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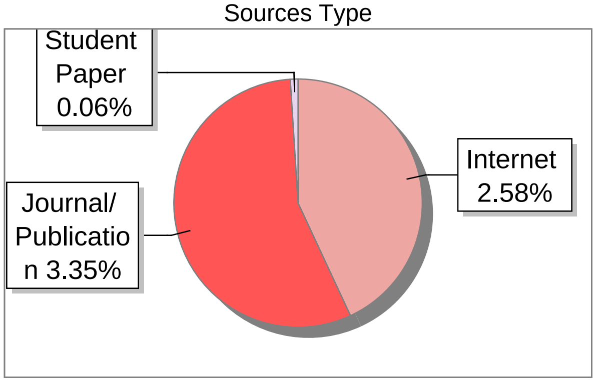

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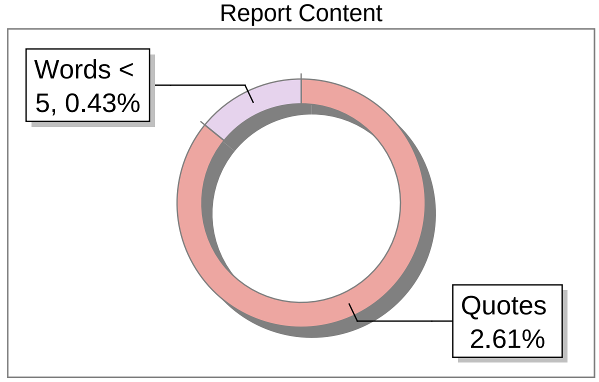

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SELF LEARNING MATERIAL

MARKETING MANAGEMENT

DEM0104

MBA 1ST SEMESTER

CENTRE FOR DISTANCE AND ONLINE EDUCATION

ASSAM DON BOSCO UNIVERSITY

COURSE DESIGN AND PREPARATION TEAM

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SEMESTER-1

SUBJECT: MARKETING MANAGEMENT

CREDITS: 04

Course objective:

The course will enable students to have practical introduction to marketing management, will improve the ability to make effective marketing decisions, including assessing marketing opportunities and developing marketing strategies and implementation plans

Course Outcomes

At the end of this course students will be able to:

1. Define Marketing Management, related terms and core concepts. (Remembering)
2. Understand and explain the fundamental marketing concepts, theories and principles in the area of marketing (Understanding)
3. Apply the knowledge, concepts and tools necessary to overcome challenges and issues of marketing in a competitive and dynamic space. (Applying)
4. Analyze the marketing environment and strategies of organizations utilizing different marketing concepts and tools under different environmental conditions. (Analyzing)
5. Evaluate marketing strategies and tools used by marketers under different market conditions and competitor activities. (Evaluating)
6. Create solutions for marketing issues and problems (Creating)

Syllabus

Module 1: Introduction to Marketing Management

Core concepts of Marketing Management, Changing Marketing Environment, Orientation of companies towards the marketplace- production, product, selling, marketing- concepts, introduction to 4Ps of marketing mix, understanding the concept of Value, Strategic Business Unit, Mission, internal environment, external environment, Marketing Plan and its constituents.

Module 2: Consumer Behaviour and dealing with competition

Consumer and Consumer Behaviour, Factors influencing consumer behaviour, Consumer buying decision process, Business markets vs consumer markets, Market Segmentation, Targeting and Positioning, Identifying and Analyzing competitors, Competitive Strategies of Market Leaders, Market Challengers, Followers and Nichers.

Module 3: Product and Pricing Decisions

Product Classifications, Goods and Service Differentiation, Product Mix, Product Line analysis, Product Life Cycle, Packaging, Definition of new product, new product development-process, success and failure, Price setting procedure, Adapting the price – Promotional Pricing, Discount Pricing, Differentiation Pricing, Product-Mix pricing, Geographical Pricing, Price Changes – initiation and response.

Module 4: Distribution Channel and Promotion Decisions

Introduction to Distribution Channel and its members, Functions and Levels of distribution channels, Channel design steps, Selecting and evaluating channel members, Channel conflicts, Retailing, Channel logistics – objectives and major decisions, Communication process, Steps in developing effective communication, Communication Mix and Characteristics, Introduction to Advertising, Developing an effective advertising program.

Module 5: Fundamentals of Branding

Introduction to branding: definition, importance, and evolution, the role of brands-consumer & firms, brand equity, brand power, cobranding, luxury branding.

Suggested Readings

1. Marketing Management, 15th Ed., Philip Kotler & Keven Lane Keller, Pearson,
2. Marketing Management – A South Asian Perspective, 13th Ed., Philip Kotler, Kevin Lane Keller, Abraham Koshy, Mithileshwar Jha, Pearson
3. Managing Marketing: An Applied Approach, 1st Ed., Noel Capon, Siddharth Shekhar Singh, Wiley
4. Marketing Management: Global Perspective, Indian Context, 5th Ed., Ramaswamy, V.S. & Namakumari, S., McGraw Hill Education (India) Pvt. Ltd.
5. Marketing Management, 4th Ed., Ranjan Saxena, Tata McGraw Hill Education.
6. Marketing Management: Text and Cases Indian Context, 2nd Ed., Tapan K. Panda, Excel Books
7. Marketing, 3rd Ed., Paul Baines and Chris Fill, Oxford University Press
8. Marketing Management: A Decision-making Approach, 1st Ed., Pingali Venugopal, Sage Publications.

