administrators might tell the nurses to give fast service without specifying it quantitatively.

Gap between service quality specifications and service delivery :- The personnel might be poorly trained or incapable or unwilling to meet the standard. Or they might be held to conflicting standards such as taking time to listen to customers and serving them fast.

Gap between service delivery and external communication :- Consumer expectations are affected by statements made by company representatives and ads. If a hospital brochure shows beautiful room, but the patient arrives and finds the room to be cheap and tacky looking, external communication have distorted customer's expectations

Gap between perceived service and expected service :- This gap occurs when the consumer misperceives the service quality. The physician may keep visiting the patient to show care but the patient may interpret this as an indication of something is really wrong.

The Same researchers found **five determinants of service quality**. These are represented in order of importance

Reliability :- The ability to perform the promised service dependably and accurately .

Responsiveness :- The willingness to help customers and to provide prompt service

Assurance :- The knowledge and courtesy of their employees and their ability to convey trust and confidence.

Empathy :- The provision of caring and individualized attention to customers

Tangibles :- The appearance of physical facilities, equipments, personnel and communication material

Exceeding customers highest hopes A service marketing checklist

Berry and Parasuraman propose marketing managers ask the following question as they seek to manage and exceed expectations

1. Do we strive to present realistic picture of our service to customers?
2. Is performing the service right the first time a top priority in your company?
3. Do we communicate effectively with customers?
4. Do we surprise customers during the service process?
5. Do our employees regard service problems as opportunities to impress customers or as an annoyance?
6. Do we continuously evaluate and improve our performance against customer expectations?

Various studies have shown that excellently managed service companies share the following common practices

Strategic Concept

Top service companies are customer obsessed. They have clear sense of their target customers and their needs. They have developed distinctive strategy for satisfying these needs.

Top Management Commitment

Companies such as Marriot, Disney and McDonald have thorough commitment to service quality. Their management looks not only at financial performance on a monthly basis but also at service performance.

High Standards

The best service providers set high quality service standards. Swiss air aims at having 96% or more of its passengers rate its service good or superior. Citibank aims to answer phone call in 10 minutes and customer letters in two days. Companies can be divided into those offering merely good service and those offering breakthrough service aiming at 100% defect free services.

Monitoring Systems

Top firms audit service performance, both their own and competitors' on a regular basis. They use number of measurement devices, comparison shopping, ghost shopping, customer surveys, suggestion and complaint forms, service audit teams and letters to president. GE sends out 700000 response cards a year asking households to rate their people's service performance. CITIBANK continuously checks ART (accuracy, responsiveness, timeliness) .

When designing customer feedback mechanisms such as surveys marketers need to ask right questions as United Parcel Service (UPS) found out
 UPS always assumed that on-time delivery was its customer's paramount concern, and based its definition of quality on results of time motion and studies. Yet when the company began asking broader questions regarding how it could improve its service it discovered that what customers wanted most was more face-to-face contact with drivers. If drivers were less hurried and would answer questions customers might get practical advice on shipping.

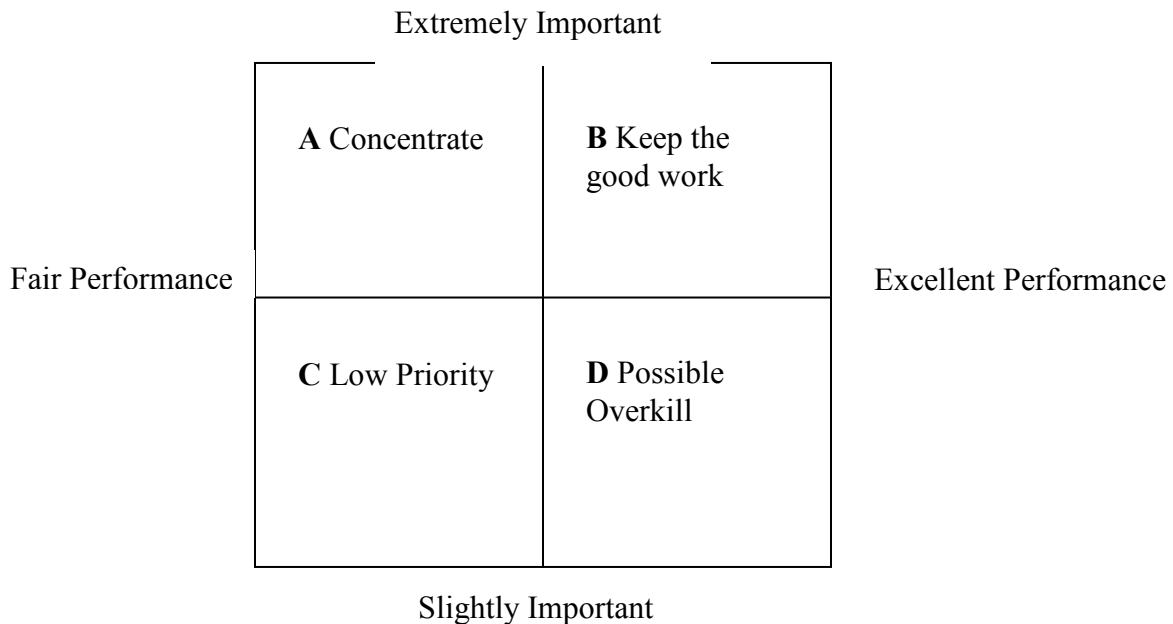
Services can be judged on *customer importance* and *company performance*. *Importance-Performance analysis* is used to rate the various elements of the service bundle and identify what actions are required.

Quadrant A shows important service elements that are not being performed at the desired levels. Focus on service department's performance on these elements.

Quadrant B shows important service elements that are being performed well and the company's need to maintain the high performance.

Quadrant C shows minor service elements that are being delivered in a mediocre way but do not need attention.

Quadrant D shows that a minor service element is being performed in an excellent manner; company should spend less on these elements.



Satisfying Customer Complaints

Customer are dissatisfied by the purchases 25% of the time but only 5% complain. Of these 5% only 50% report a satisfactory resolution. On an average one satisfied customer tells 3 people about a good product whereas a dissatisfied to 11 people, thus bad word of mouth can grow exponentially.

Tax and Brown found that companies that are effective at resolving complaints:

- Develop hiring criteria and training programs that take into account employees' service-recovery role.

- Develop guidelines for service recovery that focus on achieving fairness and customer satisfaction.
- Remove barriers that make it difficult for customers to complain, empowering employees to provide compensation for failure.
- Maintain customer and product databases that let the company analyze types and sources of complaints and adjust the policies.

Satisfying Both Employees and Customers

Management carries out internal marketing and provides employee support and rewards for good performance. An important part of satisfying employees is helping them cope with their lives outside the office.

Managing Productivity

Seven approaches to keep cost down and improve service productivity

- Company can hire and foster more skilful workers through better selection and training.
- Increase the quantity of service by surrendering some quality.
- Industrialize the service by adding equipment and standardizing production.
- To reduce the need for a service by inventing a product solution. E.g. wash and wear shirt no commercial laundry required.
- Design a more effective service.
- Present customers with incentives to substitute their own labor for company labor. E.g. self-service in restaurants.
- Harness power of technology to give better service and workers more productive.

Technologies of customer empowerment

Real value is added by enabling customers to get information and interact with one another and with your data

- **Content Creation:** allowing customers to create their own content increases the value of the business and lessen the workload. Shared knowledge bases lead to increase learning and faster cycle times. E.g. geocities
- **Collaboration:** Forums and bulletin boards facilitate community; conferencing and messaging tools enable globalization of activities. E.g. E-Trade
- **Teaching:** JIT learning and point-of-need information distribution pays off for business because they improve and support user's performance. E.g. ZDNet
- **Commerce:** Online transaction that creates friction-free commerce is the goal.
- **Control:** By harnessing other devices to the web, companies can use agents and sensors to manage real word machinery or process remotely.
- **New Platforms:** Personal assistants, cell phones, and dashboard computers will have the power and mobility to control all the other applications. New information devices and smart cards offer great promise for customer controlled applications. E.g. Audible.com

MANAGING PRODUCT SUPPORT SERVICES

Manufacturers of equipment – small appliances, office machines, tractors, mainframes, airplanes – all have to provide “product support services”. In fact, product support service is becoming a major battleground for competitive advantage. Some equipment manufacturers, such as Caterpillar tractor and John Deere, make over 50% of their profits from these services. In the global marketplace, companies that make a good product but provide poor local service support are seriously disadvantaged. When Subaru entered the Australian market, it contracted to use the Australian Volkswagen dealer network to provide parts and service.

Firms that provide high-quality service outperform their less service-oriented competitors. Table 14.2 provides evidence.

TABLE 14.2	High Third in Service quality	Low Third in Service quality	Difference In % points
Price index relative to Competition	7%	-2%	+9%
Change in market share Per annum	6	-2	+8
Sales growth per annum	17	8	+9
Return on sales	12	1	+11

The strategic planning institute sorted out the top third and bottom third of 3,000 business units according to ratings of “relative perceived service quality”. The table shows that the high-service businesses managed to charge more, grow faster, and make more profits on the strength of superior service quality.

Customer has three specific worries:

1. They worry about *reliability and failure frequency*. A farmer may tolerate a combine that will break down once a year, but not two or 3 times a year.
2. Customers worry about *downtime duration*. The longer the downtime, the higher the cost. The customer counts on the seller’s *service dependability* – the seller’s ability to fix the machine quickly, or at least provide a loaner.
3. Customers worry about out-of-pocket costs of maintenance and repair. How much does the customer have to spend on regular maintenance and repair costs?

A buyer takes all these factors into consideration in choosing a vendor. The buyer tries to eliminate **the life-cycle cost**, which is the product’s purchase cost plus the discounted cost of maintenance and repair less the discounted salvage value.

Where reliability is important, manufacturers or service providers can offer guarantees to promote sales.

A manufacturer can offer and charge for product services in different ways. Many companies offer *service contracts* with variable lengths and different deductibles so that customers can choose the service level they want beyond the basic service package. Kodak and 3M designed equipment allowing user to “plug-in” to a central diagnostic facility that performs tests, locates the trouble, and fixes the equipment over the telephone lines.

Postsale Service Quality

Most companies operate customer service departments whose quality varies greatly. In providing service, most companies progress through a series of stages. Manufacturers usually start out by running their own parts and service department. As long as they are the only supplier of the needed parts, they can charge a premium price. Ultimately, some large customers take over responsibility for handling their own maintenance and repair.

Major Trends in Customer Service

Lele has noted the following major trends in the customer service area:

1. Equipment manufacturers are building more reliable and more easily fixable equipment. One reason is the shift from electromechanical equipment to electronic equipment, which has fewer breakdowns and is more repairable. Companies are adding modularity and disposability to facilitate self-servicing.
2. Customers are becoming more sophisticated about buying product support services and are pressing for “services unbundling”. They want separate prices for each service element and right to select the elements they want.
3. Customers increasingly dislike having to deal with a multitude of service providers handling different types of equipment. Some third-party service organizations now service a greater range of equipment.
4. *Service contracts*(also called *extension warranties*), in which the sellers agree to provide free maintenance and repair services for a specified period of time at a specified contract price, may diminish in importance. Some new car warranties now cover 100,000 miles before servicing. The increase in disposable or never-fail equipment makes customers less inclined to pay from 2% to 10% of the purchase price every year for a service.
5. Customer service choices are increasing rapidly, and this is holding down prices and profits on service. Equipment manufacturers increasingly have to figure out how to make money on their equipment independent of service contracts.

OFFERING GUARANTEES TO PROMOTE SALES

All sellers are legally responsible for fulfilling a buyer's normal or reasonable expectations. *Warranties* are formal statements of expected product performance by the manufacturer. Products under warranty can be returned to the manufacturer or designated repair center for repair, replacement, or refund. Warranties, whether expressed or implied, are legally enforceable.

Many sellers offer *guarantees*, general assurances that the product can be returned if its performance is unsatisfactory. The customer should find guarantees clearly stated and easy to act upon, and the company's redress should be swift.

Guarantees are most effective in two situations. The first is where the company or the product is not well known. The second is where the product's quality is superior to the competition. The company can gain by guaranteeing superior performance knowing that competitors cannot match its guarantee.

Chapter 15 Designing Pricing Strategies and Programs

You don't sell through price. You sell the Price.

All profit organizations and many nonprofit organizations set prices on their products or services. Price goes by many names:

Price is all around us. You pay rent for our apartment, tuition for your education, and a fee to your physician or a dentist. The airline, railway, and bus companies charge you a fare; the local utilities call their price a rate; and the local bank charges and interest for the money you borrow. The price for driving your car on Florida's Sunshine Parkway is a toll, and the company that insures your car charges a premium. The guest lecturer charges an honorarium to tell you about a government official who took a bribe to help a shady character steal dues collected by a trade association. Clubs or societies to which you belong may make a special assessment to pay unusual expenses. Your regular lawyer may ask for a retainer to cover her services. The price of an executive is a salary, price of a salesperson may be a commission, and the price of a worker is a wage. Finally, although economists would disagree, many of us feel that income taxes are the price we pay for making money.

Throughout most of history prices were set by negotiations between buyers and sellers. Setting one price for all buyers is a fairly modern idea that arose with the development of large scale retailing at the end of the nineteenth century. F. W. Woolworth, Tiffany & Co., John Wanamaker, and others advertised a "strictly one-price policy", because they carried so many items and supervised so many employees.

Now just one hundred years later, the Internet promises to reverse the fixed pricing trend and take us back to an era of negotiated pricing. The Internet, corporate networks and wireless setups are linking up, machines, and companies around the globe – and connecting sellers and buyers as never before. Web sites like Compare.net and PriceScan.com allow buyers to compare prices quickly and easily. Online auction sites like eBay.com and Onsale.com make it easy for buyers and sellers to negotiate prices on thousands of items – from refurbished computers to antique tin trains. At the same time new technologies allow sellers to collect

detailed data about customers' buying habits, preferences – even spending limits – so they can tailor their products and prices.

Traditionally, price has operated as the major determinant of buyer choice. This is still the case in poorer nations, among poorer groups, and with commodity type products. Although non-price factors have become more important in determining buyer behavior in recent decades, price still remains one of the most important elements determining company market share and profitability. Consumer and purchasing agents have more access to price information and price discounters. Consumers shop carefully, forcing retailers to lower their prices. Retailers put pressure on manufacturers to lower their prices. The result is a marketplace characterized by heavy discounting and sales promotion.

Price is the marketing-mix element that produces revenue; the others produce cost. Price is also one of the most flexible elements: It can be changed quickly, unlike product features and channel commitments. At the same time, price competition is the number one problem facing the companies. Yet many companies do not handle pricing well. The most common mistakes are these: Pricing is too cost oriented; pricing is not revised often enough to capitalize on market changes; price is set independent of the rest of the marketing mix elements rather than as an intrinsic element of market-positioning strategy; and price is not varied enough for different product items, market segments, purchase occasions.

Companies handle pricing in a variety of ways. In small companies, prices are often set by the company's boss. In large companies, pricing is handled by division and product-line managers. Even here, top management sets general pricing objectives and policies and often approves prices proposed by lower levels of management. In industries where pricing is a key factor (aerospace, railroads, oil companies), companies will often establish a pricing department to set or assist others in determining appropriate prices. This department reports to the marketing department, finance department, or top management. Others who exert an influence on pricing include sales managers, production managers, finance managers, and accountants.

Setting the Price

A firm must set a price for the first time when it develops a new product, when it introduces its regular products into a new distribution channel or geographical area, and when it enters bids on new contract work.

The firm must decide where to position its product on quality and price. In some markets, such as the auto market, as many as eight price points can be found

Segment	Example (Automobiles)
Ultimate	Rolls-Royce
Gold Standard	Mercedes-Benz
Luxury	Audi
Special Needs	Volvo
Middle	Buick
Ease/Convenience	Ford Escort
Me Too, but Cheaper	Hyundai
Price Alone	Kia

There can be competition between price-quality segments. Figure 15.1 shows nine price-quality strategies. The diagonal strategies 1, 5, and 9 can all coexist in the same market; that is, one firm offers a high quality product at an average price, and still another offers a low quality product at a low price. All three competitors can coexist so long as the market

consists of three groups of buyers: those who insist on quality, those who insist on price, and those who balance the two considerations.

Strategies 2, 3 and 6 are ways to attack the diagonal positions. Strategy 2 says, "Our product has the same high quality as product 1 but we charge less." Strategy 3 says the same thing and offers an even greater saving. If quality-sensitive customers believe these competitors, they will sensibly buy from them and save money (unless firm 1's product has acquired snob appeal).

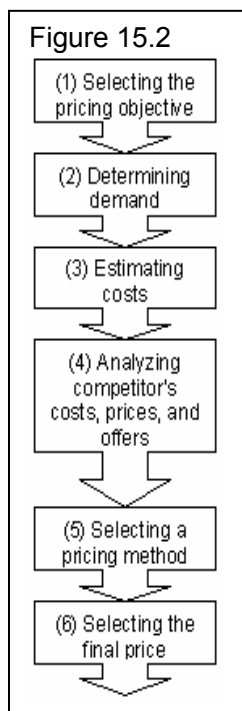
Positioning strategies 4,7, and 8 amount to overpricing the product in relation to its quality. The customers will feel "taken" and will probably complain or spread bad word of mouth about the company.

Figure 15.1

		Price		
		High	Medium	Low
Product Quality	High	1. Premium Strategy	2. High-Value Strategy	3. Super-Value Strategy
	Medium	4. Overcharging Strategy	5. Medium-Value Strategy	6. Good-Value Strategy
	Low	7. Rip-off Strategy	8. False economy Strategy	9. Economy Strategy

The firm has to consider many factors in setting its pricing policy. We will describe a six-step procedure: (1) Selecting the pricing objective; (2) Determining demand; (3) Estimating costs; (4)

Analyzing competitor's costs, prices, and offers; (5) Selecting a pricing method; and (6) Selecting the final price (Figure 15.2).



Selecting the Pricing Objective

The company first decides where it wants to position its market offering. The clearer a firm's objectives, the easier it is to set price. A company can pursue any of the five major objectives through pricing: survival; maximum current profit; maximum market share; maximum market skimming; or product-quality leadership.

Companies pursue survival as their major objective if they are plagued with overcapacity, intense competition or changing consumer wants. Profits are less important than survival. As long as prices cover variable costs and some fixed costs, the company stays in business. However, survival is a short-run objective; in the long run, the firm must learn how to add value or face extinction.

Many companies try to set a price that will maximize current profits. They estimate the demand and costs associated with alternative prices and choose the price that produces maximum current profits, cash flows, or rate of return on investment. This strategy assumes that the firm has knowledge of its demand and cost functions; in reality these are difficult to estimate. By emphasizing current financial performance, the company may sacrifice long run performance by ignoring the effects of other marketing-mix variables, competitor's reactions, and legal restraints on price.

Some companies want to maximize their market share. They believe that a higher sales volume will lead to lower unit costs and higher long run profits. They set the lowest price, assuming the market is price sensitive. Texas Instruments (TI) practices this *market-penetration* pricing. TI will build a large plant, set its price as low as possible, win a large market share, experience falling costs, and cut its price further as costs fall. The following conditions favor setting a low price: (1) The market is highly price sensitive, and a low price

stimulates market growth; (2) production and distribution costs fall with accumulated production experience; and (3) a low price discourages actual and potential competition.

Many companies favor setting high prices to “skim” the market. Intel is a prime practitioner of market-skimming pricing.

Market skimming makes sense under the following conditions: (1) A sufficient number of buyers have a high current demand; (2) the unit costs of producing a small volume is not so high and they cancel the advantage of charging what the traffic will bear; (3) the high initial price does not attract more competitors to the market; (4) the high price communicates the image of a superior product.

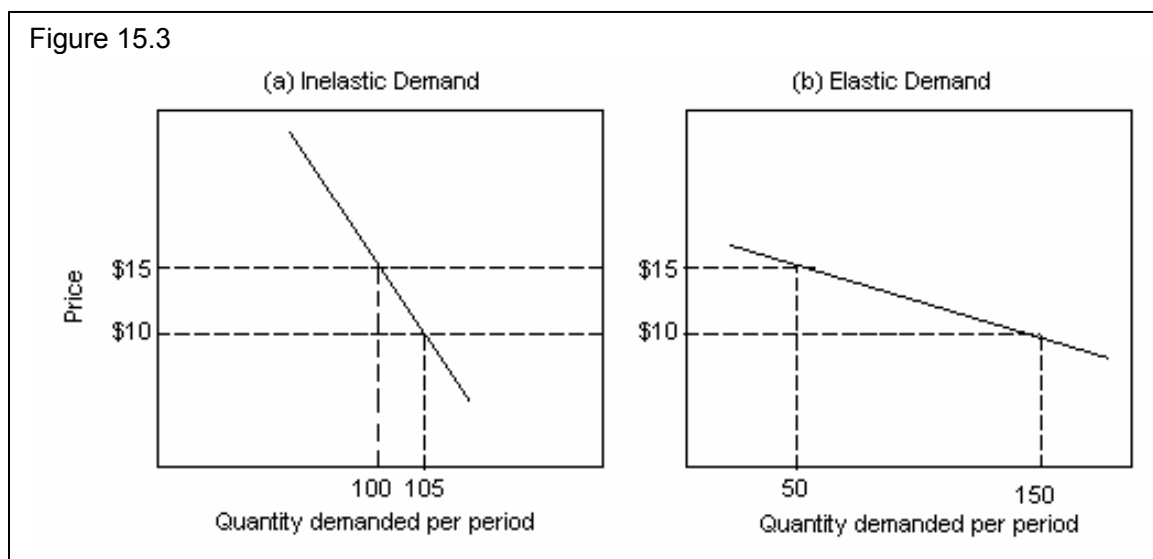
A company might aim to be the product-quality leader in the market...for instance, Maytag.

Nonprofit and public organizations may adopt other pricing objectives. A university aims for *partial cost recovery*, knowing that it must rely on private gifts and public grants to cover the remaining costs. A nonprofit hospital may aim for *full cost recovery* in its pricing. A non-profit theater company may price its productions to fill the maximum number of theater seats. A social service agency may set a *social price* geared to the varying income of clients.

Whatever their specific objectives, businesses that use price as strategic tool will profit more than those who simply let costs or the market determine their pricing.

Determining Demand

Each price will lead to a different level of demand and therefore will have a different impact on companies marketing objectives. The relation between alternative prices and the resulting current demand is captured in a *demand curve* (Figure 15.3[a]). In the normal case, demand and price are inversely related: the higher the price, the lower the demand. In the case of prestige goods, the demand curve sometimes slopes upward. A perfume company raised its price and sold more perfume than less! Some consumers take the higher price to signify a better product. However, if too high a price is charged, the level of demand may fall.



Price Sensitivity

The demand curve shows the market's probable purchase quantity at alternative prices. It sums the reactions of many individuals who have different price sensitivities. The first

step in estimating demand is to understand what affects price sensitivity. Nagle has identified nine factors:

1. *Unique-value effect*: Buyers are less price-sensitive when the product is more distinctive.
2. *Substitute-awareness effect*: Buyers are less price-sensitive when they are less aware of substitutes.
3. *Difficult-comparison effect*: Buyers are less price-sensitive when they cannot easily compare the quality of substitutes.
4. *Total-expenditure effect*: Buyers are less price-sensitive the lower the expenditure is as part of their total income.
5. *End-benefit effect*: Buyers are less price-sensitive the smaller the expenditure is to the total cost of the end product.
6. *Shared-cost effect*: Buyers are less price-sensitive when part of the cost is borne by another party.
7. *Sunk-investment effect*: Buyers are less price-sensitive when the product is used in conjunction with assets previously bought.
8. *Price-quality effect*: Buyers are less price-sensitive when the product is assumed to have more quality, prestige, or exclusiveness.
9. *Inventory effect*: Buyers are less price-sensitive when they cannot store the product.

A number of forces, such as deregulation and the instant price comparison technology available over the net, have turned products into commodities in the eyes of the consumers and increased their price sensitivity. Marketers need to work harder than ever to differentiate their offerings when a dozen competitors are selling virtually the same product at a comparable or lower price. More than ever, companies need to understand the price sensitivity of their customers and prospects and the trade offs people are willing to make between price and product characteristics. In the words of Kevin Clancy those who target only the price sensitive are “leaving money on the table”.