MODULE 1: INTRODUCTION TO MARKETING MANAGEMENT

Core concepts of Marketing Management, Changing Marketing Environment, Orientation of companies towards the marketplace- production, product, selling, marketing- concepts, introduction to 4Ps of marketing mix, understanding the concept of Value, Strategic Business Unit, Mission, internal environment, external environment, Marketing Plan and its constituents.

Module Structure:

Unit 1: Core Concepts of Marketing Management
Unit 2: Orientation of companies towards the marketplace
Unit 3: 4Ps of Marketing Mix
Unit 4: Understanding the concept of value
Unit 5: Strategic Planning

Unit 1: Core Concepts of Marketing Management

Unit Structure

1.1 Unit Objectives
1.2 Introduction
1.3 Origin of Marketing
1.4 Definition of Marketing
1.5 Types of Entities Marketed
1.6 Fundamental Concepts Associated with Marketing Management
1.7 Changing Marketing Environment
1.8 Unit Summary
1.9 Check your progress

1.1 Unit Objectives:

After completion of the unit, students will be able to

1. Understand the core concepts, definitions, and historical evolution of marketing.
2. Analyze the diverse entities and activities involved in marketing practices.
3. Explore key concepts like target markets, segmentation, positioning, value, and satisfaction.
4. Evaluate the impact of technology, globalization, and social responsibility on modern marketing practices.

1.2 Introduction

Marketing plays a vital and dynamic role in the sustainability and growth of businesses. It is relevant to all individuals including students, educators, and business professionals, regardless of whether they are marketing goods, services, properties, individuals, locations, events, information, ideas, or organisations. It necessitates firms to possess comprehensive knowledge of the market and the environment where it exists, enabling them to align their production, financial, and human resource development strategies. The current industrial landscape looks at marketing as the primary language of communication wherein customers are regarded as the core of any business. As such in today's marketing practices, fostering and maintaining customer relationships has become a crucial activity. Whilst the details may vary across industries, at its core, marketing involves the methods businesses employ to reach potential customers and convey the unique advantages of their products or services. The primary objective is generating sales and creating loyal customers by informing both prospects and existing buyers about the product or service. Marketing takes into account all activities undertaken by firms to promote, sell, and distribute their offerings.

To successfully inspire a purchase, marketers need to ensure that potential customers are aware of the product or service's existence. Essentially, marketing supports the acquiring, retaining, and expanding of the customer base. However, the role of marketing extends beyond this initial stage to building engaging aids that create lasting loyalty and long-term relationships. Effective marketing campaigns help to reach and engage customers, distinguish the company from its competitors, and support broader business objectives, such as increasing sales or expanding into new markets.

1.3 Origin of Marketing

The practice of marketing has existed as long as the act of selling itself. The term "marketing" likely emerged in Europe during the early 1500s, when merchants sold food and other items at markets in towns. However, marketing activities predate this period, with archaeological findings revealing that ancient Egyptian, Greek, and Roman civilisations distributed advertisements and branded items for purchase. As society and technology have advanced, so too have marketing practices. Several key developments have occurred over recent centuries.

In the 1800s, the Industrial Revolution brought forth significant advancements in technology, transportation, and mass production. By the mid-19th century, firms could mass-produce goods and transport them across vast distances. Consequently, selling evolved from a localised activity to one with national (and sometimes international) reach. This shift led to increased consumer demand as a broader range of products became readily accessible. Merchants typically promoted their goods by exhibiting posters in public areas. The 1860s saw businesses begin to lease billboards for communicating with larger audiences and by 1872, International Bill Posters Association of North America was. It was later the *Out of Home Advertising Association of America*).

Again, in the 1900s, the advertising revolution introduced novel methods for businesses to communicate their messages and reach potential customers. These new channels included radio (early 1920s), television (early 1940s), and the telephone (mid-1940s). With the increasing number of communication channels available, companies adopted innovative strategies to attract customers and maintain competitiveness. Marketing professionals began highlighting the unique benefits of their offerings and analysing demographic data (such as education level and income). In 1956, Wendell R. Smith, a professor at the University of Massachusetts, summarized these new practices in a seminal article titled *"Product Differentiation and Market Segmentation as Alternative Marketing Strategies"*. During the 1960s, companies started created marketing departments dedicated to connect with customers and gain market share.

In the late 1990s, companies started creating basic websites for sharing information about products and services. Google and MSN started search engines that used various metrics to rank websites. Firms started investing in search engine optimisation to appear in top positions in search results. The digital revolution in the 2000s dramatically transformed marketing practices. Particularly, the growing use of the internet created new avenues for customer engagement, leading to the growth of both e-commerce and online marketing. Most contemporary businesses employ a culmination of digital tactics to engage with their core consumers and expand their brand. These include search engine marketing, blogging, online and mobile advertising, email, video, and social media. With the emergence of newer technologies, companies are incorporating different approaches such as voice-assisted devices and augmented or virtual realities to connect with consumers.

1.4 Definition of Marketing

Philip Kotler explained the core concept of marketing in his book "Marketing Management". In a shorter version of the definition, marketing means "meeting needs profitably". It is about identifying and meeting human and social needs. This concept emphasises identifying and fulfilling the needs of prospective customers. It underscores that the main objective of any commercial enterprise is to examine the needs, desires and values of potential customers of potential clients.

The **American Marketing Association** defines marketing as, "marketing is the activity, set of institutions, and processes for creating, communicating, delivering and exchanging offerings that have value for customers, clients, partners and a society at large". It involves creating and implementing strategies for planning and executing concepts, setting prices, promotion and distribution of ideas, goods and services. The aim is to facilitate exchanges that fulfil both individual and organizational goals through effective planning and implementation. Successful marketing requires substantial expertise and effort from marketers. This becomes evident when at least one participant in the exchange process contemplates strategies to achieve desired responses from other parties involved.

According to **Arthur P. Felton**, "Marketing concepts is a corporate state of mind that insists on the integration and coordination of all marketing functions, which in turn are welded with all the other corporate functions, for the basic objective of producing maximum long range corporate profits."

Peter Drucker, a leading management guru, mentions that –

"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 services fits him and sells it. Ideally, marketing should result in a customer who is ready to buy. All that should be needed then is to make the product or services available."

Marketing encompasses a wide range of human activities related to the marketplace. It includes product planning and development, purchasing and assembling, setting prices, distribution, and selling strategies, branding and packaging, standardization of the product and process, transportation and warehousing, promotion and advertising, financing, risk bearing, analysis of market in terms of its present and potential customers.

Philip Kotler defined marketing as "the science and art of exploring, creating and delivering value to satisfy the needs of a target market at a profit."

1.5 Types of entities marketed

1.5.1 Goods:

The majority of production and marketing efforts in most nations centre around tangible goods. American firms annually market countless food items - including fresh, tinned, packaged, and frozen varieties - along with millions of automobiles, fridges, televisions, machinery, and other essential components of a contemporary economy.

1.5.2 Services

In developed nations, an increasing share of economic activity centres around services. The service sector encompasses various industries, including aviation, hospitality, car rentals, personal grooming, maintenance and repair, as well as professional services such as accounting, banking, law, engineering, medicine, software development, and business consultancy. Many organizations mix their offerings by combining both goods and services. Example-food meals.

1.5.3 Events

Time-based events are promoted by marketing professionals, including trade exhibitions, artistic performances, corporate anniversaries, and international sporting competitions like the Olympics and the World Cup to businesses and supporters. Even on a smaller scale, community events may consist of artisan fairs, author readings at bookshops, and farmer's markets.

1.5.4 Experiences

Through the coordination of various products and services, companies can design, produce, and promote experiential offerings. For instance, experiences of visitors visiting Walt Disney World's Magic Kingdom. Bespoke experiences are also available, such as camping for a week at wildlife campsite, participating in a four-day rock and roll concert etc.

Persons

Marketing professionals often lend their expertise to a diverse range of high-achieving individuals, including artists, musicians, corporate executives, medical practitioners, prominent legal professionals, and financial experts which is a way of marketing personalities.

1.5.5 Places

Various geographical locations ranging from cities to countries are marketed to attract tourists, residents, factories and corporate offices. Place marketers entail destination management organizations, real estate agents, banks, advertising and public relation agencies etc.

1.5.6 Properties

Properties are intangible ownership rights that may include real estate or financial assets which require marketing efforts for trading. In these cases, real estate agents work on behalf or actual property owners and investment firms and financial institutions market financial assets to institutional or individual investors.

1.5.7 Organizations

Various organisations, including cultural institutions, businesses, and nonprofits, employ marketing techniques to enhance their public image for attention and financial support. They employ multiple types of promotional materials including printed prospectus, social and news media advertisements to achieve their target brand strategies.

1.5.8 Information

Information is produced through books or institutions of learning that are used by students or the society at a cost to them. Organizations such as Thomson Reuters are key in creating and distributing information that are used by organizations in business decision making. This information is an amalgam of innovative technology and critical data that can be used by managers in finance, law, accounting, science etc.

1.5.9 Ideas

At the core of every market offering lies a fundamental concept. Product and services act as vehicles for delivering particular ideas or advantages to consumers. These offerings are designed to address particular needs, wants or problems that exist in the target market.

1.6 Fundamental Concepts Associated with Marketing Management

The concept of marketing is essentially oriented toward fulfilling the needs of the customer. It implies that consumers buy a product/service not because of the quality, packaging or brand name, but because it is able to satisfy a specific need of a customer. In that regard, it is essential to learn certain fundamental concepts associated with marketing management. A detailed description is cited below:

1.6.1 Markets

Philip Kotler states market as "a physical space where buyers and sellers gather to buy and sell goods." However, according to economists a market is defined as a group of buyers and sellers engaging in transactions for a specific product or category of products. In case of digital transactions, it is called as a ***marketspace*** wherein all activities are conducted over the internet. Another concept related to market is called as ***metamarket***, proposed by Mohan Sawhney, that include complementary products or services, closely related in the minds of customers, are located across diverse set of industries.