Estimating Demand Curve

Most companies make some attempt to measure their demand curves.

They can use different methods.

The first involves statistically analyzing past prices, quantities sold, and other factors to estimate their relationships. The data can be longitudinal or cross sectional. Building the appropriate model and fitting the data with proper statistical technique calls for considerable skill.

The second approach is to conduct price experiments. An alternate approach is to charge different prices in similar territories to see how sales are affected.

The third approach is to ask buyers to state how many units they would buy at different proposed prices.

In measuring the price demand relationship, the market researcher must control for various factors that will influence demand. The competitor's response will make a difference. Also if the company changes other marketing mix factors besides its price, the effect of the price change will be hard to isolate.

Price Elasticity of Demand

Marketers need to know how responsive or elastic demand would be to a change in price. If demand hardly changes with a small change in price, we say the demand is inelastic. If demand changes considerably, demand is elastic.

Demand is likely to be less elastic under the following conditions

1. There are few or no substitutes or competitors
2. buyers do not readily notice the highest price
3. buyers are slow to change their buying habits and search for lower prices
4. buyers think that the higher prices are justified by quality differences, normal inflation, and so on

If demand is elastic sellers will consider lowering the price. A lower price will produce more total revenue. This makes sense as long as the costs of producing and selling more units does not increase disproportionately

Price elasticity depends on the magnitude and direction of the contemplated price change. It may be negligible with a small price change and substantial with a large price change. It may differ for a price cut versus a price increase. Finally, long run price elasticity may differ from short run price elasticity. Buyers may continue to buy from their current supplier after a price increase, because they do not notice the price increase or the increase is small or they are distracted by other concerns or they find choosing a new supplier takes time. But they eventually switch suppliers. Here demand is more elastic in the long run than in the short run.

Or the reverse may happen

Buyers drop a supplier after being notified of a price increase but return later. The distinction between short run and long run elasticity means that sellers will not know the total effect of a price change until the time passes.

ESTIMATING COSTS

Demand sets a ceiling on the price the company can charge for its product. Costs set the floor. The company wants to charge a price that covers its cost of producing, distributing and selling the product including a fair return for its efforts and risk

Types of Costs and Levels of Production

A company's costs take two forms, **Fixed** and **Variable**,

Fixed costs are costs that do not vary with production or sales revenue.

A company must pay bills every month for rent, heat, interest, salaries and so on regardless of output.

Variable costs vary directly with the level of production. For example each hand calculator involves a cost of plastic, microprocessing chips, packaging and the like.

These costs tend to be constant per unit produced they are called variable because their total varies with the number of units produced.

Total costs consist of the sum of fixed and variable costs for any given level of production. Average cost is the cost per unit at that level of production: it is equal to the total costs divided by production. Management wants to charge a price that will at least cover the total production costs at a given level of production.

Accumulated Production

Suppose TI (Texas Instruments) runs a plant that produces 3000 hand calculators per day. As TI gains experience producing hand calculators, its methods improve. Workers learn shortcuts, material flows more smoothly, procurement costs fall. This decline in the average cost with accumulated production experience is called experience or learning curve.

Experience – curve pricing nevertheless carries major risks. Aggressive pricing might give the product a cheap image. The strategy also assumes that the competitors are weak and not willing to fight. Finally the strategy leads the company into building more plants to meet demand while a competitor innovates a lower cost technology and obtains lower costs than the market leader, who is now stuck with old technology.

Most experience curve pricing has focused on manufacturing costs. But all costs, including marketing costs, are subject to learning improvements. If three firms are each investing a large sum of money trying tele-marketing, the firm that has used it the longest might achieve the lowest telemarketing costs. This firm can charge a little less for its product and still earn the same return, all other costs being equal.

Differentiated Marketing Offers

Today's companies are trying to adapt their offers and terms to different buyers. Thus a manufacturer will negotiate different terms with different retail chains. One retailer may want daily delivery in order to get a lower price. As a result, the manufacturer's costs will differ with each chain and its profits will differ. To estimate the real profitability of dealing with different retailers, the manufacturer needs to use *Activity based cost (ABC) accounting* instead of *standard cost accounting*.

ABC accounting tries to identify the real costs associated with serving the different customers. Both the variable costs and the overhead costs must be tagged back to each customer. Companies that fail to measure their costs correctly are not measuring their profit correctly. They are likely to misallocate their marketing effort. Identifying the true costs arising in a customer relationship also enables a company to explain its charges better to the customer.

Target Costing

We have seen that costs change with production scale and experience. They can also change as a result of a concentrated effort by the company's designers, engineers and purchasing agents to reduce them. The Japanese use a method called *target costing*.

They use market research to establish a new product's desired functions. Then they determine the price at which the product will sell given its appeal and competitor's prices.

They deduct the desired profit margin from this price and this leaves the target cost they must achieve. They then examine each cost element – design, engineering, manufacturing, sales – and break them down into further components.

They consider ways to reengineer components, eliminate functions and bring down supplier costs. The objective is to bring the final cost projections into the target cost range. If they can't succeed, they may decide against developing the product because it couldn't sell for the target price and make the target profit. When they can succeed, profits are likely to follow.

ANALYZING COMPETITOR'S COSTS, PRICES AND OFFERS

Within the range of possible prices, determined by market demand and company's costs, the firm must take the competitor's costs, prices and possible price reactions into account.

If the firm's offer is similar to a major competitor's offer, then the firm will have to price close to the competitor or lose sales. If the firm's offer is inferior, the firm will not be able to charge more than its competitor. If the firm's offer is superior, the firm can charge more than its competitor. The firm must be aware, however that competitors might change their price in response.

SELECTING A PRICING METHOD

Given the three Cs- the customer's demand schedule, the cost function and the competitor's prices – the company is now ready to select a price. Figure 15.6 summarizes the three major considerations in price setting. Costs set a floor to the price. Competitor's prices and the prices of substitutes provide an orientation point. Customer's assessment of unique product features establishes the ceiling price.

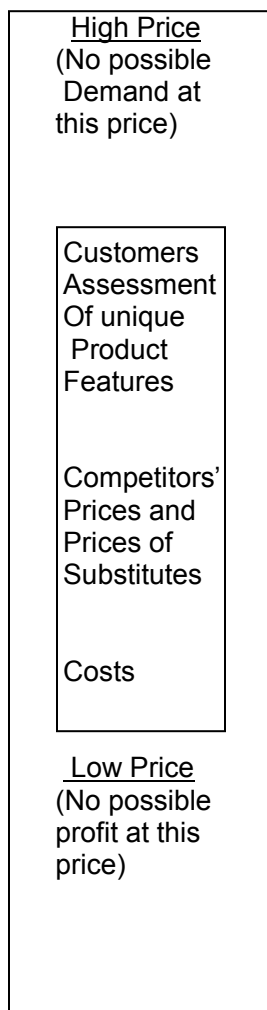


FIGURE 15.6

The Three Cs Model for Price Setting

Companies select a pricing method that includes one or more of these three considerations. We will examine six pricing methods : markup pricing, target-return pricing, perceived value pricing, value pricing, going –rate pricing and sealed bid pricing.

Markup Pricing

The most elementary pricing method is to add a standard markup to the product's cost. Construction companies submit job bids by estimating the total project cost and adding a standard markup for profit. Lawyers and accountants typically price by adding a standard markup on their time and costs. Defence contractors charge their costs plus a standard markup.

Suppose a toaster manufacturer has the following cost and sales expectations:

Variable cost per unit	\$10	
Fixed Cost		<u>300,000</u>
Expected unit sales	50,000	

The manufacturer's unit cost is given by :

$$\text{Unit cost} = \text{variable cost} + \frac{\text{fixed costs}}{\text{Unit sales}} = \$10 + \frac{\$300,000}{50,000} = \$16$$

Now assume the manufacturer wants to earn a 20 percent markup on sales.

The manufacturer's markup price is given by :

$$\text{Mark up Price} = \frac{\text{unit cost}}{(1 - \text{desired return on sales})} = \frac{\$16}{1 - 0.2} = \$20$$

The manufacturer would charge dealers \$20 per toaster and make a profit of \$4 per unit. The dealers in turn will markup the toaster. If the dealers want to earn 50 percent on their selling price, they will markup the toaster to \$40. This is equivalent to a cost markup of 100 percent.

Markups are generally higher on seasonal items, specialty items, slower moving items, items with high storage and handling costs, and demand –inelastic items, such as prescription drugs. Unfortunately, those least able to pay for prescription drugs are often burdened by markups: uninsured individual customers and the elderly on Medicare. In the case of prescription drugs, generic drugs command extraordinarily high markups:

Target Return Pricing

In target return pricing, the firm determines the price that would yield its target rate of ROI. This method is used by General Motors, which sets its prices to achieve an ROI of 15-20% and also by public utilities.

Target Return Price = Unit Costs + [(Desired Return x Invested Capital)/(Estimated Unit sales)]

Example of a toaster manufacturer –

Investment = \$ 1 million

Target ROI = 20% = \$ 200000

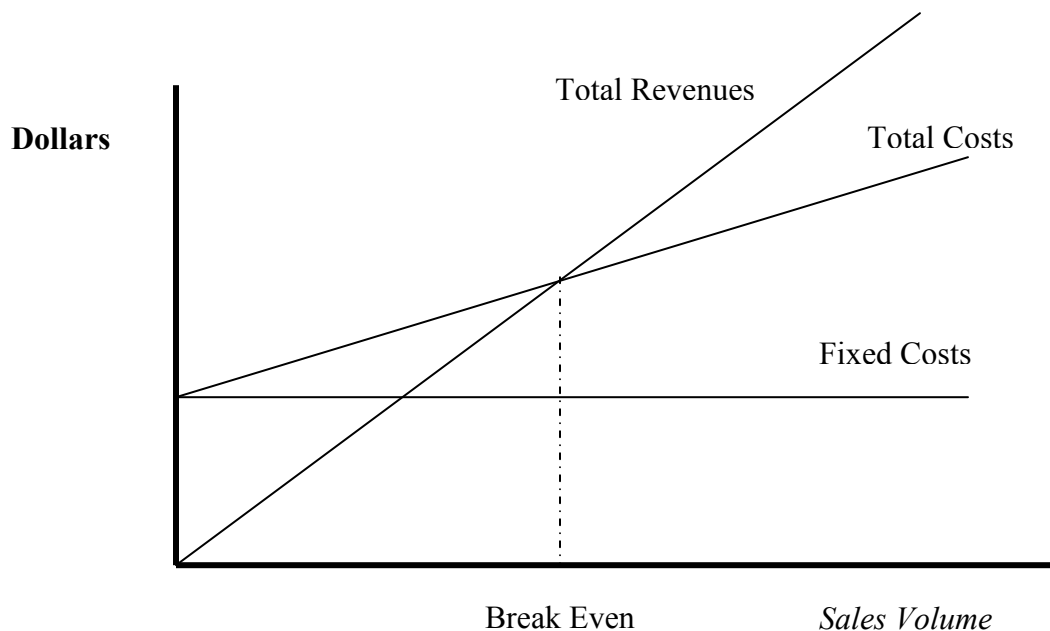
Unit costs = \$ 16

Estimated Unit sales = 50000

Target Return Price = $16 + [(.20 \times 1000000)/50000] = \$ 20$

But what happens if sales achieved do not reach estimated sales? To know what might happen at various sales levels, the manufacturer might prepare a break-even chart, which will determine at what sales level, he breaks even. He can even extrapolate the information and determine his profits (hence ROIs) for various sales levels.

Break Even Volumes = Fixed costs/(Price – Variable Costs)



Limitations of this pricing mechanism: Sales Volume

- Ignores price elasticity and competitors' prices
- Pricing needs to be dynamic w.r.t competitors, PLC, sales volume
- Manufacturer should be on the constant look out for reducing costs

Perceived Value Pricing

This method sees the buyer's perception of value, not the seller's costs as the key to pricing. The seller uses advertising, sales force and other marketing mix elements (promotions) to build up perceived value in buyer's minds.

DuPont also embeds each chemical into a larger offering so that it is not seen as a commodity but rather as a solution to a customer's problem. E.g

ATTRIBUTE	STD. OFFER	PREMIUM OFFER	ADDED VALUE
Quality	Impurities less than 10ppm	Impurities < 1ppm	\$ 1.40
Delivery	< 2 weeks	< 1 week	.15
System	Supply chemical only	Supply total system	.80
Innovation	Little R&D support	High R&D support	2.00
Retraining	Train initially	Retrain on request	.40
Service	Thru home office purchases	Locally available	.25
Price	\$ 100 per lb	\$ 105 per lb	\$ 5.00

The key to this method of pricing is to determine the market's perception of the offer's value accurately. Sellers with an inflated view of their offering will over-price their product, those who underestimate their offerings can under-price their product. Market Research is a powerful tool to determine perceived value.

Value Pricing

This kind of pricing means companies charge a fairly low price for a high-quality offering so that the price should represent a high value to the customer. e.g the declining prices of computers, P&G.

To offer value prices, P&G overhauled its entire system. It redesigned the way it develops, manufactures, distributes, prices, markets, and sells products to deliver better value at every point in the supply chain.

Value pricing is not a matter of simply setting lower prices w.r.t competitors. It is a matter of reengineering the company's operations to become a low cost producer without sacrificing quality.

Every day low pricing (EDLP) is a kind of Value Pricing where a retailer charges a constant, everyday low price with no temporary price discounts. E.g Walmart. Retailers adopt EDLP because constant sales and promotions are costly and have eroded consumer's confidence in the credibility of everyday shelf prices.

In high-low pricing, the retailer charges higher prices on an everyday basis but then runs frequent promotions in which prices are temporarily lowered below EDLP level.

Going Rate Pricing

The firm bases its price largely on competitor's price – the same, more or less. E.g in a commodity market such as steel, paper, or fertilizer, firms normally charge the same price. The smaller firms “follow the leader”, changing their prices when the market leader's prices change. Some firms may charge a small premium or discount.

This method is used when costs are difficult to measure or competitive response is uncertain. It is thought to reflect the industry's collective wisdom as to the price that will yield a fair return and not jeopardize the industrial harmony.

Sealed bid pricing

Under this pricing mechanism, the firm bases its price on expectations of how competitors will price rather than its costs or demand. The firm has to bid the lowest to win the contract, but cannot bid below its costs.

One way the firm can determine the optimal bid price is to calculate the profits out of each bid price, anticipate the probability of winning for each bid and thus select the bid with the maximum expected profits (product of profit and probability of winning).

Such a method can be adopted only when the firm participates in many bids, so over a period of time, the firm will maximize profits. But if a firm has to win this contract badly, the expected profits method is not suitable.

SELECTING THE FINAL PRICE

Selecting the final price depends on various factors:

1. Psychological Pricing:
2. The influence of other marketing mix elements
3. Company pricing policies

1. Psychological Pricing

Many consumers view pricing as an indicator of quality. E.g ego-sensitive products, perfumes, cars etc. for such products, price and quality perceptions may interact in the absence of alternative information about quality.

Reference pricing –Buyers carry in their minds a reference price for a particular product by noticing current prices, past prices or the buying context. Sellers can manipulate these reference prices by, for example, situating a product amongst expensive products to imply that it belongs to the same class.

Why most prices end with odd digits??

- A product priced at \$299 gives the impression of being in the 200 range rather than the 300 range.
- Odd endings convey the notion of discount or bargain.

2. The influence of other marketing mix elements

The brands quality and its advertising budget vis-à-vis competitors also influence pricing. A study revealed that:

- Brands with average quality but high adv budgets were able to charge premiums.
- Brands with high quality and high adv budgets had the highest prices
- The positive relationship between the high prices and high advertising budgets was stronger in the later stages of the PLC

3. Company pricing policies

The price must be compatible with company pricing policies

4. Impact of price on other parties

Like distributors, dealers, sales force, competitors, suppliers, government etc

Price-fixing, ie price fixed in collaboration with competitors, is illegal.

ADAPTING THE PRICE

Companies use a pricing structure that reflects variations in geographical demand and costs, market-segment requirements, purchase timing, order levels, delivery frequency, guarantees, service contracts and other factors. As a result of discounts, allowances, and promotional supports, a company rarely realizes the same profit from each unit of products that it sells. The following are various price adaptation strategies:

Geographical Pricing (Cash, counter trade, barter)

This involves in the company in deciding how to price its products to different customers in different locations and countries. Another issue is how to get paid. This issue is critical when buyers lack sufficient hard currency to pay for their purchases. Many buyers want to offer other items in payment, a practice known as *countertrade*. This countertrade can take several forms: -

- ▶ *Barter*: The direct exchange of goods, with no money and no third party involved.
- ▶ *Compensation deal*: The seller receives some percentage of the payment in cash and the rest in products.
- ▶ *Buyback arrangements*: The seller sells a plant, equipment, or technology to another country and agrees to accept as partial payments products manufactured with the supplied equipments.

- ▶ *Offset*: The seller receives full payment in cash but agrees to spend a substantial amount of that money in that country within a specified time period.

Price Discounts & Allowances

The different types are: -

- ▶ *Cash Discounts*: It is a price reduction to buyers who pay their bills promptly
- ▶ *Quantity discounts*: It is a price reduction to those buyers who large volumes
- ▶ *Functional discounts*: Also called trades discounts. These are offered by a manufacturer to trade-channel members if they will perform certain functions, such as selling, storing and record keeping. Manufactures may offer different discounts to different channels.
- ▶ *Seasonal discounts*: It is a price reduction to buyers who buy merchandise or services out of season.
- ▶ *Allowances*: These are extra payment designed to gain reseller participation in special programs. Trade-in allowances are price reductions granted for turning an old item when buying a new one.

Promotional Pricing

Several pricing techniques can be used to stimulate early purchases: -

- ▶ *Loss-leader pricing*: Supermarkets and department stores often drop the prices on well-known brands to stimulate additional store traffic. However the manufacturers do not encourage this as this practice can dilute the brand image of that product and also bring complaints from other retailers who charge the retail price.
- ▶ *Special-event pricing*: Seller will establish special prices in certain season to draw in more customers.
- ▶ *Cash rebates*: Companies offer cash-rebates to encourage purchase of manufacturer's product within a specified time period.
- ▶ *Low-interest financing*: Instead of cutting price the companies can offer low-interest financing.
- ▶ *Longer payment terms*: Sellers, especially mortgage banks and auto companies, stretch loans over lower periods and thus lower the monthly payments.
- ▶ *Warranties and service contracts*: Companies can promote sales by adding a free or low-cost warranty or service contract.
- ▶ *Psychological discounting*: This strategy involves setting an artificially high price and then offering the product a substantial savings.

Discriminatory Pricing

It occurs when a company sells a product or service at two or more prices that do not reflect a proportional difference in costs. It can take several forms:

- ▶ *Customer-segment pricing*: Different customer groups are charged different prices for the same product or service.

- ▶ *Product-form pricing*: Different versions of the product are priced differently but not proportionately to their respective costs.
- ▶ *Image pricing*: Some companies price their products at two differential levels based on image differences.
- ▶ *Location pricing*: The same product is priced differently at different locations even though the cost of offering at each location is the same.
- ▶ *Time pricing*: Prices are varied by season, day, or hour.

For price discrimination to work, certain conditions must exist. First, the market must be segmentable and the segment must show different intensities of demand. Second, members in the lower-price segment must not be able to resell the product to the higher-price segment. Third, competitors must not be able to undersell the firm in the higher-segment. Fourth, the cost of segmenting and policing the market must not exceed the revenue derived from price discrimination.

Product Mix Pricing

Price setting logic must be modified when the product is part of a product mix. In this case, the firm searches for a set of prices that maximizes profit on the total mix. Pricing is difficult because the various products have demand and cost interrelationship and are subject to different degree of competition.

- ▶ *Product-line Pricing*: Companies normally develop product lines rather than single products and introduce price steps. Ex- men's suit at 5000/- to 25000/-
- ▶ *Optional feature pricing*: many companies offer optional products, features, and services along with their main products. Ex- Auto companies also offering accessories at extra prices.
- ▶ *Captive product pricing*: Some product requires the use of ancillary, or captive products. Ex- low price for razors but high price for razor blades. There is a danger in pricing the Captive product too high in the aftermarket (market for ancillary supplies to the main product). Caterpillar for example,, makes high profits in the aftermarket by pricing its parts and services high. This practice has given rise to "pirates", who counterfeit the parts and sell them.
- ▶ *Two part pricing*: Service firms often engage in two-part pricing, consisting of a fixed rate plus a variable usage fee. Telephone users pay a minimum monthly fee plus charges for calls beyond a certain area. Amusement parks charge an admission fee plus fees for rides over a certain minimum. The service firm faces a problem similar to captive-product pricing- namely, how much to charge for the basic service and how much for the variable usage. The fixed fee should be low enough to induce the purchase of the service; the profit can then be made on the usage fees.
- ▶ *By-product Pricing*: The production of certain goods often results in by-products. If the by-products have value to a customer group, they should be priced n their value. Any income earned on the by-products will make it easier for the company to charge a lower price on its main product if competition forces it to do so.
- ▶ *Product Bundling Pricing*: Sellers often bundle their products and features at a set price. An auto manufacturer might offer an option package at less than the cost of

buying all options separately. A theater company will price a season subscription at less than the cost of buying all performances separately. Because customers may not have planned to buy all the components, the savings on the price bundle must be substantial enough to induce them to buy the bundle. Some customers will want less than the whole bundle. Suppose a medical equipment suppliers' offer includes free delivery and training. A particular customer might ask to forego the free delivery and training in exchange for a lower price. The customer is asking the seller to "unbundled" or "rebundle" its offer.

INITIATING AND RESPONDING TO PRICE CHANGES

Companies often face situations where they may need to cut or raise prices.

Initiating Price cuts

Several circumstances might lead a firm to cut its prices. One is *excess plant capacity*: The firm needs additional business and cannot generate it through increased sales effort, product improvement, or other measures. It may resort to aggressive pricing. But in initiating a price cut, the company may trigger a price war. Another circumstance is a *declining market share*. General motors, for instance, cut its subcompact car prices by 10 percent on the West coast when Japanese competition kept making inroads.

Companies sometimes initiate price cuts in a drive to dominate the market through lower costs. Either the company starts with lower costs than its competitors or it initiates price cuts in the hope of gaining market share and lower costs. But a price cutting strategy involves possible traps:

- Low-quality trap: consumers will assume that quality is low.
- Fragile market share trap: A low price buys market share but not market loyalty. The same customers will shift to any lower-price firm that comes along.
- Shallow pocket trap: The higher priced competitors may cut their prices and may have longer staying power because of deeper cash reserves.

Companies may have to cut their prices in a period of economic recession. During hard times, consumers reduce their spending. Some possible company responses are given in the table below:

Marketing-Mix Alternatives

Strategic options	Reasoning	Consequences
Maintain Price & perceived Quality. Engage in selective customer pruning	Firm has higher customer loyalty. It is willing to lose poorer customers to competitors.	Smaller market share. Lowered profitability.
Raise price & perceived Quality	Raise price to cover rising costs. Improve quality to justify higher prices	Smaller market share. Maintained profitability
Maintain price & raise perceived Quality	It is cheaper to maintain price and raise perceived quality	Smaller market share. Short term decline in profitability. Long term increase in profitability.

Cut price partly and raise perceived Quality	Must give customers some price reduction but stress higher value of offer	Maintained Market share. Short term decline in profitability. Long term maintained profitability
Cut price fully and maintain perceived Quality	Discipline and discourage price competition	Maintained market share. Short term decline in profitability.
Cut price fully and reduce perceived Quality	Discipline and discourage price competition and maintain Profit margin.	Maintained Market share. Maintained margin. Reduced long term profitability.
Maintain price and reduce perceived Quality	Cut marketing expense to combat rising costs.	Smaller market share. Maintained margin. Reduced long-term profitability.
Introduce an economy model	Give the market what t wants	Some cannibalization but higher total volume.