For a more in-depth understanding, there can be five types of basic markets (Fig 1). They include- resource, manufacturer, intermediary, consumer and government- markets. Manufacturers buy raw materials, labour, money from resource markets and convert them into goods and services that are sold to intermediary markets who in turn sell to consumer markets. Consumers receive money in return of selling labour in resource markets which they use to procure goods and services. In between all of these markets, government markets collect taxes from the three markets and use the money or goods/ services to provide public amenities and services.

1.6.2 Needs, wants and demands

Needs are defined as the basic human needs required for sustaining life. These include air, food, water, clothing and shelter. Philip Kotler states that human needs also include recreation, education and entertainment.

Needs turn into wants when they become specific in nature. For example, any food can satiate one's hunger, but when that food item becomes specific such as a burger, it becomes a want.

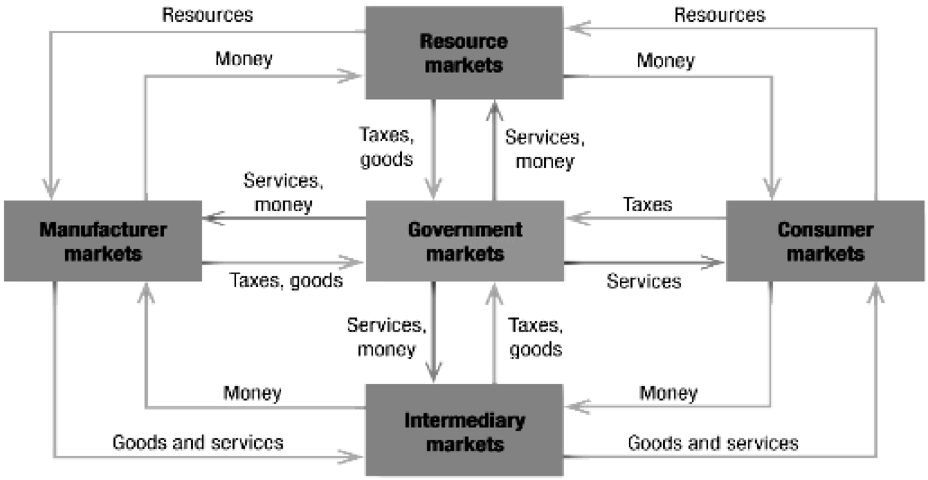

Figure 1: Flow of Resources and Money in Markets (Source: Marketing Management, Phillip Kotler (13 ed)

Demands on the other hand are specific wants that are backed by the ability to pay. In continuation with the above example if the consumer has the ability to pay only for a packet of biscuits than the actual demand will be for the biscuits and not the burger. Demand is also dependent on the willingness of the consumer to buy the product along with the ability to pay.

1.6.3 Target markets, Positioning, and Segmentation

Individual preferences of consumers vary across products. As such, marketers **segment** consumers by identifying differences in terms of demographics, psychographics and behaviours. Subsequently they determine which segments offer the most promising opportunities. For each chosen **target market**, the company develops a product or service offering, that they **position** in the minds of potential buyers as delivering specific key advantages. For example, Apple positions its iPhone for consumers who value premium features and technological innovations.

1.6.4 Offerings and Brands

When companies materialize an intangible value proposition that comprises a range of need satisfying benefits, it is called as an ***offering***. Offerings can be an amalgam of products, services, information and/or experiences. These offerings have the ability to satisfy the needs and wants of customers.

When these offerings are provided by a known source, it is referred to as a brand. From example, McDonalds can be associated by customers through their food offerings or the golden arches.

1.6.5 Marketing Channels

Marketers reach target markets through three types of marketing channels. *Communication channels* use different forms of channels such as newspaper, magazines, radio, television, mail, telephone etc. for delivering messages to and from target markets. Communication can also be established through facial expressions, retail store designs. Marketers are increasingly using communication media that enable dialogue channels such as e-mails to balance the conventional monologue channels such as advertisements.

Distribution channels are used by marketers for displaying, selling and delivering the physical product/ service to the buyer. These are physical distribution channels that may be direct via the internet or mail or indirect through intermediaries such as distributors, retailers or wholesalers.

Marketers use *service channels* such as warehouses, logistics service providers, banks that aid in transactions with potential customers.

1.6.6 Paid media, Owned media and Earned Media

The rise in digital media gave marketers new opportunities for interacting with consumers. These are of three categories. **Paid media** include all platforms such as TV, radio, newspapers etc. that allow advertisements to be showcased for a fee. **Owned media**, on the other hand, are communication channels that the organization owns. It may be social media accounts, websites or blogs. Finally, **earned media** may consist of consumers, press or any other sources that communicate voluntarily through word of mouth.

1.6.7 Impressions and Engagement

When consumers view a communication, it generates **impressions**, which serve as a valuable metric for tracking the reach of a communication. Impressions can be utilized across various communication types for comparison. However, it fails to provide any information about the outcomes resulting from exposure to the communication.