Initiating Price increases

A successful price increase can raise profits considerably. For example, if the company's profit margin is 3 percent of sales, a 1 percent increase will increase profits by 33 percent if sales volume is unaffected. This situation is illustrated in the table below:

	Before	After	
Price	\$10	\$10.10	(a 1% price increase)
Units sold	100	100	
Revenue	\$1000	\$1010	
Costs	-970	-970	
Profit	\$30	\$40	(a 33.33% profit increase)

A major circumstance provoking price increases is **Cost inflation**. Rising costs unmatched by productivity gains squeeze profit margins and lead companies to regular rounds of price increases. Companies often raise their prices by more than the cost increase in anticipation of further inflation or government price controls in a practice called **Anticipatory pricing**. Companies hesitate to offer long-term price contracts.

Another factor leading to price increase is **Overdemand**. When a company cannot supply all of its customers, it can raise its prices, ration supplies to customers, or both. The price can be increased in the following ways. Each has a different impact on the buyers.

- **Delayed quotation pricing:** The company does not set a final price until the product is finished or delivered. Delayed quotation pricing is

prevalent in industries with long production lead times, such as industrial construction and heavy equipment.

- Escalator clauses: The company requires the customer to pay today's price and all or part of any inflation increases on some specified price index. Escalator clauses are found in many contracts involving industrial projects of long duration.
- Unbundling: The company maintains its price but removes one or more elements that were part of the former offer, such as free delivery or installation. Many restaurants have shifted from total dinner pricing to a la carte pricing.
- Reduction of discounts: The company instructs its sales force not to offer its normal cash and quantity discounts.

In passing Price increases to customers, the company must avoid the image of being a Price gouger. Companies also need to think of who will bear the brunt of increased prices.

There are some techniques to avoid this image. One is a sense of fairness must surround any price increase, and customers must be given advance notice so they can do forward buying or shop around. **Sharp price increases need to be explained in understandable terms.** Making low visibility price moves is also a good technique. Eliminating discounts, increasing minimum order sizes, curtailing production of low margin products are some examples. And contracts or bids for long term projects should contain escalator clauses based on such factors as increases in recognized national price indexes.

Companies can also respond to higher costs or overdemand without raising prices. The possibilities include

1. shrinking the amount of product instead of raising the price.
2. substituting less expensive materials or ingredients
3. reducing or removing product feature to reduce cost
4. removing or reducing product services such as installation or free delivery
5. using less expensive packaging material or larger package sizes
6. reducing the number of sizes and models offered
7. creating new economy brands

Reactions to price changes

Any price change can provoke a response from **customers, competitors, distributors, suppliers and even government.**

Customer's reactions

Customers often question the motivation behind the price changes. A price cut can be interpreted in different ways. The item is about to be replaced by a new model; the item is faulty and is not selling well; the firm is in financial trouble; the price will come down even further; the quality has been reduced.

A price increase which would normally deter sales might carry some positive meanings too to the customers. The item is hot and represents an unusually good value.

Customers are most cost sensitive to products that cost a lot or are bought frequently. They hardly notice higher prices on low-cost items that they buy infrequently. Some buyers are less concerned with price than with the total costs of obtaining, operating &

servicing the product over its lifetime. A seller can charge more than competitors & still get the business if the customer can be convinced that total life-time costs are lower.

Competitor's Reactions

A firm contemplating a price change has to worry about competitor's reactions. Competitors are most likely to react where the number of firms are few, the product is homogeneous, and buyers are highly informed.

How can a firm anticipate a competitor's reactions?? One way is to assume that the competitor reacts in a set way to price changes. The other is to assume that the competitor treats each price change as a fresh challenge and reacts according to self-interest at the time. In this case, the company will have to figure out what lies in the competitor's self interest. It will need to **research the competitor's current financial situation, recent sales, customer loyalty and corporate objectives**. If the competitor has a **market share objective**, it is likely to match the price change. If it has a **profit maximization objective**, it may react by increasing the advertising budget and improving product quality.

The problem is complicated because the competitor can put different interpretations on a price cut: that the company is trying to steal the market, that the company is doing poorly and trying to boost its sales or that the company wants the whole industry to reduce prices to stimulate total demand.

Responding to competitors' price changes

How should a firm respond to a price cut initiated by a competitor? In markets characterized by high product homogeneity, the firm should search for ways to enhance its augmented product, but if it cannot find any, it will have to meet the price reduction. If the competitor raises price in a homogeneous product market, the other firms might not match it, unless the price increase will benefit the industry as a whole. By not matching it, the leader will have to rescind the increase.

In non homogeneous product markets, a firm has more latitude. The firm needs to consider the following issues: (1) why did the competitor change the price? Is it to steal the market or to utilize excess capacity, to meet changing cost conditions or to lead and industrywide price change? (2) does the competitor plan to make the price change temporary or permanent? (3) what will happen to the company's market share & profits if it does not respond? Are other companies going to respond? (4) what are the competitor's and other firms' responses likely to be to each possible reaction?

Market leaders frequently face aggressive price cutting by smaller firms trying to build market share. Using price fuji attacks Kodak, bic attacks Gillette, and Compaq attacks ibm. Brand leaders also face lower priced private store brands. Brand leader can respond in several ways:

1. **Maintain price:** The leader might maintain its price and profit margin, believing that (1) it would lose too much profit if it reduced price, (2) it would not lose much market share, and (3) it could regain market share when necessary. The leader believes that it can hold on to good customers and give up the poorer ones. However the argument against price maintenance is that the attacker gets confident, leader's sales force gets demoralized, and the leader loses more share than expected. The leader panics lowers price to regain share and finds that regaining its market position is more difficult and costly than expected.

2. maintain price and add value: the leader could improve its product, services and communications. The firm may find it cheaper to maintain price and spend money to improve perceived quality than to cut price and operate at a lower margin.
3. reduce price: the leader might drop its price to match the competitor's price. It might do so because (1) its cost fall with volumes (2) it would lose market share because market is price sensitive, and (3) it would be hard to rebuild market share once it is lost. This action will cut profits in the short run.
4. increase price and improve quality: the leader might raise its prices and introduce new brands to bracket the attacking brand.
5. launch a low price fighter line: add lower price items to the line or create a separate lower price brand.

The best response varies with the situation. The company has to consider the product's stage in the life cycle, its importance in the company's portfolio, the competitor's intentions and resources, the market's price and quality sensitivity, the behaviour of costs with volume, and the company's alternative opportunities.

An extended analysis of company alternatives may not be feasible when the attack occurs. The company may have to react decisively within hours or days. It would make better sense for the company to anticipate possible competitors' price changes and to prepare contingent responses.

Chapter 16 Managing Marketing Channels

Managing Marketing Channels

What work is performed by Marketing Channels?

Producers delegate some of the selling job to intermediaries, means relinquish some control over how and to whom the products are sold, due to following reasons:

- Many producers lack the resources to carry out direct marketing
- In some cases direct marketing is not feasible. An example is given of the gum business which is completely impractical for a gum producer to establish small retail gum shops throughout the world or to sell gum by mail order.
- Producers who do establish their own channels can often earn greater returns by increasing their investment in their main business. If a company earns a 20 percent rate of return on manufacturing and only a 10 percent return on retailing, then it doesn't make sense to undertake its own selling.

Channel functions and flows

Members of marketing channel perform a number of key functions:

- Gather information about potential and current customers, competitors and other factors.
- Develop and disseminate persuasive communications to stimulate purchasing.
- Reach agreement on price and other terms so that ownership can be effected.
- Place orders with manufacturers.
- Acquire funds to finance inventories.
- Assume risks connected with carrying out channel work.
- Provide for the successive storage and movement of physical products.
- Provide for buyer's payment of their bills through banks and other financial institutions.
- Oversees actual transfer of ownership from one organization or person to another.

Some functions like:

- Physical, title & promotion etc.: Forward flow of activity
- Ordering & payment etc: Backward flow from customers to the company

- Information, negotiation, finance and risk taking etc.: occur in both directions.

Channel Levels

The consumer and industrial marketing channels diagrams (pg 508) are given in the PPT named as Ch 16[1].

Examples of various channels

Consumers marketing

1. Zero – level channel: door to door sales, home parties, mail order, tele marketing, TV selling, Internet selling, and manufacturer owned stores.
2. One – level channel: one intermediary, such as retailer.
3. Two – level channel: wholesalers and retailers.
4. Three – level channel: wholesalers, jobbers and retailers.

Industrial marketing is self explanatory in the PPT.

An example of **backward channel (reverse flow channel)**:

Recycling of solid wastes: Several intermediaries play a role in backward channels, including manufacturers' redemption centers, community groups, traditional intermediaries such as soft drink intermediaries, trash collection specialists, recycling centers, trash-recycling brokers and central processing warehousing.

Service Sector Channels

- Schools develop “educational – dissemination systems” and hospitals develop “health delivery systems”. These institutions figure out agencies and locations for reaching out a population spread over an area.
- Fire stations must be located to give rapid access to potential conflagrations, voting booths must be placed so that people can cast their ballots without expending unreasonable amount of time, effort, or money to reach the polling stations.

Channel Design decisions

Designing a channel system calls for

- Analyzing customer needs
- Establishing channel objectives
- Evaluating the major channel alternatives

Analyzing customer needs

In designing the marketing channel, the marketer must understand the service output level desired by the target customer.

- Lot size – The no of units the channel permits a typical customer to purchase on a occasion
- Waiting time – The average time customers of that channel wait for receipt of goods
- Spatial convenience – The degree to which the marketing channels makes it easy for customers to purchase the product
- Product variety – The assortment breadth provided by the marketing channel
- Service backup – The add-on services provided by the channel.

Establishing channel objectives & constraints

- Channel institutions **should arrange their functional tasks to minimize total channel costs** with respect to desired level of service outputs.
- Channel objective vary with **product characteristics. perishable goods require more direct mktg.**
- Channel design must take into account the strengths and weaknesses of different types of intermediaries.
- **Competitor's channels** also influence channel design.
- Channel design must adapt to the larger environment.
- **Legal** restrictions and regulations also affect channel design.

Identifying major channel alternatives

Book (Pg 512) sales forces to agents (complex products, direct contact with customers lost), distributors, dealers, direct mail, telemarketing & Internet(cheap but cannot be used for complex products)

Three elements describe channel alternatives

Types of intermediaries/channels

Number of intermediaries (Book)

- Exclusive distribution – very few intermediaries – exclusive dealing arrangements
- Selective distribution
- Intensive distribution

Terms and responsibilities of channel members*(Book)*

The main elements in the “trade relation mix” are

- Price policies
- Conditions of sale
- Territorial rights
- And specific services to be performed by each party

Evaluating the major alternatives

Channel alternative should be evaluated against

Economic,
Control and
Adaptive criteria

Channel Management Decisions:

Selecting Channel Members

The producers should select the channel members by determining the characteristics like number of years in business, other lines carried, growth and profits record, solvency, cooperativeness and reputation. If the intermediaries are sales agent, producers would look into the number and characteristics of other lines carried and the size and quantity of the sales force. If the intermediaries want exclusive dealership, the producer would like to consider its locations, future growth prospects and type of clientele.

Training Channel members

Companies should conduct training programs for their distributors and dealers because the end users would view them as company.

Motivating Channel Members

A company needs to view its channel members in the same way as its end users. The company needs to determine the intermediary needs and construct a channel positioning such that its channel offering is tailored to provide superior value to these intermediaries. The company should provide training programs, market research programs and other capability-building program to improve intermediary’s performance. The company must constantly communicate its view that the intermediaries are the partners in the joint effort to satisfy end-using consumers. This should start with understanding their needs and wants.

Producers vary greatly in managing intermediaries. They can draw on the following types of power to elicit cooperation:

1. Coercive Power: When the producer threatens to withdraw a resource or terminate a relationship if intermediaries fail to cooperate. This power is quite effective if

- the intermediaries are highly dependent upon the manufacturer but it can produce resentment can lead intermediaries to organize countervailing powers.
2. Reward Power: When the producer offers intermediaries an extra reward for performing specific acts or functions. Reward power typically produces better results than coercive power but can be overrated. The intermediaries may start expecting reward every time the manufacturer wants a certain behaviour to occur.
 3. Legitimate Power: When the manufacturer requests a behavior that is warranted under contract.
 4. Expert Power: When the manufacturer has special knowledge that the intermediaries value. This is an effective form of power bcoz intermediaries would perform poorly without this. But it weakens once the expertise is passed on to the intermediaries. So manufacturer must keep on developing new expertise to keep influencing the intermediaries.
 5. Referent Power: When the manufacturer is so highly respected that the intermediaries are proud to be associated with him.

Manufacturers can gain cooperation best if they resort to referent power, expert power, legitimate power and reward power and avoid using coercive power.

Intermediaries can aim for relationship based on cooperation, partnership or distribution program. Manufacturers can gain intermediaries cooperation through higher margins, special deals, premiums, cooperative advertising allowances, display allowances and sales contests. At time they may apply negative sanctions such as threatening to reduce margins. Slow delivery or terminate the relationship.

More companies try to forge a long term partnership with the intermediaries by defining what it wants from the intermediaries in terms of market coverage, inventory levels, marketing development, account solicitation, technical advice and services and marketing info. There may be a compensation plan for adhering to these policies.

Distribution Planning: Building a planned, professionally managed, vertical marketing system that meets the need of both. The manufacturer establishes a department within the company called distribution relations planning. Its job is to identify distributor needs and build up merchandising programs to help each distributor work as efficiently as possible. Both of them work jointly. The aim is to make distributors feel for making money from the sale side rather than on the buying side.

Evaluating Channel members:

Producers must constantly evaluate the channels performance against such standards as sales quota attainment, avg inventory levels, customer delivery time, treatment of damaged and lost goods and cooperation in the promotional and training programs.

Modifying Channel Arrangements:

A producer must periodically review and modify its channel arrangements. It becomes necessary when the channel is not working as per the plans, the consumers buying patterns changes, the market expands, new competition arises, innovative distribution channels emerge and the product moves into the later stages of the PLC.

Marketing Channels vis-à-vis PLC:

Introductory stage: Specialist channels

Rapid growth stage: Dedicated stores, department stores that offer services

Maturity stage: Mass merchandisers

Decline stage: Lower cost channels like mail order, off price discounters.

The most difficult decision is revising overall channel strategy. they may become outdated and a gap would be created.

Customer Driven Distribution System Design:

1. Research target customers value perceptions, needs, and desires regarding channel service outputs.
2. Examine the performance of the company's and competitors existing distribution systems in relation to customer desires
3. Find service output gaps that need corrective actions
4. Identify major constraints that will limit possible corrective actions
5. Design a management bounded channel solution
6. Implement the reconfigured distribution system.

Channel Dynamics

The co-operation, conflict and competition between marketing channels.

Vertical marketing systems:

In a *conventional marketing system*, with producer wholesaler and retailer, there is no member with substantial control over the other one. each seeks to maximize own profits.

In Vertical marketing systems(VMS) the 3 members act as a unified system.

The channel captain, controls the other members of the channel. Anyone, the producer wholesaler or retailer can be captain, depending upon the power and dominance wielded. They achieve economies through size, bargaining power and elimination of duplicate services. There is less chance of conflict as there is group objective and no individual goals.

The 3 types of VMS:

- 1) corporate VMS –
Combines successive stages of production and distribution under single ownership. Vertical integration for high level of control.
e.g Sears obtains 50% of goods from wholly or partly own subsidiaries.
- 2) Administered VMS
Coordinates successive stages of production and distribution through size and power of one of its members. Manufacturers of a dominant brand can get strong trade cooperation from resellers.
e.g Kodak, P&G , Gillette.
- 3) Contractual VMS
Individual firms at the 3 different stages integrating their programs on a contractual basis to achieve economies through size. “Value added partnerships”.
3 types:
 - Wholesaler sponsored voluntary chains
Wholesalers organize chains for the or retailers to compete against the other large chain organizations ,through standardized selling practices. Using buying economies .
 - retailer cooperatives
retailers take initiative and organize new business entity to carry on wholesaling and possible some production. members do joint advertisement and concentrate purchases through their retailer co-op. profits are shared in proportion to the purchase proportion. Nonmembers can also but from the chain but no share in profits.
 - Franchise organization
Franchisee and franchiser based system.

Traditional method is the manufacturer-sponsored retailer franchisee. E.g Ford

Another method is manufacturer-sponsored wholesaler franchisee, e.g. Coca-Cola licenses its bottlers in various markets who buy its product concentrate

Service firm-sponsored retailer franchisee is when the service firm brings its service efficiently to its consumers. E.g Hertz, Avis, macDonalds

The new competition in retailing is no longer between the independent business units but between whole systems of centrally programmed networks competing against one another to achieve cost economies.

Horizontal marketing systems:

2 or more unrelated companies put their resources together to exploit emerging marketing opportunities. Individual companies lack money, or know how or the marketing resources. But together they supplement each other.

Symbiotic marketing...

e.g Sara Lee and Wal-Mart – they share market info, inventory levels and sales history, etc.

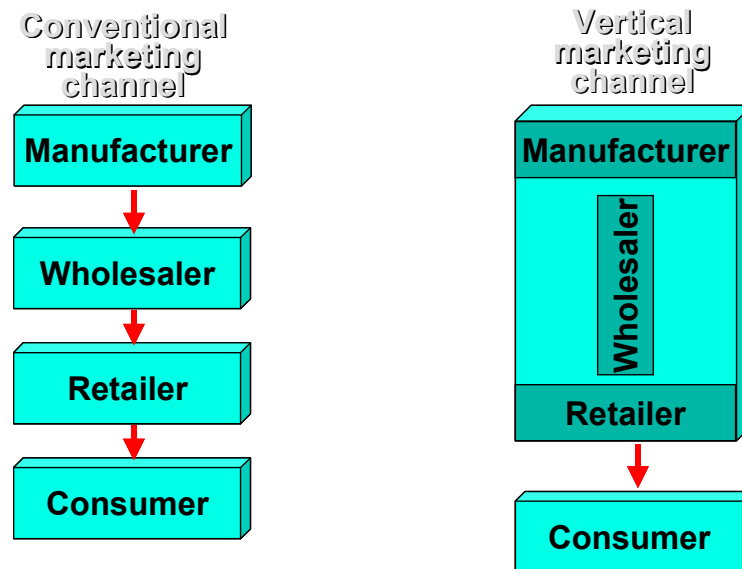
Multi channel marketing systems:

When single firm uses two or more marketing channels to reach one or more consumer segments. Companies gain through increased market coverage , can reach out to a new consumer segment by adding a new channel.

They can lower the channel cost

Can customize the selling as per target consumer requirements.

Conventional Distribution Channel vs. Vertical Marketing Systems



There are 5 roles that a firm in an industry can play:

- 1) Insiders are members of dominant channel
- 2) Striver are firms seeking to be insiders
- 3) Complementary are not part of the dominant channel. Perform functions not done by the other members in the channel
- 4) Transients are outside the dominant channel do not seek membership. They are there only for opportunities
- 5) Outside innovators are challengers and disruptors for the dominant channel.

Channel conflict and competition

Types of channel conflict:

Vertical channel conflict – within different members/levels of the same channel.

e.g GM in conflict with dealers, Coke in conflict with bottlers.

Horizontal channel conflict – within different members at same levels of the same channel.

e.g Conflict between different Ford dealers

Multi channel conflict – within different members I different channels in the same market e.g company selling through specialty showroom and through dealerships. This sets up different prices within the same market.

Causes of Channel Conflict

Goal Incompatibility

Unclear roles/Difference in Perception

Dependence – on manufacturers

Conflict between the following channels in IBM:

- 1) between national acc managers and field sales force
- 2) between field sales force and telemarketers
- 3) between field sales force and dealers

managing channel conflict:

- 1) adopt super ordinate goals – decide on the fundamental goal whether market share or high quality
- 2) exchange persons between 2 channel levels
- 3) cooptation is an effort of one organization to win the support of leaders of other organizations by keeping them on their board.
- 4) Joint memberships in and between trade associations

There is diplomacy, mediation and arbitration in case of a conflict to resolve the issue.

Legal & Ethical Issues in Channel Relations

Exclusive Dealing – dealer should not handle competitors products

Exclusive Territories – producer will decide not to sell to other dealers in the same territory

Tying Agreements – producers of a strong brand sell to dealer only if he takes other products form him

Dealers' Rights – producers can sell to dealers but cannot terminate the dealer agreements easily. Only if there is a cause but not for non compliance in some illegal agreements.

Chapter 17 Managing Retailing Wholesaling and Market Logistics

1. Retailing

- a. All activities involved in selling goods & services directly to final consumer for personal, non-business use.

2. Types of Retailers

- a. **Specialty Store:** Narrow Product line with a deep assortment, such as apparel stores, furniture stores, bookstores etc.
- b. **Department Store:** Several Product lines-typical clothing, home furnishings and household goods
- c. **Super market:** Relatively large, low cost low margin, high volume, self service operation designed to serve total needs for food, laundry and household maintenance products
- d. **Convenience Store:** Relatively small store located near residential area, open long hours seven days a week and carrying a limited line of high turnover convenience products at slightly higher prices
- e. **Discount store:** Standard merchandise sold at lower prices with lower margins and higher volumes
- f. **Off-Price Retailer:** Merchandise bought at less than regular wholesale price and sold at less than retail; often left over goods, overruns and irregulars obtained at lower prices.

3. Retailers can position themselves as offering one of four levels of service:

- a. **Self-service:** It is corner stone of all discount operations.
- b. **Self selection:** Customers find their own goods, although they can ask for assistance
- c. **Limited service:** These retailers carry more shopping goods and customers need more information and assistance
- d. **Full Service:** Sales people are ready to assist in every phase of the locate-compare-select process.

4. By combining these different service levels with different assortment breadths, we can distinguish the four broad positioning strategies available to retailers
- a. **Bloomingdale's:** Stores that feature a broad product assortment and high value added, Pay high attention to store design, product quality, service and image. Profit margin is high.
 - b. **Tiffany:** Narrow product assortment but high value added. Cultivate an exclusive image and tend to operate on high margin and low volume.
 - c. **Sun glass hut:** narrow prod assortment and low value added, such stores keep their costs and prices low by designing similar stores and centralizing buying, merchandising and distribution
 - d. **Wall Mart:** Broad product line but low value added. Focus on keeping prices low. High volume

Broad

Breadth of Product line	Bloomingdale's	Wal-Mart
	Tiffany	Kinney shoe

Narrow

Value added

High

Low

5. Non store Retailing falls into 4 major categories:

- a. **Direct selling**
- b. **Direct marketing**
- c. **Automatic vending**
- d. **Buying services is a store less retailer serving a specific clientele-** usually employees of large organizations, who are entitled to buy from a list of retailers who have agreed to give them discounts in return for memberships.

6. Major types of corporate retailing

- a. **Corporate chain stores:** Two or more outlets commonly owned and controlled, employing central buying and merchandising and selling similar lines of merchandise.
- b. **Voluntary chains;** A wholesaler sponsored group of independent retailers engaged in bulk buying and common merchandising
- c. **Retailer cooperatives;** Independent retailers who set up a central buying organization and conduct joint promotion effort
- d. **Franchises;**
- e. **Merchandising conglomerates:** A free form corporation that combines several diversified retailing lines and forms under central ownership along with some integration of distribution and management

Target Market

A retailer's most important decision concerns the target market. Periodic marketing research is a must to ensure that they are reaching their target customers.

Product Assortment and procurement

- ❖ Must match the target market's shopping expectations. The retailer has to decide on product-assortment breadth and depth.
- ❖ The real challenge begins after defining the product assortment in terms of developing a product-differentiation strategy. Some possibilities are:
 - Feature exclusive national brands not available at competing retailers
 - Feature mostly private branded merchandise
 - Feature surprise or ever-changing merchandise
 - Feature latest merchandise first
 - Offer a highly targeted assortment
- ❖ Establish procurement policies, sources

Services and store atmosphere

- ❖ Decide on the services mix
 - Pre-purchase services like accepting telephone and mail orders
 - Post-purchase services like shipping and delivery
 - Ancillary services like parking, restaurants etc.
- ❖ Atmosphere

Price decision

Most retailers fall into the high-markup, lower-volume group or the low-markup, higher-volume group.