Engagement is the degree of a consumer's attentiveness and active involvement in a communication. It has the ability to create value for a firm in terms of identifying outcomes of a communication when compared to impressions. Since this level of involvement surpasses passive reception, engagement can also encompass personal experiences that enhance a firm's offerings thereby augmenting firm's products and services.

1.6.8 Value and Satisfaction

Value is the defined as the sum of the tangible benefits and costs associated with an offering that a buyer chooses to purchase. Value is measured as a combination of quality, service and price also called as the customer triad. The perception of value increases with increased quality and service but decreases as price increase.

Satisfaction is the reflection of a buyer's perceived performance of an offering in relation to the expectations. If the perceived performance is higher than the expected performance, than the customer is delighted; if it is equal than the customer is satisfied and if it falls short than the customer is disappointed.

1.6.9 Supply Chain

Compared to marketing channels that connect marketer to the target markets, supply chain connects a longer channel encompassing from the source of raw materials to the final products which are then moved forward to the final consumer. For example, the supply chain for leather jackets starts with procuring the raw materials (hides), tanning, cutting and manufacturing the final products which are then taken via marketing channels through retailers to the end customer. Each company or organization in the whole process adds certain percentage of the total value generated by the supply chain.

1.7 Changing Marketing Environment-

The dawn of the 21st century has witnessed significant shifts in worldwide demographics, economic integration, and technological progress. It is evident that recent global occurrences have brought to light substantial changes in consumer mindsets and actions. Organizations can gain a crucial competitive edge by effectively monitoring worldwide developments, as this aids in forecasting emerging trends in customer needs and wants. To gain insights into consumption attitudes and behaviours, marketing professionals must comprehend the potential impact of pivotal global events and advancements on consumers' daily lives. The challenge for marketers is to anticipate and develop strategies to address how consumers worldwide will evolve and adapt to the new era as the global landscape transforms around them.

Three major market forces together have influenced the changing business landscape. These include- technology, globalization, and social responsibility.

1.7.1 Technology

Changing technological landscape and the innovations associated with it is evident from the staggering increase in the use of e-commerce transactions, online and mobile communication, and artificial intelligence. This has resulted in creation of huge amounts of information and data about anything which is available to both marketers and consumers.
The inception of new business models is made possible because of the emergence of new technologies. Marketers have benefited with advances in data analytics, machine learning and AI wherein companies are able to better understand the needs customers and customize product and service offerings. Advances in technology have affected traditional marketing activities where regular salesforce are able to access and input real time data that enabling the improvement in data quality.

1.7.2 Globalization

The global landscape has evolved into creating equal prospects for success to competitors worldwide. Technological advancements in telecommunications and collaborative software platforms have negated geographical and political obstacles, fostering nearly boundless opportunities for communication and collaboration. The process of globalization transforms innovation and product development, as organisations adopt ideas from one nation and implement them in another.

Globalization has enabled technological advancements facilitating the creation of more sophisticated customer segmentation and personalized marketing strategies, allowing organizations to connect with specific target markets with tailored marketing activities. Furthermore, globalization has accelerated the exchange of marketing best practices across borders facilitating companies to adapt and change strategies as per diverse international markets.

1.7.3 Social Responsibility

The society is plagued by multiple evils such as poverty, pollution, scarcity of clean drinking water, climate change, social injustice, and concentration of wealth in a select few. This has led to the private sector organizations in taking up a portion of the responsibility through the role of corporate social responsibility. As such marketers should be mindful about the ethical, environmental, legal and social consequences when strategizing marketing activities. As such while fulfilling the needs of consumers, organizations should devise efficient processes that can preserve the consumer and social well-being. Organizations can use social responsibility as a means to differentiate themselves from the competition. But at the same time consumers may value convenience while making purchases. As such marketers must create a win-win solutions that can balance both sides without conflicting consumer demands.

1.8 Unit Summary

- Marketing is vital for the sustainability and growth of businesses, as it involves communicating the unique advantages of products/services to customers.
- The practice of marketing has evolved over centuries, with key developments in the 1800s (Industrial Revolution) and 1900s (advertising revolution).
- Marketing is defined as the activity of identifying and meeting human and social needs profitably.
- Marketing encompasses a wide range of activities related to the marketplace.
- Fundamental marketing concepts include markets, needs/wants/demands, target markets/positioning/segmentation, offerings/brands, marketing channels, and value/satisfaction.
- The changing marketing environment is influenced by technology, globalization, and social responsibility.

- Technological advancements have enabled new business models, data analytics, and personalized marketing strategies.
- Globalization has facilitated the exchange of marketing best practices across borders and the creation of sophisticated customer segmentation.
- Organizations are increasingly incorporating social responsibility into their marketing strategies to differentiate themselves.
- Marketers must balance consumer demands for convenience with the need for socially and environmentally responsible practices.