Place decision

- ❖ General business districts
- ❖ Regional shopping centers
- ❖ Community shopping centers/ malls etc.

Trends in retailing

- ❖ New retail forms emerge but most of them face a short life span. They are rapidly copied and quickly lose their novelty.
- ❖ Growth of non-store retailing: electronic age
- ❖ Competition becoming more intertype or between types of store outlets
- ❖ Retailers moving towards becoming either mass merchandisers or specialty retailers
- ❖ Departmental stores to malls, one-stop shopping
- ❖ Marketing channels are increasingly becoming professionally managed and programmed. New store formats launched
- ❖ Technology as a competitive tool for inventory management, fund transfer etc.
- ❖ Retailers with unique formats and strong brand positioning are moving to other countries like McDonalds etc
- ❖ Rise in establishments that provide a place for people to congregate such as coffee shops etc.

Wholesaling

It includes all the activities involved in selling goods or services to those who buy for resale or business use. Wholesaling excludes manufac and farmers bcoz they r engaged primarily in production and it excludes retailers.

When r wholesalers used?

- When they are efficient in:
 - Selling and promoting
 - Buying and assortment building
 - Bulk breaking
 - Warehousing
 - Transportation
 - Financing
 - Risk bearing

- Market information
- Management services and counseling

Types of wholesaling

Merchant wholesalers: Independently owned businesses that take title to the merchandise they handle. They fall under two categories:

- Full service wholesalers:** carry stock, maintain a sales force, offer credit, make deliveries and provide management services. There are 2 types of full-service wholesalers: i) *wholesale merchant*: sell primarily to the retailers and provide a full range of services. *General line wholesalers* carry one or two lines. *Specialty wholesalers* carry only one part of line. ii) *Industrial distributor* sell to manufacturer rather than to retailers and provide several services.
- Limited service wholesalers:** Offer fewer services to suppliers and customers.

Brokers and agents: do not take title to goods, perform few functions.

Brokers

Agents: Manufact agents, selling agents, purchasing agents, commission merchants,

Manufactures' and Retailers' Branches and Offices: Sales offices, Purchasing offices

Miscellaneous wholesalers: specialized wholesalers like agriculture assemblers, petroleum bulk plants

WHOLESALE MARKETING DECISION

1. **Target Market**
2. **Product Assortment and Services**
3. **Price Decision**
4. **Promotion Decision**
5. **Place Decision**

MARKET LOGISTICS

It involves planning, implementing and controlling the physical flows of materials and final goods from points of origin to points of use to meet customer requirements at a profit.

Each market logistics system will lead to following costs

$$M = T + FW + VW + S$$

M - Total market logistics cost of proposed system

T – Total freight cost of proposed system

FW – Total fixed warehouse cost of proposed system

VW – Total Variable warehouse costs (including inventory)

S – Total cost of lost sales due to average delivery delay under proposed system

Market Logistics Decision

It should answer 4 questions

1. How should orders be handled? (**Order processing**)
2. Where should stocks be located? (**Ware-housing**)
3. How much stock should be held? (**Inventory**)
4. How should goods be shipped? (**Transportation**)

Order Remittance cycle –Time between an order's receipt, delivery and payment
Stock level is called the order point

Piggyback – use of rails and trucks for transportation

Fishy back – Water and trucks

Train ship – Water and rail

Air truck – Air and truck

Chapter 18 MANAGING INTEGRATED MARKETING COMMUNICATIONS

“Integrated marketing communications is a way of looking at the whole marketing process from the viewpoint of the receiver”

The Marketing communications mix consists of 5 major modes of communication

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

THE COMMUNICATIONS PROCESS

Today there is a new view of communications as an interactive dialogue between the company and its consumers that takes place during the pre-selling, selling, consuming and post-consuming stages. Companies must ask not only “How can we reach our customers?” but also “How can our customers reach us?”

The following table lists numerous communication platforms; both traditional media (newspapers, radio, telephone, television) as well as through newer media forms (computers, fax machines, cellular phones, and pagers). By decreasing communication costs, emerging newer technologies have encouraged more companies to move from mass communication to more targeted communication and one to one dialogue

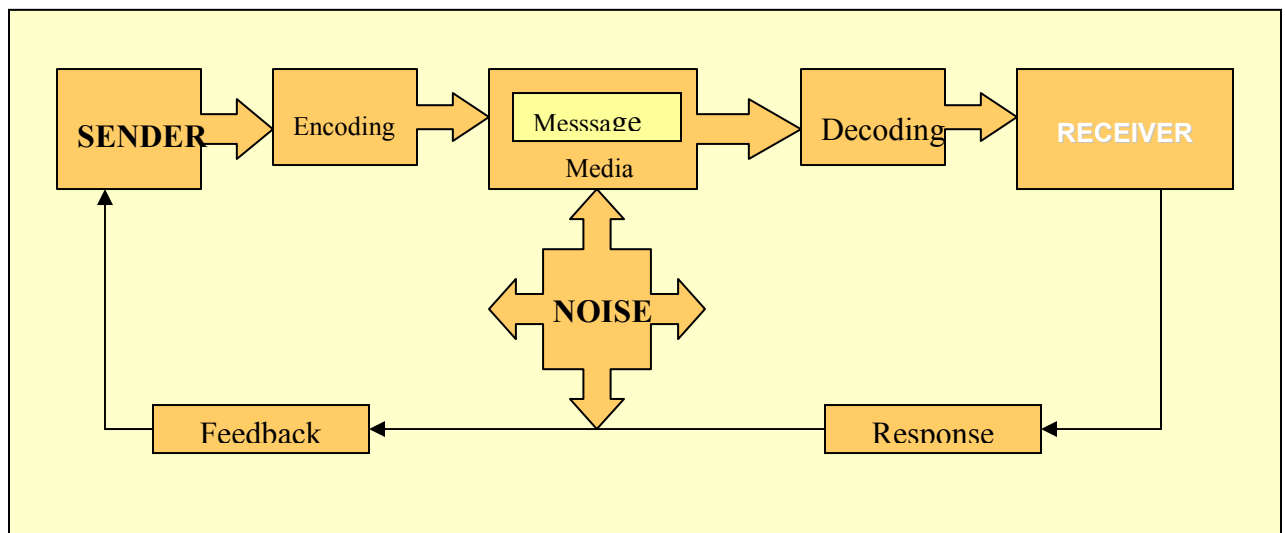
Table 18.1

Advertising	Sales Promotion	Public Relations	Personal Selling	Direct Marketing
Print and broadcast ads	Contests, games, sweepstakes, lotteries	Press kits	Sales Presentations	Catalogs
Packaging- outer	Premiums and gifts	Speeches	Sales meetings	Mailings
Packaging inserts	Sampling	Seminars	Incentive programs	Telemarketing
Motion Pictures	Fairs and trade shows	Annual reports	Samples	Electronic Shopping

Brochures and booklets	Exhibits	Charitable donations	Fairs and trade shows	TV Shopping
Posters and leaflets	Demonstrations	Sponsorships		Fax mail
Directories	Coupons	Publications		E-mail
Reprints of ads	Rebates	Community Relations		Voice mail
Display signs	Low-interest financing	Lobbying		
Point-of-purchase displays	Entertainment	Identity Media		
Audiovisual material	Trade-in allowances	Company magazine		
Symbols and Logos	Continuity programs	Events		
	Tie-ins			

The product's styling and price, the package's shape and color, the salesperson's manner and dress, the place's décor, the company's stationery – all communicate something to the buyers. Every *brand contact* delivers an impression that can strengthen or weaken a customer's view of the company. The whole marketing mix must be integrated to deliver a consistent message and strategic positioning.

Figure 18.1



The starting point is an audit of all the potential interactions target customers may have with the product and company

To communicate effectively, marketers need to understand the fundamental elements underlying effective communication. Figure 18.1 shows a communication model with nine elements. Two represent the major parties in a communication – *sender* and *receiver*. Two represent the major communication tools - *message* and *media*. Four represent major communication functions – *encoding*, *decoding*, *response* and *feedback*. The last element is *noise* (random and competing messages that may interfere with the intended communication).

Senders must therefore know what audiences they want to reach and what responses they want to get. They must encode their responses in a way that understand =s how the target audience usually decodes messages. They must then transmit the message through efficient media that reach the target audience and develop feedback channels to monitor the responses.

For a message to be effective, the sender’s coding process must mesh with the receiver’s decoding process. The sender may not get his or her message through to the receiver. The target audience may not receive the intended message for any of three reasons:

1. *Selective Attention*: People are bombarded by about 16,000 commercial messages a aday of which 80 are consciously noticed and about 12 provoke some reaction. This explains why ads with bold headlines have a high likelihood of grabbing attention.
2. *Selective Distortion*: Receiver’s will hear what fits in with their belief system. As a result receivers often add things to the message that are not there(*amplification*) and do not notice other things that are there(*leveling*). The communicator’s task is to strive for simplicity, clarity, interest and repetition to get the main points across.
3. *Selective Retention*: People will retain in long-term memory only a small fraction of the messages thatr reach them. If the receiver’s initial attitude toward the objective is positive and he or she rehearses support arguments, the message is likely to be accepted and have high recall. Because much of persuasion requires the receivers’ rehearsal of his or her own thoughts, much of what is called persuasion is actually self-persuasion.

The communicator considers audience traits that correlate with high persuadability and uses them to guide message and media development. People of high education are thought to be less persuasible.

Fiske and Hart have outlined some general factors that influence the effectiveness of a communication:

- The greater the monopoly of the communication source over the recipient, the greater the recipient’s change or effect in favor of the source
- Communication effects are greatest where the message is in line with the receiver’s existing opinions, belief’s and dispositions

- Communication can produce the most effective shifts on unfamiliar, lightly felt, peripheral issues, which do not lie at the center of the recipient's value system
- Communication is more likely to be effective where the source is believed to have expertise, high status, objectivity, or likability, but particularly where the source has power and can be identified with
- The social context, group or reference group will mediate the communication and influence whether or not the communication is accepted.

DEVELOPING EFFECTIVE COMMUNICATIONS

There are eight steps in developing effective communications

- i. Identify the target audience
- ii. Determine the communication objectives
- iii. Design the message
- iv. Select the communication channels
- v. Establish the total communications budget
- vi. Decide on the communications mix
- vii. Measure the communications' results
- viii. Manage the integrated marketing communications process

IDENTIFYING THE TARGET AUDIENCE

The process must start with a clear target audience in mind: potential buyers, current users, deciders or influencers; individuals, groups, particular publics, or the general public. The target audience is a critical influence on the communicator's decisions on what to say, how to say it, where to say it and to whom to say it.

Image Analysis

A major part of audience analysis is assessing the current image of the company, its products and its competitors.

Image is the set of beliefs, ideas and impressions a person holds regarding an object. Peoples's attitudes and actions on toward an object are highly conditioned by that object's image

The first step is to measure the target audience's knowledge of the object, using the *familiarity scale*:

Never Heard of, Heard of only , Know a little bit, Know a fair amount, Know very well

If most respondents circle only the first two categories, the challenge is to build greater awareness.

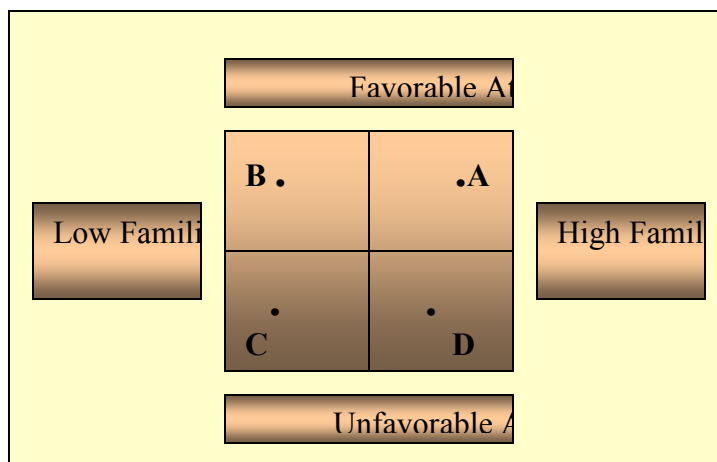
Respondents who are familiar with the product can be asked how they feel toward it using the *favorability scale*:

Very unfavorable, Somewhat unfavorable, Indifferent, Somewhat favorable, Very favorable

If most respondents check the first two image categories, then the organization must overcome a negative image problem.

The two scales can be combined to develop insight into the nature of the communication channel

Figure 18.2



Suppose area residents are asked about their familiarity with and attitudes towards four local hospitals, A, B, C and D. Their responses are averaged and shown in Figure 18.2. Hospital A has the most positive image: Most people know it and like it. Hospital B is less familiar to most people, but those who know it like it. Hospital C is viewed negatively by those who know it, but (fortunately for the hospital) not too many people know it. Hospital D is seen as a poor hospital, and everyone knows it!

Each hospital faces a different communication task. Hospital A must work at maintaining its reputation and high awareness. Hospital B must gain the attention of more people. Hospital C must find out why people dislike it and must take steps to improve its quality

while keeping a low profile. Hospital D should lower its profile, improve its quality, and then seek public attention.

Each hospital needs to research the specific content of its image. The most popular tool for this research is the *semantic differential*. It involves the following steps:

1. *Developing a set of relevant dimensions*: The researcher asks people to identify the dimensions they would use in thinking about the object. “What things do you think of when you consider a hospital?”
2. *Reducing the set of relevant dimensions*: The number of dimensions should be kept small to avoid respondent fatigue. These are three types of scales:
 - Evaluation scales (good-bad qualities)
 - Potency scales (strong-weak qualities)
 - Activity scales (active-passive qualities)
3. *Administering the instrument to a sample of respondents*: The respondents are asked to rate one object at a time. The bipolar adjectives should be randomly arranged so that the unfavorable adjectives are not all listed on one side.
4. *Averaging the results*: Each hospital’s image is averaged out and represented by a vertical “line of means” that summarizes average perception of that hospital.
5. *Checking on the image variance*: because each image profile is a line of means, it doesn’t reveal how variable the image is. Did everyone have a perception or was there considerable variation; is the image highly *specific* or *diffused*.

Management should define a desired image if it differs from a current one. An organization seeking to improve its image must have great patience.

DETERMINING THE COMMUNICATION OBJECTIVES

Once the target market and its perceptions are identified, the marketing communicator must decide on the desired audience response. The marketer can be seeking a *cognitive*, *affective* or *behavioral* response. That is, the marketer might want to put something into the consumer’s mind, change an attitude or get the consumer to act.

There are 4 best-known *response hierarchy models*.

All these models assume that the buyer passes through a cognitive, affective and the behavioral stage, in that order. This “learn-feel-do” sequence is appropriate when the audience has high involvement with a product category perceived to have high differentiation, as in purchasing an automobile.

An alternative sequence, “do-feel-learning”, is relevant when the audience has high involvement but perceives little or no differentiation within the product category, as in purchasing aluminum siding.

A third sequence, “learn-do-feel” is relevant when the audience has low involvement and perceives little differentiation within the product category, as in purchasing salt. By choosing the right sequence, the marketer can do a better job of planning communications.

- *Awareness:* If most of the target audience is unaware of the object, the communicator's task is to build awareness, perhaps just name recognition, with simple messages repeating the product name
- *Knowledge:* The target audience might have product awareness but not know much more. The company needs to learn how many people in the target audience have little, some or much knowledge about the product.
- *Liking:* If target members know about the product, how do they feel about it? If the perception is unfavorable, the marketer has to investigate why; whether there is a real underlying problem.
- *Preference:* The target audience may like the product but not prefer it to others. In this case, the communicator must try to build consumer preference by promoting quality, value, performance and other features. The communicator can check the campaign's success by measuring audience preference after the campaign.
- *Conviction:* A target audience may prefer a particular product but not develop a conviction about buying it.
- *Purchase:* Finally, some members of the target audience might have conviction but not quite get around to making the purchase. The communicator must lead these consumers to take the final step, perhaps by offering a discount or letting consumers try it.

Designing the Message

The communicator develops an effective message .The message ideally should gain attention, hold interest , arouse desire and elicit action (AIDA- see first column of figure 18.4).The AIDA framework suggests the desirable qualities of any communication.

Formulating the message requires solving 4 problems:

What to say (message content)

How to say it logically (message structure)

How to say it symbolically (message format)

Who should say it (message source)

Message Content

Management searches for appeal, theme, idea or unique selling proposition in determining message content. Appeals can be rational, emotional and moral.

Rational appeal- will engage self-interest and claim that the product will produce certain benefits.

Examples – messages showing quality, economy, value or performance

Industrial buyers are more responsive to rational appeals, since they are more knowledgeable about the product, trained to recognize value, and accountable to others for their choices.

Emotional appeal – attempt to stir up negative or positive emotions that will motivate purchase.

Search for the right emotional selling proposition (ESP)

The product will have unique associations that can be promoted.(example Harley Davidson)

Negative appeals such as fear, guilt and shame get people to do things (brush teeth, annual health check ups) or stop doing things.

Fear appeal works better when the source credibility is high, communication promises to relieve, in a believable and efficient way the fear it arouses.

Positive emotional appeals used include joy, love, humor, pride etc.

Humorous messages attract more attention and create more liking and belief in the sponsor.

Others maintain that humor can detract from comprehension, wear out its welcome fast and overshadow the product.

Examples:

JOE BOXER

In 1978, Calvin Klein put male models wearing a new line of white briefs on billboards. (Slogan : wear clean underwear)

FED EX

The largest air express carrier in the US, but not overseas Fed Ex has long been associated with funny ads.

This includes the boss imitating his secretary to track a package. Slogan used was ‘ The Way the World Works’. The Vice President of Marketing says : “ The most important message that we have to deliver is that we have become a global company .The global theme supercedes specific messages from the past.”

Moral appeals are directed to the audience’s sense of what is right and proper. They are often used to exhort people to support social causes. An example for this is the appeal “Silence= Death”, a slogan by Act-Up, the AIDS coalition to unleash power.

Message Structure

Effectiveness depends on structure and content. The best ads ask questions and allow readers and viewers to form their own conclusions .This might cause negative reactions if the communicator is seen as untrustworthy, or the issue is seen as too simple or highly personal .Drawing too explicit a conclusion can also limit appeal and acceptance. Stimulus ambiguity can lead to a broader market definition and more spontaneous purchases.

Two-sided arguments that also mention short-comings may be more appropriate than one-sided presentations, especially when some negative association must be overcome. These are more effective with more educated audiences and those who initially opposed.

The order of presenting arguments is also important. In case of one-sided arguments, the strongest should be presented first to establish interest and attention. This is important for the newspaper and other media where the audience often does not attend to the entire message.

With a captive audience, a climatic presentation is more effective.

In two-sided messages, if the audience is initially opposed, the communicator might start with the other side's argument and conclude with his strongest argument.

Message Format

In print ads, decisions have to be taken on headline, copy, illustration and color. On radio, the choice is about words, voice qualities and vocalizations. On television or in person, all of these elements and body language have to be planned. Facial expressions, gestures, dress, posture etc are important. If the message is being carried by the product or packaging, attention is needed towards color, texture, scent, size and shape. Color is important for food preferences.

Message Source

Delivery by attractive or popular sources achieves higher attention and recall. Celebrities are likely to be effective when they personify a key product attribute. The spokesman's credibility is also important. They make messages more persuasive. Pharmaceutical companies want doctors to testify their product benefits because they have high credibility.

The three most identified factors that underlie source credibility are expertise, trustworthiness and likeability. Expertise is specialized knowledge the communicator possesses to back the claim. Trustworthiness is related to how objective and honest the source is perceived to be. Likeability describes the source's attractiveness. The most credible source is one that scores high on all these three.

A state of congruity is said to exist if a person has a positive attitude towards a message and a source, or a negative attitude towards both.

If a person has one attitude towards the source and another to the message, in the opinion of Osgood and Tannenbaum, attitude change will take place in the direction of increasing the amount of congruity between the two evaluations. The principle of congruity implies that communicators can use their good image to reduce some negative feelings towards a brand but in the process might lose some esteem with the audience.

Challenges in Global Advertising and promotion

MNCs need to face the following challenges in developing global communications programs.

They must decide whether the product is appropriate for a country.

They must make sure that the market segment they address is both legal and customary.

They must decide if the ads style is acceptable or customary in all the countries involved.

They must decide whether ads should be created at headquarters or locally.

1.Product

Beer , wine etc cannot be sold in Muslim countries. Restrictions on tobacco in many countries, UK wants to ban tobacco advertising and outlaw sports sponsorships by tobacco companies . Global harmonization of cosmetic product regulations , known as Florentine regulations, are being discussed.

This will impact advertisers through impact on product labeling, safety, animal testing etc Avon China was forced by Chinese government to stop selling directly to Chinese customers and open retail stores, needing new advertising and promotion campaigns to reposition the company as a retailer.

2. Market Segment

Coke has a pool of different commercials for different national market segments. Local and global segments managers decide which commercials work best for which segments. Recently, in a reverse of the usual order, coke commercials developed for Russia was shown in the US.

Many US toy makers were surprised to learn that in countries like Norway and Sweden, no TV ads may be directed to children under 12.Sweden is lobbying to extend the ban to all EU member nations. To play it safe, McDonalds advertises itself as a family restaurant in Sweden.

3. Style

The style of the ad is also important because comparative ads, while acceptable in US and Canada, are less commonly used in UK, unacceptable in Japan and illegal in India and Brazil.

PepsiCo found that its comparative taste test in Japan was refused by many TV stations and led to a lawsuit.

China has restrictive censorship rules for TV and radio advertising.

Ads with the word best, those that violate social customs or present women in improper ways are banned.

Snickers got in trouble in Russia when it ran a barrage of poorly dubbed American commercials to people not used to TV advertising.

4. Local or Global

More and more MNCs are attempting to build a global brand image by using the same advertising in all their advertising in all their markets. FedEx's first global campaign was The Way The World Works. Ericsson spent \$100 million on a global TV campaign with the tag " Make yourself heard" , featuring James Bond .Merging of Daimler and Chrysler involved running a three-week ad campaign in more than 100 countries .The tag was Expect the Extraordinary .

But even if a company favors strong corporate standardizations , legal restrictions may force adaptations. Coca Cola's Indian subsidiary was forced to end a promotion that offered prizes such as a trip to Hollywood because it encouraged people to buy in order to gamble, a violation of the trade practices in India .

Selecting Communication Channels

The communicator must select sufficient communication channels to carry the message .Pharmaceutical companies salespeople cannot get more than 10 minutes of a physician' s time and so their presentation must be quick, crisp and convincing. Sales calling is thus very expensive here.

The industry has to amplify its communications channels. These include placing ads in medical journals, sending direct mail , free samples, telemarketing . They can sponsor clinical conferences , etc.

All of these channels are used in the hope of building physician preference .

Communication channels are of 2 types: personal and non personal .Each have several sub channels .

Personal Communication Channels

These involve two or more persons communicating directly with each other face to face, person to audience, over the phone or through email .

Effectiveness stems from the opportunities to individualize the presentation and feedback.

There is a distinction between advocate, expert and social communication channels .

Advocate channels consist of company salespeople contacting buyers in the target market.

Expert Channels consist of independent experts making statements to target buyers.

Social channels consist of neighbors, friends, family and associates talking to target buyers.

There is a huge power in 'word of mouth'. Companies are seeking ways to stimulate social channels to recommend.

Regis McKenna advertises a software company launching a new product to promote initially in trade press, opinion luminaries who supply favorable word of mouth, and then to dealers and finally customers.

Personal influence is also crucial in two situations .

One is when products are expensive ,risky or purchased infrequently .buyers are strong information seekers.

Also when the product reflects a user's status .

Steps to stimulate personal influence channels :

- Identify influential individuals and companies and devote extra time to them .In industrial selling, the entire industry must follow the market leader in adopting innovations .
- Create opinion leaders by supplying certain people with the product on attractive terms .
- Work through community influentials such as local disc jockeys , class presidents and presidents of women organizations . when Ford introduced Thunderbird , it sent invitations to executives offering them a free car to drive for the day .
- Use influential or believable people in testimonial advertising

- Develop advertising that has high “ conversation value” . Ads with high conversation value often have a slogan that becomes part of the national vernacular.
- Develop word-of –mouth referral channels to build business . Professionals will encourage clients to recommend their services ..
- Establish an electronic forum . Toyota owners use online service such as AOL to share experiences.

How to develop Word-of-mouth Referral Sources to Build business

When a recommendation is made, the recommender has potentially benefited the service provider as well as the service seeker .

Chief benefits of developing referrals or word of mouth sources are :

- Convincing
The only promotion method that is of the consumer, by the consumer and for the consumer .Satisfied customers are repeat buyers and also walking talking billboards for your business
 - Low cost
Keeping in touch with satisfied customers and making them providers costs the business little. The business might reciprocate by referring business to the referrer or giving enhanced service or discount.
- Michael Cafferky’s Word of Mouth Marketing Tips gives the following suggestions :
1. Involve your customers in the process of making or delivering your product or service .
 2. Solicit testimonials from your customers , that serve as silent sales force you can have complete control over. One strategy is to use a customer- response form that asks for this type of feedback and permission to quote it .
 3. Tell true stories to your customers – company brochures and newsletters
 4. Educate your best customers . This enhances loyalty and goodwill . You can become the source of credible , up-to-date information perhaps through the company website
 5. Offer fast complaint handling to customers to prevent negative word of mouth .

Non personal Communication channels

These include media , atmospheres and events .

Media consists of print media (newspapers, magazines, direct mail) , broadcast media (radio, TV) , electronic media (audio, video , CD –ROM , Web pages) and display media (billboards, signs , posters) .Most non personal messages come through paid media .

Atmospheres are ‘packaged environments ‘ that create or reinforce the buyers leanings towards product purchase. Use of chandeliers in luxury hotels are an example.

Events are occurrences designed to communicate particular messages to target audiences . PR departments arrange news conferences , grand openings and sports sponsorships to achieve specific communication effects with a target audience.

Mass media might be a major means of stimulating personal communication . They affect personal attitudes and behavior through a two-step flow-of-communication process .Ideas flow from media to opinion leaders and from them to lesser-involved population groups. This has several implications :

- The influence of mass media on public opinion is not as direct, powerful and automatic as supposed . It is mediated by opinion leaders .
- It challenges the notion that consumption styles are primarily influenced by a trickle-down or trickle-up effect from mass media .people act primarily in their social group and acquire ideas from opinion leaders in their group .
- Two step communication suggests that mass communicators should direct messages specifically to opinion leaders and let them carry messages to others.

Communication researchers are moving towards a social –structure view of inter-personal communication. They see society as cliques, small groups whose members interact frequently . Members are similar and their closeness facilitates effective communications and also insulates the clique to new ideas.

A liaison is a person who connects two or more cliques without belonging to either.

A bridge is a person who belongs to one clique and is linked to a person in another clique .

Establishing The Total Marketing Communications Budget

One of the most difficult marketing decisions is how much to spend on promotion. John Wanamaker said “ I know half of my advertising is wasted, but I don’t know which half”.

Four common methods to decide the promotion budget :

Affordable Method

Many companies set the promotion budget at what they think the company can afford .This method completely ignores the role of promotion on sales volume. It leads to an uncertain annual budget , which makes long range planning difficult.

Percentage of sales method: here the promotion expenditure is specified as a percentage of sales or of the sales price. The advantages are:

- Makes sure that the expenditure is closely related to the movement of corporate sales over the business cycle.
- Encourages managers to think of the relationship among promotion cost, selling price and profit per unit,
- Encourages stability as the competing firms almost spend the same percentage of their sales on promotion

It is still not a preferred mechanism as results the budget to be a decider of the allocation of funds rather than the market opportunities. There is actually no logical basis for using this method. Also the year to year fluctuation in sales interferes with the long term planning.

Competitive parity method: some companies set their promotion budgets to achieve a parity of share of voice with the competitors. The arguments for the method are

- It prevents promotional wars
- The competitor's budget represents the collective wisdom of the industry.

None of the above are actually valid.

Objective and task method: the promotion budget is done by defining specific objectives, determining the task that must be performed to achieve these objectives and estimating the costs of performing these tasks. The major steps involved in doing the same are:

- Establish the market share goal
- Determine the percentage of the market that should be reached by advertising
- Determine the percentage of aware prospects that should be persuaded to try the brand
- Determine the advertising impressions per 1 percent trial rate.
- Determine the number of gross rating points that would have to be purchased
- Determine the necessary advertising budget on the basis of the average cost of buying a gross rating point.

It has the advantage of requiring management to spell out its assumption about the relationship among the dollars spent, exposure levels, trial rates and regular usage.

The weightage that promotion should get as against the allocation for new product development, lower prices, or better service depends on the PLC, whether the product is a commodity or highly differentiable, whether it is routinely needed or have to be sold etc.

Deciding the Communication Mix:

The company needs to decide on the mix of the following five communication tools:

- Advertising
- Sales promotion
- PR
- Sales force
- Direct marketing

Lets look at them one by one.

Advertising

The qualities noted are:

- Public presentation: offers a kind of legitimacy to the product and suggests a standardized offering. Since the same message goes to all the buyers, we know what motivated purchase
- Pervasiveness: one can repeat message. Compare the messages of various competitors. Also large scale advertising says something positive about the firms size, power and success.
- Amplified expressiveness: opportunity for dramatizing the company and its products
- Impersonality: audience not obligated to pay attention or respond to advertising
- It allows the company to build a long term image

There are relatively newer advertising media- like the advertorials -print ads that have editorial content, infomercials – TV commercials etc.

Sales promotion:

He distinctive benefits are:

- Communication: they gain attention and usually provide information that may lead to the consumer to the product.
- Incentive: incorporates some concession. Inducement, or contribution that gives value to the consumer.
- Invitation: they include a distinct invitation to engage the transaction now.

The company uses sales promotion tools to draw a stranger and quicker buyer response. Sales promotion can be used for short run effects such as to dramatize the product offers and boost sagging sales.

Public relations and publicity:

The three distinctive qualities are:

- High credibility
- Ability to catch the buyers off the guard
- Dramatization

Personal Selling:

Most effective tool at the later stages of the buying process, particularly in building up buyer preferences, conviction, and action. Three distinctive qualities are:

- Personal confrontation: immediate interactive relationship between two parties and ability to observe the other's reaction at close hand.
- Cultivation: permits all kind of relationship to build up, ranging from a matter of fact selling relationship to a deep personal friendship.
- Response: makes the buyer feel under some obligation for having to listened to the sales talk

Direct marketing:

It is:

- Non public

- Customized
- Up to date
- Interactive

Factors in setting the marketing communication mix:

Type of product market:

- Consumer marketers spend on sales promotion, advertising, personal selling and public relations in the order.
- The Business markets spend on personal sales, sales promotion, advertising, and public relations in that order.
- Personal selling is used more with complex, risky and heavy goods and in markets with fewer and larger sellers.

Role of advertising in business markets:

- Awareness building
- Comprehension building – embodies new features, some explaining can be effectively performed by advertising
- Efficient reminding – if prospects know about the product but are not ready to buy it then it is better to use reminder advertising as it is more economical than calls.
- Lead generation: brochures are effective ways to generation of leads for sales representatives.
- Legitimization: can use tear sheets of the company and products
- Reassurance: can remind the customers how to use the product and reassure them about their purchase.

Company's reputation improves the sales force's chances of getting an effective first hearing. Good presentations are an edge for a sales person.

Important contributions of a trained consume sales force:

- Increased stock position: the sales reps can persuade dealers to take more stock and devote more shelf space to the company brand.
- Enthusiasm building: sales rep can build dealer enthusiasm by dramatizing planned advertising and sales promotion backup
- Missionary selling: signing up more dealers
- Key account management: take up responsibility for growing business with the most important accounts.

Push vs Pull strategy:

The promotional mix is heavily influenced by whether the company chooses to a push or a pull strategy. A *push* strategy involves the manufacturing using sales force and trade promotions to induce the intermediary to carry, promote and sell the product to end users. It is generally important when the product is in low brand loyalty in a category, brand choice is made at the store, or the product is an impulse item.

A pull strategy involves the manufacturing using advertising and consumer promotion to induce the consumers to ask intermediaries to order it. This is especially appropriate for high brand loyalty products and the categories with high involvement.

Buyer Readiness stage:

- Advertising and publicity play the most important roles in the awareness building stage
- Customer comprehension is affected by the advertising and personal selling.
- Customer conviction is mostly influenced by personal selling
- Closing the sale is influenced by the mostly by personal selling and sales promotion
- Reordering also affected by mostly by personal selling and sales promotion and somewhat by reminder advertising

Product Life cycle:

- Introduction stage: advertising and publicity have the highest cost effectiveness, followed by personal selling to gain distribution coverage and sales promotion
- In growth stage all the tools can be toned down because demand has own momentum through word of mouth.
- In the maturity stage sales promotion, advertising, and personal selling all grow more important in that order
- In the decline stage sales promotion continues strong advertising and publicity are reduced and sales people give product only minimal attention.

Managing and Coordinating Integrated Marketing communications

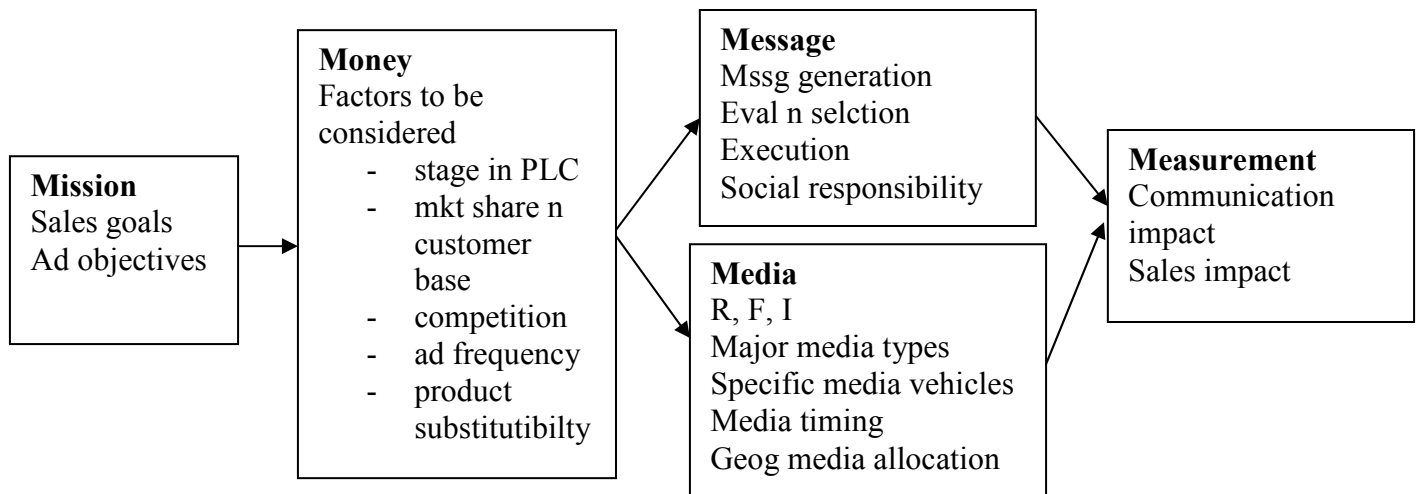
IMC is defined by the American Association of Advertising Agencies as “ a concept of marketing communications planning that recognizes the added value of a comprehensive plan that evaluates the strategic roles of a variety of communications disciplines –for example, general advertising, direct response, sales promotion and public relations –and combines these disciplines to provide clarity, consistency , and maximum communications impact through seamless integration of discrete messages.

Chapter 19 Advertising and Sales Promotion

Advertising- any paid form of no personal presentation and promotion of ideas, goods or services by an identified sponsor.

In developing a marketing programme

- Identify the target market and buyer motives.
- Make five major decisions- 5 M's
 - Mission – advertising objectives
 - Money – amount to be spent
 - Message
 - Media
 - Measurement – evaluation of results



Setting advertising objectives

Prior decisions to be taken are

- Target market
- Market positioning
- Marketing mix

An advertising objective is a specific communication task and achievement level to be accomplished with a specific audience in a specific period of time.

They are of following types

- *Informative advertising* – is in pioneering stage of a product category where primary demand has to be built.
- *Persuasive advertising* – important in competitive stage where the main objective is to build selective demand for a particular brand. Comparative advertising is used in some places where there is comparison of brand attributes.

- *Reminder advertising* – important for mature products. One related form in reinforcement advertising, which seeks to assure current customers that they have made the right choice.

Deciding on Budget

Advertising has a carryover effect that lasts beyond the current period. It is an investment which builds of an intangible asset called *brand equity*.

The entire advertising cost is written off in the first year. This reduces the company's reported profits and hence limits the number of launches of new products

Five factors to be considered when setting the advertising budget

- Stage in product life cycle- new products receive large budgets to build awareness
- Market share and consumer base – high market share companies require less advertising expenditure as a percent of sales.
- Competition and clutter
- Advertising frequency – number of repetitions needed
- Product substitutability – commodity class need heavy advertising.

Vidale and Wolfe's model

Larger advertising budget, higher the sales response, higher the sales decay rate, higher the untapped sales potential.

Choosing the message

Steps to develop a creative strategy

Message generation – the product 'benefit' message should be decided as a part of developing a product concept. Overtime it may change.

To generate possible appeals, creative people proceed inductively by talking to customers dealers etc. there is in depth interviewing. Deductive framework is also used.

Message Evaluation and selection

A good as normally focuses on one core-selling proposition. Twedt suggested that messages be rated on desirability, exclusiveness and believability.

Message Execution

Message's impact depends not only upon what is said but how it is said.

Rational positioning

Emotional positioning

Labeling – consumer is labeled as the type of person who is interested in the project.

In preparing an ad campaign, the advertiser usually prepares a copy strategy statement describing objective, content and tone of the desired ad.

Creative people must also find a cohesive style, tone, words and format for executing the message.

Creativity is required for headlines- news, question, narrative, command, 1-2-3 ways and how-what –why.

The following characteristics for ads scored above average recall and recognition

Innovation

Story appeal

Before and after illustration

Demonstration

Problem solution

Inclusion of relevant characters

Social responsibility review

The advertising shouldn't overstep social and legal norms.

Deciding on media measurement and effectiveness

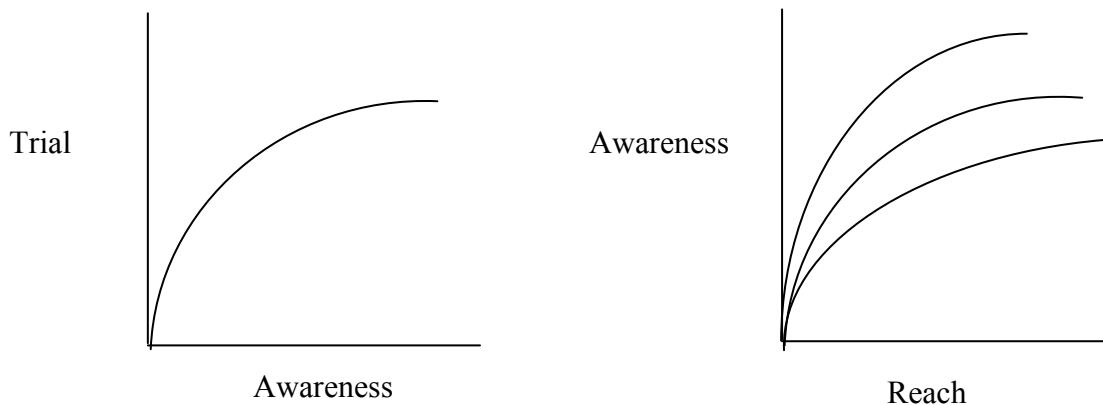
Media selection involves finding the most cost –effective media to deliver the desired number of exposures to the target audience.

If the advertiser seeks a product trial rate T, it will be necessary to achieve a brand awareness level of A. the next task is to find out how many exposures E will produce a audience awareness of A. the effect of exposures on audience awareness depends on the exposures' reach, frequency and impact.

Reach(R) – the number of different persons or households exposed to a particular media schedule atleast once during a specified time period.

Frequency (F) – the number of times within the specified time period that an average age person or household is exposed to the message.

Impact (I) – the qualitative value of an exposure through a given medium.



Suppose planner has average advertising budget of 1000000 and cost per thousand exposures is 5. Then advertiser can buy $1000000 / (5/1000) = 200000000$ exposures.

Total E = R * F. This is called GRP (gross rating points)

Weighted number of exposures(WE) – this is the reach times average frequency times average impact.

$$WE = R * F * I$$

Within a given budget the most cost-effective combination of F, R and I has to be figured.

Choosing among major media types

Media planners make their choice among media categories considering the following variables:

- Target audience media habits
- Product
- Message
- Cost

Ideas about media impact should be reexamined periodically.

Some **media types**:

1. TV: now effectiveness is reducing due to increased commercial clutter. Also TV advertising costs rose faster than others.
2. Advertorials: print ads that offer editorial content and are difficult to distinguish from newspapers or magazine contents.
3. Infomercials: TV commercials that appear to be 30 minute TV shows but are advertisements for products.
4. Store: space for logos etc.
5. books, sports arena etc. displaying ads
6. Digital magazines i.e. digazines (cheaper to start and operate)
7. Interactive TV: 2 way communication possible through combination of technology.
8. Fax on demand: allows users to store information in a fax technology program. Customers who need information call on a toll free number.

Thus demise of traditional media approaching.

The media planner should search for cost effective media vehicles within each chosen media type.

Audience size has various possible measures:

- Circulation: number of physical units carrying the advertising.
- Audience: The number of people exposed to the vehicle.
- Effective audience: The number of people with target audience characteristics exposed to the vehicle.
- Effective Ad – exposed audience: The number of people with target audience characteristics who actually saw the ad.

Media planners calculate the cost per thousand persons reached by a vehicle.

Several adjustments have to be applied to this.

- ❑ Audience quality
- ❑ Audience attention probability
- ❑ Editorial quality
- ❑ Ad placement policies and extra services

Deciding on media timing

1. **Macro scheduling problem:** Scheduling ad in relation to seasons and business cycles

2 models

- ❑ Forrester: Industrial dynamics – to test cyclical advertising policies.
- ❑ Kuehn: timing ads for frequently purchased , highly seasonal, low cost grocery products.
 - i. Carryover : refers to rate at which the effect of an advertising expenditure wears out with the passage of time.
 - ii. Habitual behaviour: how much brand holdover occurs independent of the level of advertising.

2. **Micro scheduling problem:** calls for allocating advertising expenditures within a short period to obtain maximum impact.

The most effective pattern depends upon communication objectives in relation to the nature of the product, target customers, distribution channels etc.

The timing pattern should consider the following 3 factors:

- ❑ Buyer turnover: rate at which a new buyer enters the market.
- ❑ Purchase frequency: number of times during the period that the average buyer buys the product.
- ❑ Forgetting rate

In launching a new product, the advertiser has to choose among:

- ❑ Continuity
- ❑ Concentration – spending all money in single period
- ❑ Flighting – seasonal advertising
- ❑ Pulsing – continuous advertising at low weight levels reinforced periodically by waves of heavier activity.

Deciding on Geographical Allocation

Decision regarding space and time.

- ❑ National buys: ads on national TV / magazines
- ❑ Spot buys: TV time in few markets or regional editions of magazines. These are called ADIs or DMAs – areas of dominant influence / designated marketing areas.

Evaluating Advertising Effectiveness

Communication Effect Research: called copy testing, it can be done before an ad is put into media or after.

3 major methods of advertising pretesting

- ❑ Direct Rating Method: consumers to rate alternate ads
- ❑ Portfolio tests: test consumers recall level by exposing to plethora of ads
- ❑ Laboratory tests: uses equipment to measure physiological reactions

These tests measure attention getting power but reveal nothing about impact on beliefs and attitudes.

Sales Effect research: this is harder to measure than above.

A company's share of advertising expenditures produces a share of voice that produces a share of minds and hearts and ultimately a share of market.

Researchers try to measure the sales impact through analyzing

- ❑ Historical Approach
- ❑ Experimental design

A summary of Current Research

Professional researchers have drawn some general conclusions that are useful to marketers.

- ❑ Impact of advertising on brand switching
- ❑ Effect of surroundings: congruency with surroundings
- ❑ Effect of positive versus negative responses.

Sales Promotion

It consists of a diverse collection of incentive tools, mostly short term, designed to stimulate quicker or greater purchase of particular products or services by consumers or the trade.

Advertising offers a reason to buy and sales promotion offers an incentive to buy.

Factors contributing to the rapid growth of sales promotion, particularly in consumer markets.

- ❑ Internal factors:
 - Acceptance by top management
 - Product managers more qualified to use it
 - Greater pressure to increase sales
- ❑ External Factors:
 - Increase in number of brands
 - Use by competitors
 - Similar brands
 - Price oriented consumers

- More deals from manufacturers
- Decline in advertising efficiency due to rising costs
- Media clutter
- Legal restraints

Promotion clutter born: consumers might start tuning out!

Purpose of sales promotion

- Attract new triers
 - users in same category
 - users in other categories
 - frequent brand switchers – not likely to turn loyal
- In case of high brand dissimilarity, sales promotion can alter market shares permanently.

Some conclusions by Brown:

- **SP** yield faster and more measureable responses in sales than advertising does.
- Do not attract loyal customers
- Loyal brand buyers tend not to change their buying patterns as a result of competitive promotion.
- Advertising appears to be capable of deepening brand loyalty.

There is also evidence that price promotions do not build permanent total category volume.

Small share competitors often find it advantageous to use sales promotion because they cannot afford to match the market leaders' large ad budgets. Nor can they obtain shelf space without offering trade allowances or stimulate consumer trial.

Farris and Quelch – conclude

- **SP** enables to adjust short term variations in supply and demand.
- Enable manufacturers to test how high a list price they can charge because they can always discount it.
- Trial is induced
- Lead to varied retail formats
- Greater consumer awareness of prices
- Help manufacturers adopt to different consumer segments.

MAJOR DECISIONS IN SALES PROMOTION

- ❑ **Establishing Objectives** : The specific objectives for sales promotion vary with the target market.
- ❑ **Selecting Consumer Promotion Tools** : The promotion planner should take into account the type of market, sales promotion objectives , competitive conditions ,and each tools (eg.samples,coupons etc.) cost effectiveness.
- ❑ **Selecting Trade Promotion Tools** :
 - To persuade the retailer or wholesaler to carry the brand
 - To persuade the retailer or wholesaler to carry more units than the normal amount
 - To induce retailers to promote the brand by featuring , display, and price reductions
 - To stimulate retailers and their sales clerks to push the product
- ❑ **Selecting Business – and Sales Force Promotion Tools**
- ❑ **Developing the Program** : In deciding a particular incentive ,marketers should consider the size of the incentive, establish conditions for participation,duration of promotion,choose a distribution cycle, timing of promotion & the total sales promotion budget.
- ❑ **Pretesting the Program**
- ❑ **Implementing and Controlling the Program** : Implementation planning must cover lead time & sell-in time.Lead time is the time necessary to prepare the program prior to launching it.Sell –in time begins with the promotional launch and ends when approx 95% of the deal is in the hand of the customers.
- ❑ **Evaluating Results**

PUBLIC RELATIONS

PR involves a variety of programs designed to promote or protect a company's image or its individual products.PR Dept generally performs the following functions:

- ❑ Press Relations
- ❑ Product Publicity
- ❑ Corporate Communication
- ❑ Lobbying

- Counseling

MARKETING PUBLIC RELATIONS (MPR)

It plays an important role in the following tasks:

- Assisting in the launch of new products
- Assisting in repositioning a mature products
- Building interest in a product category
- Influencing specific target groups
- Defending products that have encountered public problems
- Building the corporate image in a way that reflects favorably on its products.