1.9 Check your progress

1-Mark Questions

1. Who defined marketing as "meeting needs profitably"?
2. According to the American Marketing Association, what are the four key activities involved in marketing?
3. What are the three types of marketing channels mentioned in the text?
4. What is the term used for a market where all activities are conducted over the internet?
5. Name the three categories of media mentioned in the text that marketers use to interact with consumers.
6. What is the "customer triad" composed of?
7. What are the three major market forces that have influenced the changing business landscape?
8. In which decade did companies start creating marketing departments dedicated to connecting with customers?
9. What term is used to describe the fundamental concept at the core of every market offering?
10. According to the text, what are the five types of basic markets?

2-Mark Questions

1. Define marketing according to Philip Kotler and explain its core concept.
2. What are the three types of marketing channels? Briefly describe each.
3. Define the concepts of "value" and "satisfaction" in marketing.
4. What is market segmentation and why is it important for marketers?
5. Describe the difference between needs, wants, and demands in marketing.
6. What are the five basic types of markets? List and briefly explain each.
7. How has technology impacted modern marketing practices?
8. Explain the concept of the supply chain in marketing.
9. What is the role of social responsibility in contemporary marketing?
10. What is the impact of globalization on marketing strategies and practices.

5- Mark Questions

1. Explain the historical evolution of marketing from ancient civilizations to the digital age. Discuss three key developments that shaped modern marketing practices.
2. Define marketing according to Philip Kotler and the American Marketing Association. How do these definitions emphasize the core purpose of marketing?
3. Describe five different types of entities that can be marketed. Provide a brief example for each.
4. Explain the concepts of needs, wants, and demands in marketing. How are they interconnected?
5. What are the three types of marketing channels? Describe each and explain their importance in reaching target markets.

6. Compare and contrast paid media, owned media, and earned media in marketing communications. Provide an example of each.
7. Define value and satisfaction in the context of marketing. How are they related to the customer value triad?
8. Explain the concept of supply chain in marketing. How does it differ from marketing channels?
9. Discuss how technology has impacted modern marketing practices. Provide three specific examples of technological advancements that have transformed marketing.
10. How has globalization influenced marketing strategies and practices? Explain the challenges and opportunities it presents for marketers.

10-Mark Questions

1. Define marketing according to Philip Kotler and the American Marketing Association. List five different types of entities that can be marketed.
2. Explain the concepts of needs, wants, and demands in marketing. How are they interconnected?
3. Analyze a recent marketing campaign of your choice. Identify and describe the marketing mix (4Ps) used in the campaign.
4. Compare and contrast the three types of marketing channels. Evaluate their effectiveness in reaching different target markets.
5. Develop a hypothetical marketing strategy for a new product, incorporating elements of paid, owned, and earned media. Justify your choices.
6. Critically assess the impact of globalization on marketing strategies. Discuss both positive and negative consequences for businesses and consumers.
7. Describe the concept of the customer value triad. Apply this concept to analyze the value proposition of a well-known brand.
8. Explain the historical evolution of marketing from ancient civilizations to the digital age. Analyze three key developments that shaped modern marketing practices.
9. Design a marketing plan for a local business to expand into international markets. Consider cultural, economic, and technological factors in your plan.
10. Examine how technology has transformed marketing practices in the last decade. Evaluate the ethical implications of these technological advancements in marketing.

Unit 2: Orientation of companies towards the marketplace

Unit Structure

2.1 Unit objectives:

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

1. Analyze the historical progression of company orientations and their reflection on marketplace dynamics.
2. Explore the principles and components of holistic marketing for delivering a unified customer experience.
3. Identify and describe the four key components of holistic marketing and their role in achieving goals.
4. Assess the interconnectedness of organizational departments and the impact of marketing on performance.

2.2 Introduction

The orientation of companies towards the marketplace has evolved significantly over time as businesses have sought to better understand and meet customer needs. This concept refers to how companies approach their interactions with customers and the market in general. Historically, companies have gone through several distinct orientations, including production, product, selling, and marketing orientations. Each of these represents a different philosophy about how to best create value and achieve business success. They are discussed in detail in the next sections.

2.3 Production Concept

As one of the oldest concepts in business, it posits that if a product is inexpensive and widely available, it will gain popularity among consumers. Specifically, it suggests that consumers prefer products which are low in cost and easily available. Businesses following the production-oriented concept prioritize on higher production efficiency and distribution coverage while achieving lower costs. While marketers prioritized economies of scale by manufacturing standardized products, customers had limited variety in terms of choices which appeared as a major shortcoming.

2.4 Product concept

Businesses following the product concept consider that consumers are more oriented towards innovative products that offer higher quality and performance. However, these businesses sometimes start believing that creating products having higher quality would sell by itself. According to Philip Kotler this state is called as the "better mouse-trap" fallacy. Many companies have later understood that for a new product to be successful, pricing, distribution strategies, advertisements are equally important.

2.5 Selling concept

According to this concept, customers and businesses tend not to purchase products without external intervention. As such it proposes an aggressive strategy of pushing customers to make purchases through advertising, sales promotion and salesmanship efforts thereby making marketers highly sales oriented. However, entirely depending on selling is risky as this approach presumes that customers persuaded into purchasing the product will seldom return it or spread negative word of mouth or make complaints in consumer groups. On the contrary it is believed that such customers would make repeat purchases.