MAJOR DECISIONS IN MARKETING PR

- **Establishing the Marketing Objectives** : MPR can contribute to the following objectives:
 - Build awareness
 - Build credibility
 - Stimulate the sales force and dealers
 - Hold down promotion costs

PR expert L.Harris offers suggestions for how PR and direct response marketing can work together to achieve specific marketing objectives.:

- Build marketplace excitement before media advertising breaks
 - Build a core consumer base
 - Build a one to one relationship with consumers
 - Turn satisfied customers into advocates
 - Influence the influentials
-
- **Choosing Messages and Vehicles**
 - **Implementing the Plan**
 - **Evaluating Results**

Chapter 20 MANAGING THE SALES FORCE

Six different positions sales representatives cover (McMurry):

1. Deliverer – delivery of products
2. Order taker – inside order taker (behind the counter) outside order taker (calling on customers for orders)
3. Missionary – build goodwill and educate the user
4. Technician – high level of technical knowledge
5. Demand creator – creative methods of selling products / services
6. Solution vendor – solving customers' problems

Designing the sales force

Sales force is company's personal link to the customers. Carefully need to consider the following issues in sales force design – development of sales force objectives, strategy, structure, size and compensation.

Sales Force Objectives And Strategy

Need to define specific objectives to be achieved by the sales force.

Specific tasks to be performed:

- ✓ Prospecting: searching for prospects or leads
- ✓ Targeting: decide how to allocate their time among prospects and customers
- ✓ Communicating: information about company's products and services
- ✓ Selling: approaching, presenting, answering objections and closing sales
- ✓ Servicing: providing different services – consultation, technical assistance, arranging finance, expediting deliveries
- ✓ Information gathering: market research and intelligent work
- ✓ Allocating: deciding which customer will get scarce products during shortages

Other roles the sales person needs to do – allocating the product, counseling the unhappy customers, communicating company plans for remedying shortages, selling company products that are not in shortage. During product abundance, trying to win customer preference.

Call right customers at the right time in the right way. Sales representatives work with customers in several ways:

- ✓ Sales representative to buyer
- ✓ Sales representative to buyer group
- ✓ Sales team to buyer group
- ✓ Conference selling
- ✓ Seminar selling – educational seminar for customers

More and more need for teamwork. Support from other personnel like top management, technical people, customer service representatives, office staff etc.

Maintain market focus, should know how to analyze sales data, measure market potential, gather market intelligence and develop marketing strategies and plans. Need analytical marketing skills.

A company can use –

- ✓ Direct sales force – full time or part time paid employees working exclusively for company. Inside sales personnel and field sales personnel.
- ✓ Contractual sales force – manufacturer's reps, sales agents and brokers. Paid commission based on sales.

Sales Force Structure

Most common sales force structure:

- ✓ Territorial: Each sales rep assigned to exclusive territory. Advantages of this –
 - Clear definition of responsibilities
 - Increased incentive to cultivate local business and personal ties
 - Lesser travel expensesTerritory size – designed to provide equal sales potential or equal work load. Equal potential gives same income opportunities means to evaluate performance. Can vary widely in size as the customer density varies with territory. Equal work load so that the territory can be covered adequately.
Territory shape – formed by combining smaller units to give equal sales potential or workload. Must take into account the natural barriers, compatibility of adjacent areas, adequacy of transport. Influence cost and ease of coverage. Criteria such as compactness, minimum travel time and equal load or potential.
- ✓ Product: structure along product lines. Sales reps should know their product. Products are technically complex, highly unrelated and very numerous.
- ✓ Market: along the industry or customer lines. Advantage is that each sales force becomes knowledgeable about specific customer needs. Disadvantage is need for extensive travel as customers are spread throughout the country.
- ✓ Complex: wide variety of products, many types of customers, broad geographical area. Combined specialized structure.

Sales Force Size and compensation

Workload approach to establish sales force size –

1. Customers grouped into size classes according to annual sales volumes.
2. Establish for each class desirables call frequencies (no of calls on an account per year)
3. Total workload for the country in sales calls per year = no of accounts in each class multiplied by corresponding call frequency
4. Determine average calls a sales rep can make per year.

5. No of sales reps = total annual calls / average annual calls per sales rep

Attractive compensation package. Sales force would like income regularity, extra rewards for above average performance and fair payment for experience and longevity. Management would like to achieve control, economy and simplicity.

Four components of sales force compensation –

- ✓ Fixed amount – salary. Satisfy income stability
- ✓ Variable amount – commissions, bonus or profit sharing. To stimulate and reward greater effort.
- ✓ Expense allowance – enable to meet expenses involved in travel, lodging, dining and entertaining.
- ✓ Benefits – paid vacations, sickness or accident benefits, pensions, life insurance. Provide security and job satisfaction.

70% fixed + 30% in other elements.

Fixed compensation more emphasis in jobs where higher ratio of non-selling to selling activities, technically complex selling task, involves teamwork.

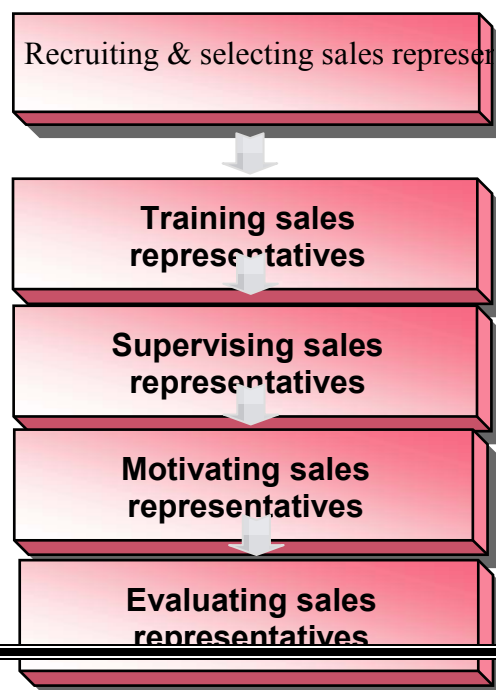
Variable compensation more emphasis in jobs where sales are cyclical and depend on individual initiatives.

Three basic types of compensation plans –

- ✓ Straight salary – secure income, more willing to perform non-selling activities and less incentive to overstock customers. Administrative simplicity and lower turnover.
- ✓ Straight commission – higher sales performance, more motivation, less supervision, control selling costs.
- ✓ Combination of two giving benefits of both reducing disadvantages.

Managing the Sales Force

Once a company has established objectives, strategy, structure, size and compensation it has to move to recruiting, selecting, training, supervising, motivating and evaluating its sales representative



Recruiting and Selecting Sales Representative

The top 27% of sales force bring in 52% of the sales. Beyond this is the great waste in hiring and training the wrong person. The average turnover in all industries is about 20%. A sales force with new people is far less productive, the financial cost only being a part of it, apart from the fringe benefits and cost the new sales man has to produce gross margins too which at least cover the costs

Selecting them: -

Asking Customers what they would like to see in a salesperson e.g. honest, reliable knowledgeable etc

Look for common traits of very successful salesmen

E.g.: -A high level of Energy, abounding self confidence, chronic hunger for money, well established habit of the industry and a challenging state of mind

Conclusion is that two major characteristics a salesman should have is *empathy* i.e. the ability to feel as the customer does and *ego drive*

After the management has set a selection criteria, it must start its recruitment. To encourage selling as a profession organizations give additional perks.

Training Sales Representative

Customers expect salespeople to have deep product knowledge to add to customer operations and to be efficient and reliable, so what we have is more investment in training. Today a few months is spent in training them 28 weeks for industrial companies, 12 in service and 4 in consumer products Training time varies with complexities of work and sales

The goals: -

- They need to know and identify with the company
- They need to know their company products
- They need to know their competitor and their products
- They need to know how to make effective presentations
- They need to understand field procedures and responsibilities

Sales automation is a new technology move and interactive trainings are in vogue

Supervising Sales Representative

New salesperson is given a territory compensation and training and ALSO supervision

Norms on customer calls

How many calls to make? And whom should they focus on

Norms on prospects calls

Time spend in prospecting a new account

Another tool is time-and-duty analysis, which helps reps understand how they spend their time and how they might increase their productivity. Sales rep spend their time in:

- ❑ Preparation: getting information and planning strategy
- ❑ Travel: sometimes amounts to 50% of the time
- ❑ Food & breaks
- ❑ Waiting: outside customer's office
- ❑ Selling
- ❑ Administration

As a result face to face selling time reduced to as little as 25% of total working time. To improve sales force productivity companies are adopting methods like training sales rep to use phone-power, using computer to develop call and routing plans and to supply customer and competitive information. There has been a growth in the internal sales force due the escalating cost of outside sales calls and the growing use of computers and innovative telecommunications equipment.

Inside sales people are of 3 types:

- ❑ Technical support people
- ❑ Sales assistants: clerical backup for outside sales persons
- ❑ Telemarketers

Inside sales force frees outside reps to spend more time selling to major accounts and other external tasks. Outside sales reps are paid on incentive-compensation basis while internal on a salary & bonus basis.

Another dramatic breakthrough is the new high-tech equipment. Salesperson has truly gone "electronic".

MOTIVATING SALES REPRESENTATIVES

Unlike some sales persons who are ambitious and self-starters, majority of sales rep need encouragement and incentives especially in the field of selling because:

- ❑ Field job is one of frequent frustration
- ❑ Most people work below capacity in absence of special incentives, such as financial gain or social recognition
- ❑ Reps are occasionally preoccupied with personal problems

Higher motivation leads to greater effort which leads to greater performance leading to greater rewards resulting in greater satisfaction which again reinforces motivation. Thus,

- ❑ Sales managers must be able to convince salespeople that they can sell more by working harder or by being trained to work smarter.
- ❑ Sales managers must be able to convince salespeople that the rewards for better performance are worth the extra effort.

Reward with highest value was pay while liking, respect were least valued. Importance of motivation varied with demographic characteristics:

- ❑ Financial rewards were most valued by older, longer-tenured people and those with large families
- ❑ Higher order rewards (recognition, liking, respect, etc) were most valued by young, unmarried or having small families sales people.

Sales Quotas

Many companies must set sales quotas prescribing what reps should sell during the year. Quotas can be set on dollar sales, unit volume, margin, selling effort or activity, and product type. Compensation is often tied to degree of quota fulfillment.

Quotas are set higher than the sales forecast to encourage managers and sales people to perform at their best. If they fail to make their quotas, the company nevertheless makes its sales forecast.

3 schools of thought on quota setting:

- ❑ High quota school sets quotas higher than what sales reps will achieve but that are attainable to spur extra efforts.
- ❑ Modest quota school sets quotas that a majority can achieve
- ❑ Variable quota school thinks that individual differences among sales reps warrant this kind of quota also for some.

Generally the salesperson's quota should be at least equal to the person's last year's sales plus some fraction of the difference between territory sales potential and last year's sales.

Supplementary motivators

Additional motivators to stimulate sales force effort. Eg periodic sales meetings as a social occasion, chance to meet and talk with the "company brass" and identify with a larger group. Sponsoring sales contests with promise of reward to the winners but for fairplay the contest period should not be announced in advance.

Evaluating sales representatives

Feed forward aspects of sales supervision- how management communicates what the sales force should be doing and motivates them to do it. Good feed forward requires good feedback, which means getting regular information from reps to evaluate performance.

Sources of Information about representatives

Such as sales reports, personal observation, customer letters and complaints, customer surveys and conversations with other sales representatives.

Sales reports are divided between activity plans and write ups of activity results. A best example of the former is salesperson's workplan, which sales reps submit a week or month in advance. The plan describes intended calls or routing. This report forces the sales reps to plan and schedule their activities, informs management of their whereabouts, and provides a basis for comparing their plans and accomplishments. Sales reps can be evaluated on their ability to "plan their work and work their plan"

Many companies also want sales reps to develop an annual territory marketing plan in which they outline their program for developing new accounts and increasing business from existing accounts. This type of report casts sales reps into the role of market managers and profit centers. Sales managers study these plans, make suggestions and use them to develop sales quotas.

Sales reps write up completed activities on call reports. Sales representatives also submit expense reports, new business reports, lost business reports and reports on local business and economic conditions.

These reports provide raw data from where sales managers can extract key indicators of sales performance. Eg average no. of sales calls per sales person per day, average sales call time per contact, average cost per sales call, entertainment cost per sales call, percentage of orders per sales call, no. of new/ lost customers per period.

Formal Evaluation

One type of evaluation is to compare current performance with past performance. This can be evaluated against sales increase across products, gross profits, sales expense, lost customers, trend in sales and gross profits per customer, annual number of calls, etc and then analysed.

The customer's opinion of the salesperson, product and service can be measured by mail questionnaires or telephone calls.

Evaluation can assess the sales person's knowledge of the company, products, customers, competitors, territory and responsibilities. Personal characteristics can be rated such as general manner, appearance, speech and temperament. The sales manager can also review any problems in motivation and compliance.

Sales manager can check whether the representative knows and observes the law. Eg representative's statements must match advertising claims, giving bribe to influence sales, industrial espionage, disparaging competitors through lies.

Principles of personal selling:

Three major aspects of personal selling:

- ❖ Sales professionalism
- ❖ Negotiation
- ❖ Relationship marketing

Professionalism:

All sales training approaches try to convert the salesperson from a passive order taker to an active order getter.

There are 2 approaches in training salespersons to be order getters:

- ❖ Sales oriented approach:
The sales oriented approach trains the person in high-pressure techniques. This form of selling assumes that customers are not likely to buy except under pressure.
- ❖ Customer oriented approach
Trains salesperson in customer problem solving. The person learns how to listen and identify customer needs and come up with sound product solutions. This assumes that customers have latent needs that constitute opportunities and that they appreciate constructive suggestions and that they will be loyal to sales reps who have their long term interests at heart

Major steps in effective selling

- ❖ Prospecting and qualifying
Most companies leave this to sales person. But now companies are taking this on and leaving salespersons to spend their expensive time selling. Companies can generate leads thru
 - Examining data sources like newspapers in search of names
 - Putting up booths at trade shows to encourage drop bys
 - Inviting current customers to drop names of prospective
 - Cultivating referral sources
 - Contacting organizations and associations to which prospects belong
 - Dropping in unannounced on various offices (Cold canvassing)
- ❖ Preapproach

The sales person needs to learn as much as possible about the prospective company and its buyers and decide about the best approach to approach the prospective customer

- ❖ Approach

The sales person should know how to greet the buyer to relationship off to a good start.

- ❖ Presentation and Documentation

The salesperson now tells the product story to the buyer following the AIDA formula of getting attention, holding interest, arousing desire and obtaining action. The salesman uses A FABV approach that is features, advantages, benefits and value approach

Features: basic characteristics

Advantage: why features are advantageous

Benefits: economic technical etc advantage

Value: Summative worth

Companies have three diff styles of sales presentation

- Canned approach: which is a memorized sale talk covering the main points. Based on stimulus response thinking
- Formulated approach: also uses stimulated response thinking. However it identifies the buying style and then uses a formulated approach to this type of buyer
- Need Satisfaction approach: starts with a search of the customers real needs by encouraging customer to do most of the talking

❖ Overcoming objections;

Customers always pose objections during presentations or when asked to order. Psychological resistance includes resistance to interference, preference for established supply sources of brands, apathy, and reluctance to give up some association etc Logical resistance is customers objections to price delivery scheduled etc.

❖ Closing

Now the salesperson attempts to close the sale. Salespersons need to recognize closing signs from a buyer.

❖ Follow up and maintenance:

This is important to ensure customer satisfaction and repeat business

Negotiation

Marketing is concerned with exchange activities and the manner in which the exchange is established. In routinized exchange administered programs of pricing and distribution establish the terms

In negotiated exchange price and other terms are set via bargaining behavior.

The skills requires in bargaining situations are preparation and planning skill, knowledge of subject matter being negotiated, ability to think clearly.

When to negotiate

According to Lee and Dobler:

- ❖ When many factors bear not only on price but also on quality and service
- ❖ When business risks can not be accurately predicted
- ❖ When a long period id required to produce the items purchased
- ❖ When production is frequently interrupted because of numerous change

Negotiation is appropriate whenever a zone of agreement exists that is when there are simultaneously overlapping acceptable outcomes for the parties. The seller has a

reservation price that is the lowest we will accept and the buyer has a reservation price that is the maximum he will pay.

Formulating a negotiation strategy

A negotiation strategy is a commitment to an overall approach that has a good chance of achieving the negotiators objectives.

Fisher and Ury propose a strategy of “principled negotiation”

4 points under the same

- ❖ Separate the people from the problem: understand each others view point
- ❖ Focus on interests not on positions: the distinction between positions and interests is the similar to that between solutions and desired outcomes or means and ends
- ❖ Invent options for mutual gain: search for a larger pie than fighting for each others share
- ❖ Insist on objective criteria: this approach avoids a situation in which one must yield to the position of the other. Instead both reach amiable solutions.

Bargaining tactics are maneuvers made at specific points in the bargaining process.

If the other party is stronger use BATNA: best alternative to a negotiated agreement

Classic bargaining tactics:

Acting crazy: demonstrating Ur position thru emotional commitment to Ur position

Big pot: leave urself a lot of room to negotiate. Start with high demands

Get a prestigious ally

The well is dry: you have no more concessions to make.

Limited authority: u pretend to act on someone’s behalf

Whipsaw/auction: u let them know I are negotiating with competitors at the same time

Divide and conquer: sell one member with ur proposals

Get lost/stall for time

We noodle: give no emotional or verbal response to the opponent

Be patient: outwait Ur opponent

Lets split the difference: the person who suggests this has less to loose

Trial balloon: u release ur possible decision through a so called reliable source before the decision is already made

Surprises

Relationship marketing

Companies aim at creating long term relationships with their customers. Neil Rackham adopted the SPIN selling that is Situation problem implementation, need-payoff. He trains salesperson to raise 4 types of questions with a prospect

- ❖ Situation: ask abt the buyers present situation
- ❖ Problem questions: deal with problems difficulties and dissatisfaction that the buyer is facing
- ❖ Implication questions; they ask abt the consequences or effects of a buyers problems difficulties

- ❖ Need Payoff Questions: these ask about the value or usefulness of a proposed solution.

More companies are moving from transaction marketing to relationship marketing. Relationship marketing is based on the premise that Customers need focused and continuous attention.

Chapter 21 Managing Direct and Online Marketing

“More of today’s marketing is moving from marketplace to cyberspace”

Explosion of media- direct selling without intermediaries

Existing- print, broadcast, catalogs, direct mail and tele-marketing
Complemented by- fax machines e-mail, the Internet and on-line services.

Usage: Direct Market and identifying new prospects. –target offers and measure results more effectively.

Definition of Direct Marketing:

Direct Marketing is an interactive marketing system that uses one or more advertising media to effect a **measurable response** and/or transaction at any location.
Emphasis- measurable response- typically a customer order thus, Direct Marketing is also called direct order marketing.

Broader Role: building long term relationship (direct relationship marketing).
Birthday Cards, Information materials, frequency award programs and club programs.

Growth of direct marketing and electronic business

Sales through direct marketing channels growing rapidly- 7% in 1997 US, retail sales 3%

Consumer market: 53%
B2B market 27%
Charitable institutions 20%
Catalogue sales: \$328 billion Annually
Per Capita Annual Direct Sales: \$630

Reasons of growth in direct marketing

- Market “demassification” – ever increasing number of market niches – distinct preferences
- Factors that Encourage Home Shopping:
 - High costs of driving, traffic congestion, parking headaches, lack of time, shortage of retail sales help, queues at checkout counters
- Consumers appreciate- 24/7 availability of toll free numbers and commitment to customer service.
- Many retail chain stores- dropped slow moving specialty items-opportunity for direct marketers.
- Growth of affordable computer power and customer databases

- Business marketers – direct marketing increased- high marketing costs for reaching out to business markets through sales force.
- Explosive growth in electronic communication, McKinsey estimates e-commerce sales could grow to \$327 billion by 2002. “Information superhighway”- revolutionizing e-commerce.
- E-business- electronic means- Research, communicate and potentially transact
- E-markets- sponsored websites- describe products and services offered by sellers; allows buyers to search information, identify their need, place order= physical delivery of goods.

Benefits of direct marketing:

Buyers

- Home shopping- fun, convenient and hassle free, time saving, larger variety.
- Comparative shopping possible- browsing through online catalogues.
- Somebody else other than buyer can order goods.
- Business customers- learn about new products & services- time saved in meeting sales people.

Sellers

- Buy mailing lists- any group : left handed, overweight, millionaires
- Personalize and customize the messages- build continuous relationship with customers
Nestle’s baby food division- database of new mothers, mails 6 personalized package of gifts and advice on key stages in baby’s life.
- Reach prospects at the right time- direct marketing material – higher readership - timing
- Testing of media and messages- most cost effective
- Strategy is less visible to competitors
- Measure responses to their campaign – which is most profitable

The growing use of Integrated Direct Marketing

Although online and direct marketing is booming, a large no. of companies relegate- lower importance.

Advertising and sales-promotion budgets- most communication dollars

Threat to sales force

Companies- increasingly recognizing the importance of *integrated marketing communications*

Chief Information Officer +

Chief Communications Officer => supervises specialists in advertising, sales promotion, public relations and direct-online marketing. Overall communication budget- right allocation.

Single tool for one shot marketing effort- significantly lower costs

Response compression- multiple media deployed in a tightly defined time frame, increases message reach and impact. – deploy a sequence of messages with precise timing intervals in the hope of generating incremental sales and profits to exceed the costs involved.

Direct marketing techniques a driving force in general marketing process; a full partner.

Maximarketing- a comprehensive set of steps to reach a prospect, making the sale and developing a relationship

1. Maximized targeting- define identify best prospects
2. Maximized media – examine exploding media variety
3. Maximized accountability – evaluating campaigns – cost per prospect response
4. Maximized awareness- searching messages which will affect the prospect
5. Maximized activation – advertising must trigger response/ measurable higher stage of buyers' interest.
6. Maximized synergy – doing double duty with advertising
7. Maximized linkages calls- linking advertising with sales, concentrating on prospects and converting them.
8. Maximized sales database building calls- cross selling, upgrading etc.
9. Maximized distribution building additional channels to reach prospects and customers .

Citicorp, IBM, At&T, IBM , Ford and American Airlines- used integrated marketing profitably

Customer Databases and Direct Marketing

Knowing individual customers- customize their product, offer, message, shipment method- maximize the customer appeal.

Customer database is an organized collection of comprehensive data about individual customers or prospects that is current, accessible and actionable for such marketing purposes such as lead generation, lead qualification, sale of product or service or maintenance of customer relationships.

Database marketing is the process of building, maintaining and using customer databases and other database (products, suppliers, resellers) for the purpose of contacting and transacting.

Mailing list- simply a list of names, address and telephone numbers.

Customer Database- more information,

Business to business: purchasing history, team members', current status, share of customers' total business etc., strengths and weaknesses in servicing that account.

Consumer Marketing: demographics, psychographics, past purchases and other relevant information.

Database marketing : frequently used in business marketing and service retailers
 Less used by packages goods retailers and consumer packaged companies.

Well developed customer database – a proprietary asset- competitive edge.

Database information- target market precision (much more than it can be by segment marketing, mass marketing or niche marketing)

Company can identify small groups of customers who receive fine tuned marketing offers and communications.

Data warehousing and Data mining to do that.

Mass marketing versus One to One Marketing

Mass Marketing	One to One Marketing
Average customer	Individual customer
Customer anonymity	Customer profile
Standard product	Customized market offering
Mass production	Customized production
Mass distribution	Individualized distribution
Mass advertising	Individualized message
Mass promotion	Individualized incentives
One way messages	Two way messages
Economies of scale	Economies of scope
Share of market	Share of customer
All customers	Profitable customers
Customer attraction	Customer retention

Companies use their database in four ways:

1. To identify prospects
2. To decide which customers should receive a particular offer: Setting up critical criteria describing the ideal target customer for an offer.
3. To deepen customer loyalty: build interest and enthusiasm by remembering customer preferences; by sending appropriate gifts, discount coupons, and interesting reading material.

4. To reactivate customer purchases: company can make attractive or timely offers through automatic marketing like birthday mailers

MAJOR CHANNELS FOR DIRECT MARKETING

The different channels are:

- 1) Face- to Face Selling
- 2) Direct mail
- 3) Catalog Marketing
- 4) Telemarketing
- 5) TV, kiosk marketing
- 6) On-line channels

Face to Face Selling

Original and oldest form: Direct field sales call
Nowadays companies use professional sales force

Direct Mail

Sending an offer, announcement, reminder, or other item to a person at a particular address. Highly selective mailing lists employed.
eg: letters, flyers, folders etc

This is a popular media because:

- Permits target selectivity
- Can be personalized
- Is flexible
- Allows early testing
- Allows response measurement

Types of mailers:

1. Paper based
2. Fax mail
3. E-mail
4. Voice mail

For an effective direct mail campaign, direct marketers must decide on their objectives, target markets & prospects, offer elements, means of testing the campaign and measures of campaign success:

Objectives:

Main aim is to receive an order from prospects. Success is judged by the response rate.

Other objectives include producing prospect leads, strengthening customer relationships, and informing and educating customers for later offers.

Target markets and prospects:

- **Identify characteristics of prospects**
- **Apply RFM formula: Recency, frequency, monetary amount for rating & selecting customers**
- **Can also be identified on the basis of age, sex, income, education, previous purchase, occasions**
- **Prospect in b2b marketing is a group of people including both decision makers and multiple decision influencers.**

Offer Elements -

- 1) The product
- 2) The offer
- 3) The medium
- 4) The distribution method
- 5) Creative strategy

In addition to the above offer elements the direct mailer has to decide on five components of the mailing itself. These are:

- The outside envelope which is more effective if it contains an illustration, a picture or a catchy headline
- The sales letter which should use a personal salutation and start with a headline in bold type
- A colorful circular accompanying the letter will increase the response rate by more than its cost
- Better results are obtained when the reply form features a toll-free number and contains a perforated receipt stub and guarantee of satisfaction
- The inclusion of a postage free envelope will dramatically increase the response rate.

Testing Elements

- One of the advantages of direct marketing is the ability to test, under real marketplace conditions, the efficacy of different elements of an offer strategy
- Response rates typically understate a campaign's long-term impact
- To derive a more comprehensive estimate of the promotion's impact, companies should measure impact on awareness, intention to buy and word of mouth

Measuring Campaign Success: Lifetime Value

- By adding up the planned campaign costs, the direct marketer can figure out in advance the needed break-even response rate

- This rate must be net of returned merchandise and bad debts. Returned merchandise can kill an otherwise effective campaign
- By analyzing past campaigns, direct marketers can steadily improve their performance
- After assessing customer's lifetime value (expected profit made on all future purchases net of customer acquisition and maintenance costs), company can focus its efforts on the more attractive customers.

Catalog Marketing

- This occurs when companies mail one or more product catalogs to selected addresses. They may send full merchandise catalogs, specialty consumer catalogs and business catalogs usually in print form or even CDs video, online.
- The number of catalogs streaming into the consumers mailboxes not the only measure of growth in this business
- Huge boost from the internet- about $\frac{3}{4}$ of catalog companies present merchandise and take orders over the internet
- Success depends on a company's ability to manage its customer lists so carefully that there is little duplication or bad debts, to control its inventory carefully, to offer quality merchandise so that returns are low and to project a distinctive image.
- American companies flourish in Japan because they offer high quality merchandise aimed at specific groups
- By putting their entire catalogs on-line and on the Internet, catalog companies have better access to global consumers than ever before.

Telemarketing

- Describes the use of telephone operators to attract new customers, to contact existing customers, to ascertain satisfaction levels or to take orders.
- Routinely taking orders is called telesales.
- Systems are totally automated – Automated dialing and recorded message players (ADRMPS) can dial numbers, play voice-activated advertising messages and take orders from interested customers.
- Increasingly used for business as well as consumer marketing.
- As telemarketing improves with the help of videophones, it will increasingly replace, expensive sales calls
- Effective telemarketing depends on choosing the right telemarketers, training them well and providing performance incentives
- Given privacy issues and higher cost per contract, precise list selection is critical.

OTHER MEDIA FOR DIRECT RESPONSE MARKETING

Direct marketers use all of the major media to make direct offers to potential clients

Direct marketers in three ways to promote direct sales use TV

1. **Direct-response advertising:** -e.g. Infomercials i.e. ads like documentaries (quit smoking etc) which have testimonies etc. these are very profitable and are used to good effect to sell high ticket items. They share the products story and benefits with other benefits at cost per lead that usually matches that of direct mail or print ads
2. **At home shopping channels:** -E.g. tele shopping network (TSN)
3. **Videotext and interactive TV:** -Consumers TV is linked to the sellers catalog by cable and consumer can place order through special lines and special keyword

Kiosk Marketing: -

Some companies have designed a 'customer order placing machine' called kiosks and place them in airports etc where they can place orders

Marketing in the 21st century: -E commerce

It's a wide variety of electronic platform such as the sending of purchase orders to suppliers via electronic data interchange EDI, eg ATMs Smart cards, internet shopping

All these involved doing business in market space as compare to a physical marketplace. Underlying two basic phenomenons: Digitalization *and connectivity*

Digitalization consists of converting text, data sound image into a stream of 'bits' that can be dispatched at a high speed

Connectivity is through Extranet and Intranet creating an information highway

Most regular sales on the net are airline tickets, software and hardware. Business transaction over the Internet is at higher volume and covers a greater variety of goods and services

The e commerce channels are of two types: -

Commercial channels: -

Online information and marketing services that can be accessed by those who have signed up at a monthly fee. These provide information, entertainment and shopping opportunities (AMERICA ONLINE)

The Internet: -

It's a global web of computer network and has made a decentralized and instantaneous global communications i.e. the www worldwide web. Internet is free and easily accessible

Internet search engines like yahoo give consumers access to varied information sources, making them better informed and more discerning shoppers. Buyers gain the following:

- Objective information for multiple brands including costs, prices, features, and quality

- ❑ Initiate requests for advertising and information from manufacturers
- ❑ Design the offerings they want
- ❑ Use software agents to search for and invite offers from multiple sellers

Thus exchange process in the age of information has become customer initiated and customer controlled. Marketers and their representatives are held at bay till the customers invite them to participate in the exchange.

Examples to show how people can use internet to buy automobiles or get home mortgage loans:

- ❑ Edmunds (www.edmunds.com): This site provides unbiased, third party information and advice on buying autos.
- ❑ Homeowner (www.homeowner.com): Prospective home buyers can research home mortgage rates and interest trends, use financial tools to analyze loans, and sign up for an e-mail service that keeps them informed of trends in loan rates.

ONLINE MARKETING ADVANTAGES & DISADVANTAGES

3 major benefits to potential buyers:

- ❑ Convenience
- ❑ Information
- ❑ Fewer hassles

Benefits to marketers:

- ❑ Quick adjustments to market conditions
- ❑ Lower costs
- ❑ Relationship building: dialog with consumers
- ❑ Audience sizing: how many visited their site

Marketers are adding on-line channels to find, reach, communicate and sell. 5 advantages of online marketing:

- ❑ Small & large forms can afford it
- ❑ No limit on ad space
- ❑ Fast Information access & retrieval
- ❑ Site can be visited by anyone anywhere
- ❑ Shopping can be done privately and swiftly

The internet is less useful for products that must be touched or examined in advance. But an exception to this is buying and selling computers from Dell or Gateway. Another example is Calyx & Corolla (C&C) a direct floral retailer where orders can be placed on phone or on web site.

Conducting on-line marketing

Marketers can do on-line marketing by creating an electronic presence on the inter-net; placing ads on-line; participating in forums, newsgroups, bulletin boards, and Web communities; and using e-mail and Webcasting.

Electronic presence

Thousands of businesses have established a presence on the Internet. Many of these Web sites offer users a wide variety of services.

A company can establish an electronic presence on the Web in two ways: It can buy space on a commercial on-line service or it can open its own Web site. Buying a location on a commercial service involves renting storage space on the on-line service's computer or establish a link from the company's own computer to the on-line service's shopping mall. The on-line services typically design the storefront for which the company pays the on-line service an annual fee plus a small percentage of the company's on-line sales.

Alternatively, tens of thousands of companies have created their own Web sites, typically aided by a professional Web design agency. These sites take two basic forms:

Corporate Web site: A company offers basic information about its history, mission and philosophy, products and services, and locations. It might also offer current events, financial performance data, and job opportunities. These sites are set up to answer customer questions by e-mail, build closer customer relationships and generate excitement about the company. They are designed to handle interactive communication initiated by the consumer. Ironically, a recent study has revealed that the fast-moving Silicon Valley firms, which pushed the Internet revolution, fall down in providing basic corporate information. The lesson for marketers: Pay attention to the basics, such as providing names, phone numbers and dates and making it easy for customers to purchase products on-line.

Marketing Web site: This kind of Web site is designed to bring prospects and customers closer to a purchase or other marketing outcome. The site might include a catalog, shopping tips, and promotional features such as coupons, sales events, or contests. In order to attract visitors, the company promotes its Web site in print and broadcast advertising and through banner ads that pop up on other Web sites.

A key challenge is designing a Web site that is attractive on first view and interesting enough to encourage repeat visits. Early Websites were mainly text based. They have increasingly been replaced by graphically sophisticated Web sites that provide text, sound, and animation. To encourage revisits, companies run fresh news and feature stories, contests, and special offers.

Not only must companies make sure their Web sites are well designed and informative, they must also be certain they are not unwittingly stranding surfers – and potential customers – in cyberspace. Most marketers plaster the same URL on all their promotional literature. Yet if someone is drawn to the site in search of specific product information, he usually has to wade through several irrelevant pages (e.g. company mission, CEO's address etc). This problem has led many companies to develop "microsites" – small, specialized Web sites for specific occasions or products. Big motion studios create separate Web sites for different movies. Others too are considering something similar: new product launches, promotional campaigns, contests, recruiting, crisis communication, etc. Companies should consider developing a microsite for any situation in which specific, detailed information needs to be made available quickly and easily.

Advertising On-line

Companies can place on-line ads in three ways. They can place classified ads in special sections offered by the major commercial on-line services. Ads can also be placed in certain Internet newsgroups that are set up for commercial purposes. Finally, the company can pay for on-line ads that pop up while subscribers are surfing on-line services or Web sites. These include banner ads, pop-up windows, tickers (banners that move across the screen) and roadblocks (full screen ads that users must click through to get to other screens).

Web advertising costs are reasonable as compared with those of other advertising media. Still, surfers ignore most banner ads. One measure is the “click-through rate” showing how many computer users point their mouse at an ad and ask for more information. When rates get to be less than one percent, advertisers worry that they have picked the wrong site. Advertisers are clamoring for better measures of advertising impact. Web advertising is still playing only a minor role in the promotion mixes of most advertisers.

Forums, newsgroups bulletin boards and Web communications.

Forums are discussion groups located on commercial online services. A forum may operate a library, a “chat room” for real-time message exchanges and even a classified ad directory.

Newsgroups are the Internet version of forums. However, these groups are limited to people posting and reading messages on a specified topic. Internet users can participate in newsgroup without subscribing.

Bulletin board systems (BBSs) are specialized on-line services that center on a specific topic or group. Marketers can participate in newsgroups and BBSs but must avoid introducing a commercial tone into these groups.

Web communities are commercially sponsored Web sites where members congregate on-line and exchange views on issues of common interest.

On-line buyers increasingly create product information not just consume it. They join Internet interest groups to share product-related information; with the result that “word of Web” is joining “word of mouth” as an important buying influence.

E-mail and Webcasting

Companies can also sign on with any of a number of Webcasting services. For a monthly subscription fee, customers can sit back while the Webcaster automatically delivers information of interest to their screens. Called “push” programming, on-line marketers see this as an opportunity to deliver information and ads to subscribers without the subscriber having to make a request. Webcaster must be careful however not to overload subscribers with “junk e-mail”.

A company can encourage prospects and customers to send questions, suggestions and even complaints to the company via e-mail. Customer service reps can quickly respond

to these messages. The company may also develop Internet-based electronic mailing lists. Using the lists, on-line marketers can send out customer newsletters, special product or promotion offers based on purchasing histories, reminders of service requirements or warranty renewals, or announcements of special events.

However, one must guard against developing the reputation of a “Spammer” – Spam is the term for unsolicited e-mail.

Web communities are commercially sponsored web sites where members congregate online and exchange views on issues of common interest.

Webcasting – a service that automatically downloads customized information to the recipient’s PC. For a monthly fee, subscribers can get information on their topics of interest automatically downloaded. A form of “push programming”

Challenges of online marketing

Consumers ability to order direct will hurt groups like travel agents, stock brokers, insurance salespeople, car dealers, book store owners.

Infomediaries- online intermediaries who help consumers shop more easily and obtain lower prices.

Other challenges are:

- Limited consumer exposure and buying
- Skewed demographics and psychographics
- Chaos and clutter
- Security
- Ethical concerns
- Consumer backlash – consumers have more power through a means of expressing their disgruntlement.

Email marketing model is centered on permission- based marketing.

For successful email marketing:

- Give the customer a reason to respond
- Personalize the content of your emails
- Offer something the customer could not get via direct mail

Ethical issues in direct marketing

Irritation – people find it bothersome.

Unfairness

Deception and fraud

Invasion of privacy

CHAPTER 22 Managing the Total Marketing Effort

The marketing organization will have to redefine its role from managing customer interactions to integrating all the company's customer-facing processes.

The main responses of business firms to a rapidly changing environment have been:

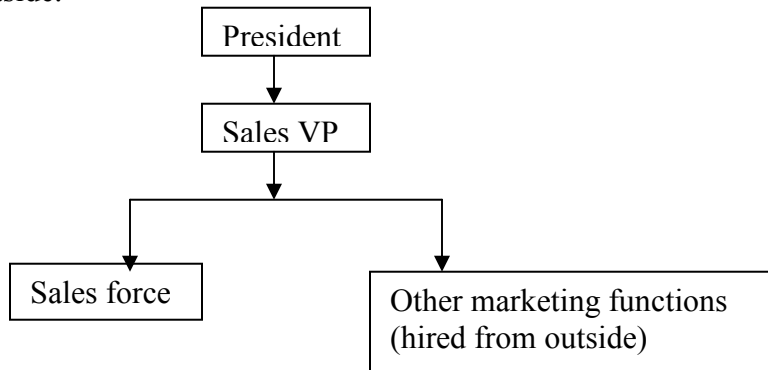
- **Reengineering:** Appointing teams to manage customer-value building processes and trying to break down department walls between functions.
- **Outsourcing:** A greater willingness to buy more goods and services from outside vendors when they can be obtained cheaper and better this way.
- **Benchmarking:** Studying 'best practice companies' to improve the company's performance.
- **Supplier partnering:** Increased partnering with fewer but larger value-adding suppliers
- **Customer partnering:** working more closely with customers to add value to their operations.
- **Merging:** Acquiring or merging with firms in the same industry to gain economies of scale and scope.
- **Globalizing:** Increased effort to both 'think global' and 'act local'.
- **Flattening:** Reducing the number of organizational levels to get closer to the customer.
- **Focusing:** Determining the most profitable businesses and customers and focusing on them.
- **Empowering:** Encouraging and empowering personnel to produce more ideas and take more initiative.

The role of marketing in a networked enterprise is to integrate all customer-facing processes so that customers see a single face and hear a single voice when they interact with the firm.

Evolution of the marketing department

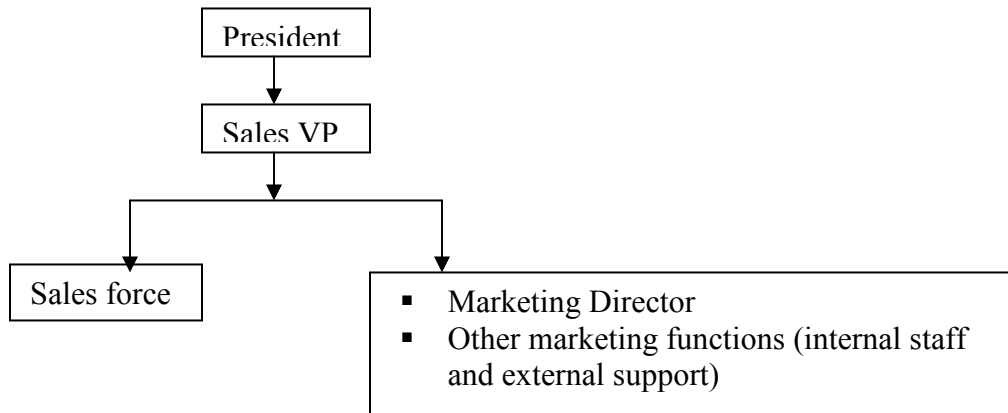
Stage 1: Simple Sales Department

Small companies typically have a Sales Vice President who manages a sales force and also does some selling. For marketing research or advertising, the VP hires help from outside.



Stage 2: Sales Department With Ancillary Marketing Functions

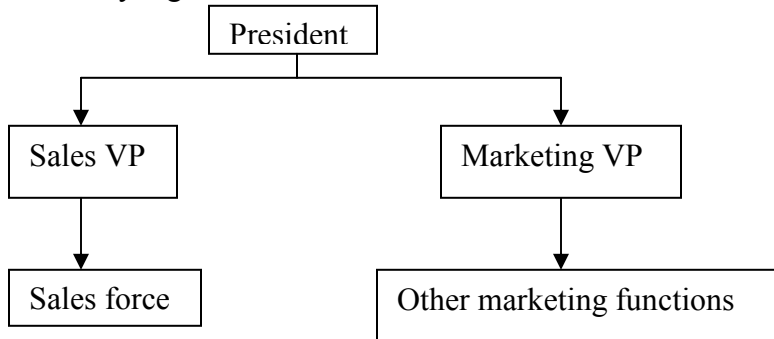
As the company expands, it adds certain functions. When the company needs to enter new markets, it requires market research to learn about customer needs and market potential. It will have to advertise its name and products in the area. The Sales VP will hire a marketing research manager and an advertising manager to handle these activities. He may hire a Marketing Director to manage these and other marketing functions.



Stage 3: Separate Marketing Department

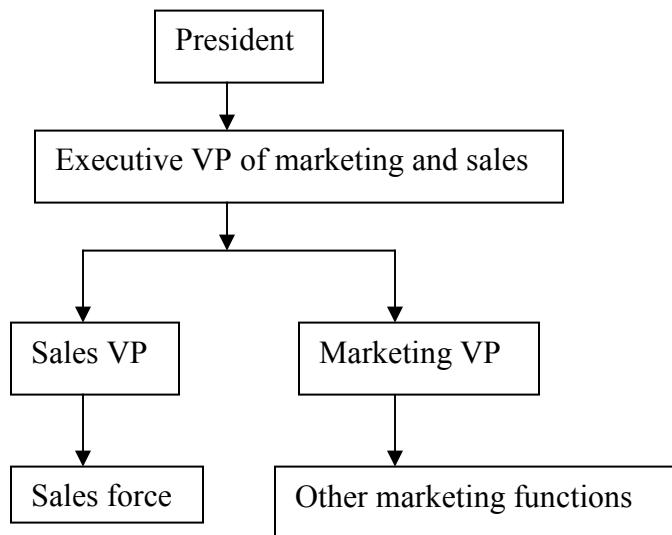
The continued growth of the company will warrant additional investment in marketing research, new-product development, advertising and sales promotion and customer service. But the Sales VP normally focuses time and resources on sales force. Eventually the CEO sees the advantage of establishing a separate marketing department headed by a

Marketing VP. At this stage, sales and marketing are separate functions that are expected to work closely together.



Stage 4: Modern Marketing Department

Although the sales and marketing VPs should work together, their relationship is often strained and marked by distrust. Modern Marketing Department is headed by a marketing and sales executive VP with managers reporting from every marketing function, including sales.

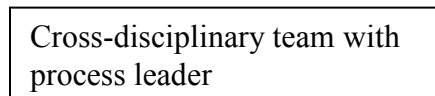


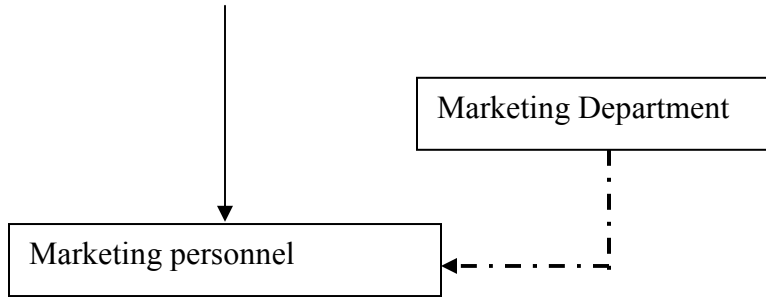
Stage 5: Effective Marketing Company

Only when all the employees realize that their jobs are created by customers does the company become an effective marketer.

Stage 6: Process And Outcome Based Company

Many companies are now refocusing their structure on key processes rather than departments. In the interest of achieving customer-related process outcomes, companies are now appointing process leaders who manage cross-disciplinary teams. As a result, marketing personnel may have a solid-line responsibility to their teams and a dotted-line responsibility to the marketing department.





Organizing the Marketing Department

Functional Organization

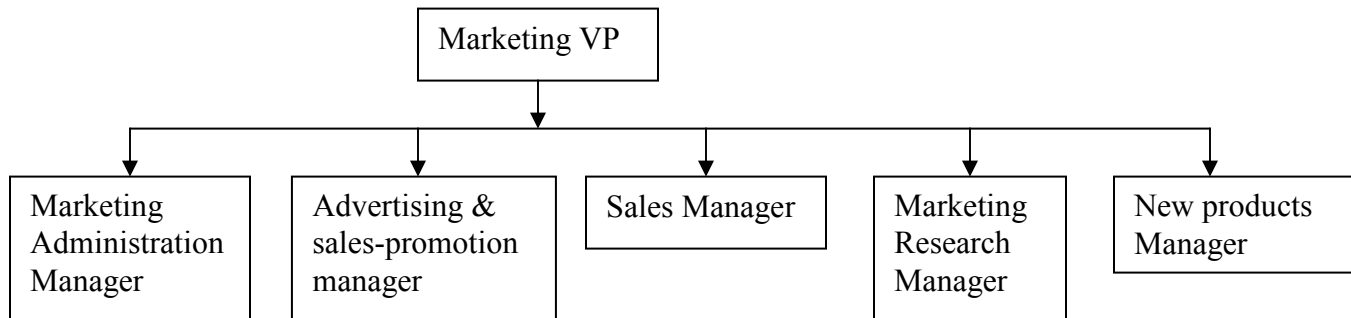
It consists of functional specialists reporting to a Marketing VP, who coordinates their activities. Cespedes has urged companies to improve the critical interfaces among field sales, customer service and product management groups because they collectively have a major impact on customer satisfaction.

Advantages:

- Administrative simplicity

Disadvantages:

- A functional organization often leads to inadequate planning for specific products and markets. Products that are not favored by anyone are neglected.
- Each functional group competes with the other functions for budget and status.



Geographic Organization

A company selling in the national market often organizes its sales force along geographic lines. The national sales manager may supervise four regional sales managers, who each supervise six zone managers, who in turn supervise eight district sales managers, who supervise ten sales people. Companies also have area market specialists to support sales efforts in high-volume distinctive markets. Improved information and marketing research technologies have also spurred regionalization. Data from retail-store scanners allow

instant tracking of product sales, helping companies to pinpoint local problems and opportunities.

McDonald's spends about 50% of its total advertising budget regionally. American Airlines realized that the travel needs of Chicagoans and Southwesterners are very different during the winter months. Anheuser-Busch has subdivided its regional markets into ethnic and demographic segments, with different ad campaigns for each.

Regionalization may be accompanied by a move toward *branchising*. Branchising means empowering the company's districts or local offices to operate more like franchises. The branches resemble profit centers and local managers have more strategy latitude and incentive.

Product- or Brand-Management Organization

Companies producing a variety of products and brands establish a product or brand management organization. It makes sense only if the company's products are quite different, or if the sheer number of products is beyond the ability of a functional marketing organization to handle. The product management organization does not replace the functional management organization but serves as another layer of management.

Kraft uses product management in its Post Division. Separate product category managers are in charge of cereals, pet food and beverages. Within the cereal group, there are separate sub-category managers for nutritional cereals, children's presweetened cereals, family cereals and miscellaneous cereals.