2.6 Marketing Concept

The mid-1950s showed the beginning of the marketing concept that centred around customers and fulfilling their needs. The philosophy shifted from finding right customers for existing products to developing and creating right products for the customer base. For example, Dell provides product platforms in which customers customise laptops according to their required configurations. The marketing concept posits that organizations can achieve their goals only by outperforming competition while creating, delivering and communicating value to target consumers.

A key difference between selling and marketing concept- the former focuses on the seller while the latter concentrates on the buyer. Selling primarily addresses the seller's necessity to monetize a product whereas marketing deals with satisfying the needs of the customer through the creation, delivery and consumption of a product.

2.7 Holistic Marketing

The 21st century has prompted businesses into implementing and adopting new business practices. As such a holistic marketing approach has been implemented by marketers that puts emphasis on developing, designing and implementing marketing programs, processes and activities recognizing the expansive nature and interdependencies. The philosophy acknowledges the need of a broad and integrated perspective in marketing, considering businesses as a single entity and giving a shared purpose to every activity related to the business.

In the holistic marketing approach, businesses consider all departments- R&D, marketing, finance, HR, operations, logistics- as a whole wherein they work collectively towards the marketing and sale of a product. This concept applies a 360-degree view where ideas and suggestions are directly or indirectly incorporated into business decision making for matching changing marketing trends. The sole idea behind the popularity of this approach is that increased competition pushes organizations to create a unique position in the minds of the customer.

Holistic marketing has the following features:

- **Common Goal:** A business and all its units should focus on achieving a single organizational goal of providing better experiences to the customer.
- **Aligned Activities:** Every aspect of the organisation, including services, operations and communication should be aligned with the common goal.
- **Integrated Activities:** To create a seamless, unified and consistent customer experience, all marketing activities need to be devised and integrated.

2.8 Components of Holistic Marketing

Holistic marketing comprises of four broad components. Fig 2 gives the details of all the components of Holistic Marketing.

2.8.1 Relationship Marketing

Relationship marketing emphasises in building long term mutually satisfying relationships with people and organizations that either directly or indirectly impact the firm's business activities. It consists of four groups- customers, employees, marketing partners, and financial community. Marketers must strive to foster prosperity and balance among all these key stakeholders. The final outcome of relationship marketing is called marketing network that consists of the organization and its stakeholders with whom a profitable business relationship has been built.

2.8.2 Integrated Marketing

Integrated marketing is achieved when a marketer devises and assembles marketing activities to create, communicate and deliver value for consumers in a manner where the collective impact is greater than the sum of its parts. This approach is underpinned by two themes- firstly, creation, communication and delivery of value can be done through multiple marketing activities; secondly, any one marketing programme should be designed and implemented keeping all other activities in mind.

2.8.3 Internal Marketing

Internal Marketing involves recruiting, educating and motivating capable employees who are committed to serving customers. Astute marketing managers are able to recognize that intra organization marketing activities are more important as it becomes illogical to guarantee excellent services to customers if the company's employees are not prepared to deliver it. Any form of marketing activity succeeds only when all departments work in unison to achieve customer goals based on the vision that the senior management communicates to all the departments. Only when employees and staff members are convinced on the vision of the company, marketing activities directed to external customers become successful.

2.8.4 Performance marketing

Evaluating performance marketing necessitates an understanding of both the monetary and non-monetary benefits that marketing initiatives bring to businesses and society. Leading marketers go beyond revenue figures to examine a comprehensive marketing scorecard that analyses factors such as market share fluctuations, customer churn rates, satisfaction levels, product quality, and various other metrics. Furthermore, they take into account the legal, ethical, societal, and environmental implications of their marketing strategies and campaigns

Figure 2: Holistic Marketing Components (Source: Marketing Management, Phillip Kotler, 13th Ed)

2.9 Unit Summary

- The production concept focuses on making products inexpensive and widely available, prioritizing efficiency and distribution.
- The product concept emphasizes creating innovative, high-quality products, sometimes falling into the 'better mouse-trap' fallacy.
- The selling concept proposes an aggressive strategy to push sales through advertising, promotion, and salesmanship.
- The marketing concept, emerging in the mid-1950s, centres on fulfilling customer needs and creating products for the customer base.
- Holistic marketing, a 21st-century approach, emphasizes developing marketing programs with a broad perspective, considering all departments working collectively.
- The holistic marketing approach includes four components: relationship marketing, integrated marketing, internal marketing, and performance marketing.
- Relationship marketing focuses on building long-term relationships with key stakeholders.
- Integrated marketing coordinates activities for maximum collective impact.
- Internal marketing emphasizes employee education and motivation.
- Performance marketing evaluates both financial and non-financial impacts of marketing initiatives.

2.10 Check your progress

1-Mark Questions

1. What is the main focus of the production concept in marketing?
2. Which marketing concept is associated with the "better mouse-trap" fallacy?
3. What is the primary difference between the selling concept and the marketing concept?
4. In which decade did the marketing concept emerge?
5. What is the central idea behind holistic marketing?
6. How many broad components does holistic marketing comprise?
7. Which component of holistic marketing emphasizes building long-term relationships with stakeholders?
8. What is the final outcome of relationship marketing called?
9. What are the two main themes underpinning integrated marketing?
10. What does internal marketing primarily involve?