Product and brand managers have these tasks:

- Developing a long-range and competitive strategy for the product
- Preparing an annual marketing plan and sales forecast
- Working with advertising and merchandising agencies to develop copy, programs, and campaigns.
- Stimulating support of the product among the sales force and distributors.
- Gathering continuous intelligence on the product's performance, customer and dealer attitudes, and new problems and opportunities.
- Initiating product improvements to meet changing market needs.

Advantages:

- The product manager can concentrate on developing a cost-effective marketing mix for the product.
- He can react more quickly to problems in the market place than a committee of functional specialists can.
- The company's smaller brands are less neglected because they have a product advocate.

Disadvantages:

- Typically product managers are not given enough authority to carry out their responsibilities effectively. They have to rely on persuasion to get the cooperation of advertising, sales, manufacturing and other departments. They are burdened with a great amount of paperwork.

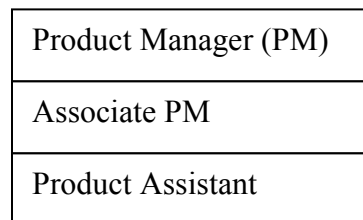
- Product managers become experts in their product but rarely achieve functional expertise.
- Product management system often turns out to be costly. Product managers are appointed for even minor products; each overworked product manager pleads for an associate brand manager. Meanwhile the company continues to increase its functional specialists in copy, packaging, media, sales promotion etc. Soon, payroll costs climb and the company is saddled with a large and costly structure.

Pearson & Wilson have suggested 5 steps to make product management work better:

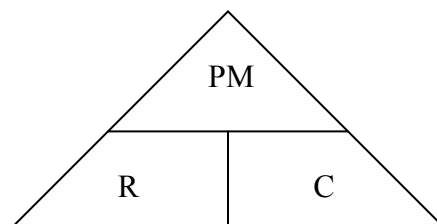
- Clearly delineate the limits of the product manager's role and responsibility.
- Build a strategy-development and review process to provide a framework for the product manager's operations.
- Take into account areas of potential conflict between product managers and functional specialists when defining their respective roles.
- Set up a formal process that forces to the top all conflict of interest situations between product management and functional line management.
- Establish a system for measuring results consistent with the product manager's responsibilities.

A second alternative is to switch from product managers to product teams. There are 3 types of product-team structures in product management.

Vertical Product team: The product manager is the leader and deals with other managers to gain their cooperation. The associate product manager assists in these tasks and also does some paperwork. The product assistant carries out most of the paperwork and routine analysis.



Triangular Product team: Product manager and 2 specialized product assistants one who takes care of marketing research and other, marketing communications. Eg. Hallmark Company



PM – Product Manager

R – Market Researcher

C – Communication Specialist

Horizontal Product team: Product manager and several specialists from marketing and other functions. 3M has teams consisting of a team leader and representatives from sales, marketing, laboratory, engineering etc.

Product Manager					
R	C	S	D	F	E

S – Sales Manager
D – Distribution Specialist
F – Finance/ Accounting Specialist
E - Engineer

A third alternative is to eliminate product manager positions for minor products and assign 2 or more products to each remaining manager. This is feasible where 2 or more products appeal to a similar set of needs.

A fourth alternative!! Is to introduce category management, in which a company focuses on product categories to manage its brands. Eg. **General Motors** (Cadillacs, Buicks, Pontiacs, Chevrolets, Oldsmobiles), **Kraft**

Market-Management Organization

When customers fall into different user groups with distinct buying preferences and practices, a market management organization is desirable.

E.g. Cannon selling its fax machines to consumer, business, and government markets.

A markets manager supervises several market managers (also called market-development managers, market specialists, or industry specialists).

Market managers develop long-range and annual plans for their markets. They analyze where there market is going and what new products their companies should offer to this market. Performance is judged by their market’s growth and profitability.

Advantage:

1. Marketing activity is focused to meet the needs of distinct customer groups rather than focused marketing functions, regions, or products per se.

Many companies are reorganizing along market lines and becoming *market-centered organizations*.

E.g. *Xerox* has moved from geographic selling to selling by industry. *IBM* has organized its 235000 employees into 14 customer-focused divisions.

Product-Management/Market-Management Organization

Companies that produce many products flowing into many markets tend to adopt a *matrix organization*.

E.g. DuPont was a pioneer in developing the matrix structure. The product managers plan the sales and profits of their respective fibers. The market managers estimate how much of each fiber can be sold in each market at a proposed price.

Market Managers

	Men's wear	Women's wear	Home furnishings	Industrial Markets
Rayon*				
Acetate*				

Acetate*

**Product managers*

Figure: Product /Market-Management Matrix System

A matrix organization desirable in a multiproduct, multimarket company. The problem is in the cost and that it often creates conflicts. Two dilemmas of these organizations:

- 1.How should the sales force be organized?
- 2.Who should set the prices for a particular product or market?

Corporate-Divisional Organization

As multiproduct, multimarket companies grow; they often convert their larger product or market groups into separate divisions. The divisions set up their own department and services. This raises the question what marketing services and activities to be retained at corporate headquarters.

- No corporate marketing
- Moderate corporate marketing: A few tasks such as assisting top management with overall opportunity evaluation, providing divisions with consulting assistance on request etc
- Strong corporate marketing: In addition to above activities also provide various marketing services to the divisions

Marketing Relations with other Departments

Relationship often characterized by deep rivalry and distrust. Interdepartmental conflict a result of differences of opinion on the company's best interests, based on real trade-offs between departmental well-being and company well being.

Marketing vice-president has two tasks

- 1.co-ordinate the company's internal marketing activities
- 2.co-ordinate marketing with finance, operations and other company functions to serve the customers

R&D:

Marketing and R&D have different cultures. R&D technically brilliant people, love challenges, not much concerned about immediate sales payoffs.

R&D-marketing co-ordination can be facilitated in several ways:

- Sponsor joint seminars
- Assign each new product to functional teams including an R&D person, marketing person
- Encourage R&D participation into the selling period
- Work out conflicts by going to higher management, following a clear procedure

E.g. Merck recognizes a strong connection between the two

Engineering

Engineers interested in technical quality, cost economy and manufacturing simplicity. Com in conflict with marketing over new models requiring customization as opposed to standard components. The problem less evident in companies where marketing executives has engineering backgrounds.

Purchasing

Responsible for purchase of right quantities and quality of components and materials at the lowest possible cost. At loggerheads with marketing because of;
Inaccuracy in forecast leading to inventory, purchasing small quantities of several components for different models

Manufacturing

Manufacturing responsible for smooth running of factory. *In Manufacturing-driven companies*, everything is done to ensure smooth production and low costs. The company prefers simple products, narrow product lines and high volume production.

In marketing-driven companies, the company goes out of its way to satisfy customers

Need is a balanced approach. Call for joint seminars, joint committees and liaison personnel exchange programs.

Operations

Term operations used for industries that create and provide services. Need to ensure that people delivering the service maintain the service level.

Finance

At loggerheads over control of funds and need to invest in long term marketing development plans by the marketing. Requirement is to give marketing people more financial training and finance people more marketing training.

Accounting

Accountants feel that marketing people are lax in providing sales report in time, dislike the special deals made by marketers since it calls for special accounting procedures

Credit

Decide creditworthiness of a potential customer; feel that marketers will sell it doubtful ones too. Marketers feel that credit standards are too high and “zero bad debts” is equivalent to lost sales and profits.

Strategies For Building A Company-wide Marketing Orientation

Companies are attempting to become market driven from being product or sales driven. Steps that a CEO takes to create a market and a customer-focused company:

1. Convince the senior management team of the need to become customer focused.
2. Appoint a senior marketing officer and a marketing task force.
3. Get outside help and guidance
4. Change the company's reward measurement and system.
5. Hire strong marketing talent.
6. Develop strong in-house marketing training program.
7. Install a modern marketing planning system.
8. Establish an annual marketing excellence recognition program.
9. Consider reorganizing from a product centered to market centered company.
10. Shift from a department focus to a process – outcome focus.

Marketing Implementation: is the process that turns marketing plans into action assignments and ensures that such assignments are executed in a manner that accomplishes the plant's stated objectives.

A strategy addresses the “what” and “why” of marketing activities, implementation addresses the “who”, “where”, “when” and “how”. One layer of strategy implies certain tactical implementations assignments at a lower level.

Bonoma identified four sets of skills for implementing marketing programs:

1. Diagnostic Skills: What went wrong?
2. Identification of company level: Implementation problems can occur at 3 levels namely the marketing function, the marketing program, and the marketing policy level.
3. Implementation Skills
4. Evaluation Skills

The skills needed to implement a marketing plan for non-profit organizations are the same as those needed for the commercial organizations.

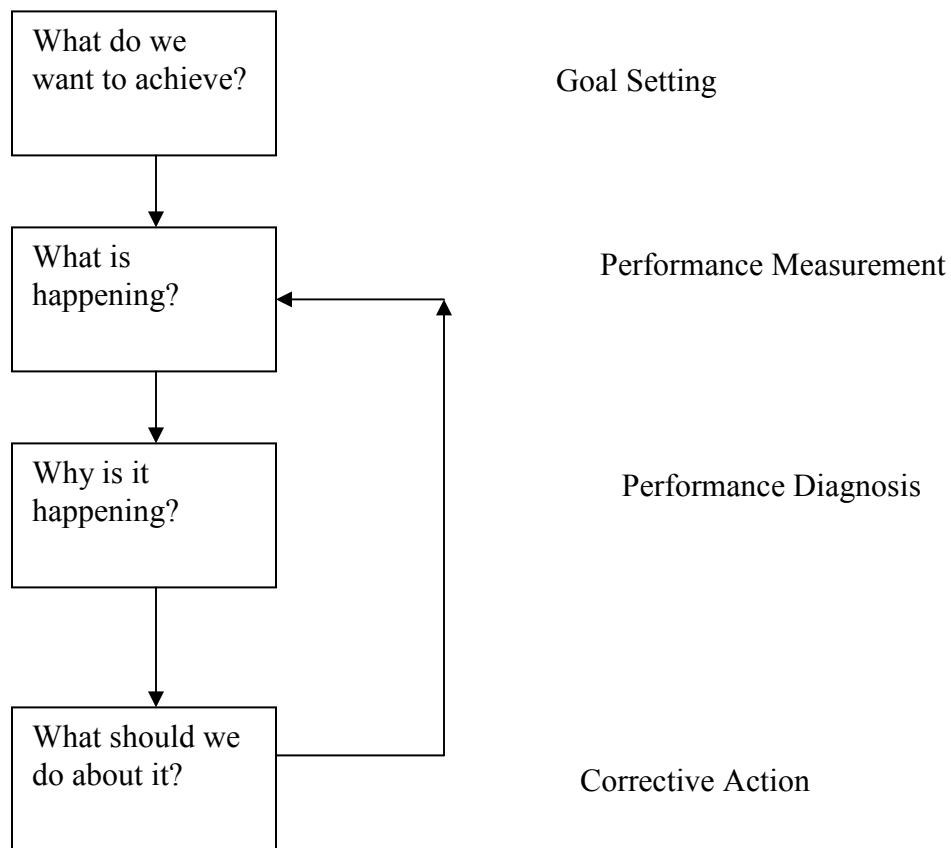
Evaluation And Control: The marketing department has to continuously monitor and control marketing activities. In spite of this, many companies have inadequate control procedures. The main findings of a study conducted on this were:

1. Smaller companies do a poorer job of setting clear objectives and establishing systems to measure performance.
2. less than half of the companies studied knew their individual products' profitability. About one third of them had no regular review procedures for spotting and deleting weak products.
3. Almost half the companies fail to compare their prices with those of their competition, to analyze their warehousing and distribution costs, to analyze the

- causes of returned merchandize, to conduct formal evaluations of advertising effectiveness, and to review their sales force's call reports.
4. Many companies take four to eight weeks to develop control reports, which are occasionally inaccurate.

Annual Plan Control: The purpose of annual plan control is to ensure that the company achieves the sales, profits, and other goals established in its annual plans. The heart of annual plan is management by objectives. The four steps involved are:

1. Management sets monthly or quarterly goals.
2. Management monitors its performance in the marketplace.
3. Management determines the causes of serious performance deviations.
4. Management takes corrective action to close the gaps between the goals and performance.



Managers use five tools to check on plan performance: sales analysis, market share analysis, marketing expense to sales analysis, financial analysis, and market based scorecard analysis.

1. Sales Analysis: consists of measuring and evaluating actual sales in relation to sales goals. Two specific tools are used in sales analysis:
 - Sales Variance Analysis: measures the relative contribution of different factors to a gap in sales performance.
 - Microsales Analysis: looks at specific products, territories, and so on and so forth that failed to produce expected sales.
2. Market Share Analysis: Company sales do not reveal how well the company is performing relative to the competitors. For this purpose, management needs to track its market share. Market share can be measured in three ways:
 - Overall market share is the company's sales expressed as a percentage of total market sales. Served market share is its sales expressed as a percentage of the total sales to its served markets. Its served market is all the buyers who are willing and able to buy its products. Served market share is always larger than overall market share.
 - Relative market share can be expressed as a market share in relation to its largest competitor. A rise in relative market share means that the company is gaining on its competitor.

Conclusions from Market Share Analysis:

- The assumption that outside forces affect all companies in the same way is often not true.
 - The assumption that a company's performance should be judged against the average performance of all companies is not always valid.
 - If a new firm enters the industry, then every existing firm's market share might fall. Share loss depends on the degree to which the new firm hits the company's specific markets.
 - Sometimes a market share decline is deliberately engineered to improve profits. E.g. management may drop unprofitable customers or products to improve its profits.
 - Market share can fluctuate for many minor reasons.
 - Overall Market Share = Customer penetration * Customer loyalty * Customer Selectivity * Price Selectivity
 - Customer penetration is the % of all the customers who buy from the company
 - Customer loyalty is the purchases from the company by its customers expressed as a percentage of the size of the average customer purchase from an average company.
 - Price Selectivity is the average price charged by the company expressed as a % of the average price charged by all the companies.
3. Marketing Expense – To- Sales Analysis: Annual-plan control requires making sure that the company is not overspending to achieve sales goals. The key ratio to watch is marketing expense-to-sales. This ratio consists of five components:
 - Advertising to sales
 - Sales-promotion to sales
 - Marketing research to sales
 - Sales administration to sales

The period to period fluctuations in each ratio can be tracked on a control chart. The behaviour of successive observations even within the upper and lower control limits should be watched.

This section describes the methods of evaluation and control in marketing efforts.

1. Market Based Scorecard Analysis:

Only financial performance scorecards have been used till now.

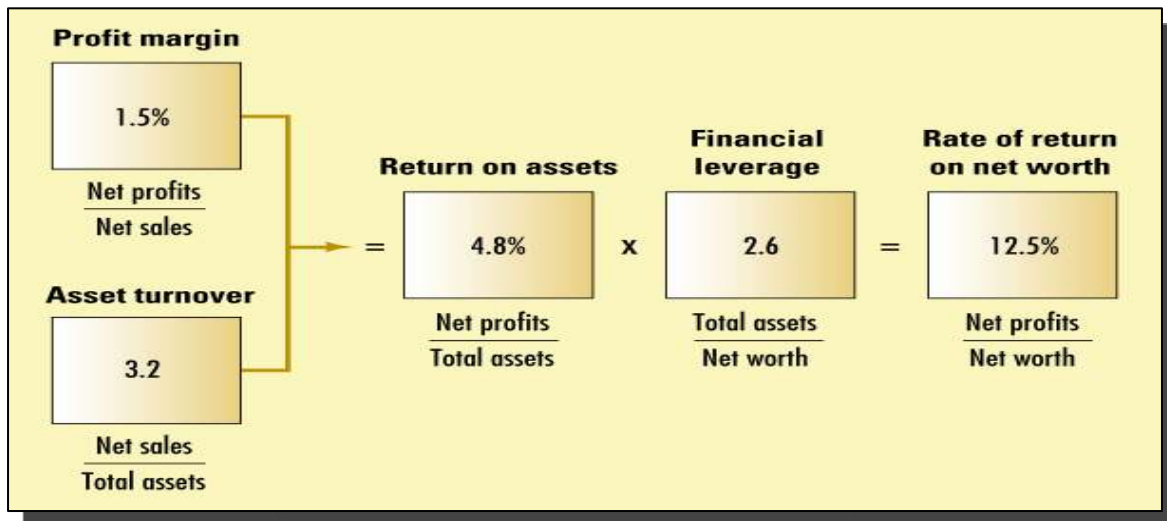
Qualitative score cards reflect performance and provide possible early warning signals

1. Customer-Performance scorecard-customer based measures are recorded

- New Customers
- Dissatisfied customers
- Lost customers
- Target market awareness
- Target market preference
- Relative product quality
- Relative service quality

2. Stakeholder performance Scorecard-

Du Pont Chart method – to find out return on Net Worth



Norms should be set for each group and management should take action when one or more groups register increased levels of dissatisfaction.

2. Profitability Control

Profitability needs to be judged on

- Products
- Territories
- Customer groups

- Segments
- Trade channels
- Order sizes

Marketing Profitability Analysis:

Steps:

1. From P&L statement, find out the marketing related expenses

				\$60.000
				39.000
				\$21,000
	Gross margin			
			\$9.300	
	Rent		3.000	
	Supplies		3.500	
				15.800
	Net profit			\$5,200

Natural Accounts				Delivery	Selling & Collecting
Salaries	\$9,300	\$5,100	\$1,200	\$1,400	\$1,600
Rent	3,000	—	400	2,000	600
Supplies	<u>3,500</u>	<u>400</u>	<u>1,500</u>	<u>1,400</u>	<u>200</u>
	\$15,800	\$5,500	\$3,100	\$4,800	\$2,400

3. Measure how much of each functional expense like selling etc. was attributed from each channel and finding cost/unit of item sold.

Channel Type	Selling	Advertising	Packing and Delivery	Billing and Collecting
Hardware	200	50	50	50
Garden Supply	65	20	21	21
Department stores	10	30	9	9
	Hardware	Garden Supply	Dept. Stores	Whole Commer v
Sales	\$30,000	\$10,000	\$20,000	\$60,000
Cost of goods sold	<u>19,500</u>	<u>6,500</u>	<u>13,000</u>	<u>39,000</u>
Gross margin	\$10,500	\$ 3,500	\$ 7,000	\$21,000

Expenses

Packing delivery (\$60/Order)	3000	1260	540
4800 Billing&collecting(\$30/order)	1500	630	270
2400			
TOTAL EXPENSES	10050	3810	1940
	15800		
<i>Net Profit/(loss)</i>	<i>450</i>	<i>(310)</i>	
<i>5060</i>	<i>5200</i>		

Determining Corrective Actions:

Marketing profitability analysis indicates the relative profitability of the different channels, products, territories or other marketing analysis. It doesn't prove best course of action. It only opens a door to evaluate options.

Ask yourself questions.

Direct vs. full costing

- Choice of basis- Here choice of basis has been taken as Number of sales calls to allocate Selling expenses. A better base can be chosen
- Whether Full costs or only direct and traceable costs be used in evaluating marketing performance?
Here only simple costs have been taken, but the above 3 types of costs have to be taken into account

DIRECT COSTS: That can be assigned directly to the proper marketing entity eg. Sales Comm.

TRACEABLE COMMON COSTS – That can be assigned only indirectly, but on a plausible basis to the marketing entities eg. Rent

NON-TRACEABLE COMMON COSTS: - Whose allocation to marketing entities is highly arbitrary
E.g. Corporate Image Cost.even though all the goods may or may not be benefiting from this.

There is a controversy on the non-traceable costs, and a method where this cost is also included Is called Full cost method.

Weaknesses of Full costing method are: -

- 1.The relative profitability of the marketing entities can shift radically when one arbitrary way to allocate Non traceable common costs is replaced
2. This arbitrariness demoralizes the managers, as their performance may be judged adversely.

3. The inclusion of non-traceable cost could weaken the control on real cost control. Operating mgmt.

Is most effective in controlling the direct and traceable costs.

Use of ACTIVITY BASED ACCOUNTING is increasing.

Advantages:

It gives managers a clear picture of how products, brands generate revenues and consume resources

It refocuses the management's attention away from using only labour or material std. Costs towards capturing actual costs of supporting individual products.

Efficiency Control

Appointing a marketing Controller: He performs financial analysis of expenditures and results. He examines adherence to profit plans, budgets, measures efficiency of promotions, evaluate customer and geographic profitability and educate marketing personnel on the financial implications of marketing decisions

Measuring Sales Force Efficiency:

- Avg. no. of calls per day
- Avg. call time
- Avg. revenue per call
- %age of orders per 100 sales calls
- No. of new customers per period
- No. of lost customers per period
- Sales force cost as % age of total sales
- Entertainment cost per sales call

Advertising. Efficiency:

- Advertising Cost per 1000 target buyers reached by media vehicles
- Percentage of audience who noted, saw or associated, and read most of
- Each print ad
- Consumer opinions on the ad's content and effectiveness
- Before and after measures of attitudes towards product
- No. of enquiries stimulated by the ad
- Cost per enquiry

Sales Promotion efficiency:

- Percentage of sales sold on deal
- Display costs per sales dollar
- Percentage of Coupons redeemed
- No. of enquiries resulting from a demo.

Distribution efficiency:

- Search for economies in
- Inventory Control
- Warehouse locations
- Tpt. Modes

Strong sales surge may cause dist. Efficiency to decline. This leads to Bad mouth and sales fall.

Strategic Control

Marketing effectiveness review;

The top management must review the annual business plans. It should identify the strong and weak divisions and find out if the div is practicing customer Oriented marketing.

However, the evaluation should not be done just on the basis of sales growth or market share

But also the fact that a good leadership may also not be able to do well. If the market itself is Not right.

A division's marketing effectiveness is reflected in the degree to which it exhibits the 5 major attributes of marketing orientation: -

- **Customer philosophy**
- **Integrated marketing organization**
- **Adequate marketing information**
- **Strategic orientation**
- **Operational efficiency**

Marketing audit

It is comprehensive, systematic, independent, and periodic examination of a company's or business units' – marketing environment, objectives, strategies, and activities with a view to determining problem areas, and opportunities and recommending a plan of action to improve company's marketing performance.

4 characteristics of marketing audit:

- 1) Comprehensive- effective in locating real source of marketing problems
- 2) Systematic
- 3) Independent – marketing audit can be conducted in 6 ways: self –audit, audit from above, audit from across, company auditing office, company task force audit, and outsider audit. Best audit from outside consultants.
- 4) Periodic

Marketing excellence review

An instrument used by the companies to rate their performance against best practices of high performing business. The 3 columns distinguish among poor, good and excellent business and marketing practices.

Poor	Good	Excellent
Product driven	Market driven	Market driving
Mass market oriented	Segment oriented	Niche-oriented , customer – oriented
Product offer	Augmented product offer	Customer solutions offer
Average product quality	Better than average	legendary
Average service quality	Better than average	Legendary
End product oriented	Core product oriented	Core competency oriented
Function oriented	Process oriented	Outcome oriented
Reacting to competitors	Benchmarking competitors	Leapfrogging competitors
Supplier exploitation	Supplier preference	Supplier partnership
Dealer exploitation	Dealer support	Dealer partnership
Price driven	Quality driven	Value driven
Average speed	Better than average	Legendary
Hierarchy	Network	Teamwork
Vertically integrated	Flattened organization	Strategic alliances
Stockholder driven	Stakeholder	Societally driven

Management can place a check on each line as to its perception where the biz stands.

The ethical and social responsibility review

Ethical issues must be dealt with many aspects in a business, for eg in selling issues (bribery, stealing trade secrets), advertising issues (false / deceptive advertising), channel issues (exclusive dealing, tying agreements), product issues (quality), patent protection, price issues and competitive issues (barriers to entry, predatory competition)

To raise level of socially responsible marketing-

- 1) Society must use law to define illegal, antisocial, or anticompetitive practices
- 2) Companies must adopt written code of ethics, build a company tradition of ethical behaviour, hold their people fully responsible for observing ethical and legal guidelines.
- 3) Individual marketers must practice a social conscience in their specific dealings with customers and various stakeholders.