2-Mark Questions

1. What are the four key components of holistic marketing?
2. How does the production concept differ from the product concept in terms of consumer preferences?
3. Explain the "better mouse-trap" fallacy associated with the product concept.
4. What is the main difference between the selling concept and the marketing concept?
5. Describe two main features of holistic marketing.

6. What are the four groups involved in relationship marketing?
7. How does integrated marketing create value for consumers?
8. What are the two main themes underpinning integrated marketing?
9. Why is internal marketing considered important in holistic marketing?
10. What factors does performance marketing consider beyond revenue figures?

5-Mark Questions

1. Explain the evolution of company orientations towards the marketplace. How have these orientations changed over time to better meet customer needs?
2. Compare and contrast the production concept and the product concept. What are the key differences in their approaches to creating value?
3. Describe the selling concept and its potential risks. Why might an overreliance on this approach be problematic for businesses?
4. Analyze the shift from the selling concept to the marketing concept. How does this change reflect a different focus on customer needs?
5. Define holistic marketing and discuss its key features. How does this approach differ from earlier marketing orientations?
6. Examine the four components of holistic marketing. How do these elements work together to create a comprehensive marketing strategy?
7. Discuss the importance of relationship marketing in the holistic marketing approach. How does it contribute to building a strong marketing network?
8. Explain the concept of integrated marketing. Why is it crucial for marketers to consider the collective impact of all marketing activities?
9. Analyze the role of internal marketing in delivering excellent customer service. How does it contribute to the overall success of marketing initiatives?
10. Evaluate the importance of performance marketing in the holistic approach. Why is it necessary to consider both financial and non-financial metrics when assessing marketing effectiveness**?**

10-Mark Questions

1. List and briefly describe the five company orientations discussed in the text.
2. Explain the key differences between the selling concept and the marketing concept.
3. Provide an example of how a company might apply the holistic marketing approach in its business practices.
4. Compare and contrast the product concept and the production concept. How do their approaches to customer satisfaction differ?
5. Develop a marketing strategy for a new product that incorporates elements from all four components of holistic marketing.
6. Assess the strengths and weaknesses of the marketing concept. How effectively does it address modern business challenges?
7. Examine the interrelationships between the four components of holistic marketing. How do they work together to create a unified customer experience?
8. Illustrate how a company might implement internal marketing to improve its overall marketing effectiveness.

9. Critique the evolution of company orientations over time. How have these changes reflected shifts in market dynamics and consumer behaviour?
10. Create a performance marketing scorecard for a hypothetical company, including both financial and non-financial metrics. Justify your choice of metrics.

Unit 3: 4Ps of Marketing Mix

Unit Structure

3.1 Unit objectives:

After completion of this unit, a student will be able to

1. Explain the four components of the marketing mix and how they are used to meet customer needs.
2. Examine how product decisions (innovation and supplementary services) lead to customer satisfaction and competitive advantage.
3. Evaluate pricing methods and promotional tools on their ability to increase the value of a product and match customer expectation.

3.2 Introduction:

Marketing mix is a strategic blend of product, price, place, and promotion approaches which are used to reach, engage and satisfy customers. By knowledge of what their target audience wants and needs, organizations develop their marketing mix. The four elements—product, price, place, and promotion, are so interrelated that their individual effectiveness is dependent on their ability to work in unison. Each piece of a customer experience must complement and further reinforce the others, in order to ensure that everything works together to optimize that experience. As such, when we make adjustments to any part of the mix, we must look to see whether those changes are complementary to and supportive of the rest of the components, or if they are tensions that can ultimately undermine the overall strategy. To get a competitive advantage, managers should leverage their combined power of the 4Ps to deliver the differentiated offerings to the customers. Amid the practical application of marketing concept in attaining organizational goals, the decisions about the marketing mix are essential.

3.3 Product

Product decisions involve decisions about what good or service should be offered to satisfy customer needs. The product or service of course is what is being delivered to customers, and is therefore the source of the primary interest in the company. The product is the focusing element that requests the customers, and the other marketing components should reinforce and promote the value proposition of it. New product development is a key component of product strategy. In time existing products may become obsolete or less competitive in an evolving market place, as customer preferences or technological advancements change. To overcome this organizations, have to innovate by creating new design and feature that match customer needs and preferences which have changed in the market. The biggest challenge is to successfully amalgamate the newest technologies and current customer demands. Besides, product decisions involve branding, warranties, package, and other services that come along with the product offering. Collectively, these elements help to structure the overall customer experience and build on the value that is delivered, by the product strategy.

3.4 Price

Price is the cost a customer is willing to pay for a product at a certain availability. For the company, price is the revenue earned per unit of product being marketed, and the other elements of the marketing mix are largely costs. Right pricing needs marketers to set appropriate pricing objectives; to devise methods for determining price; and to identify other factors that may influence pricing decision.

Besides, companies must consider the necessity to give discounts or allowances in a few of the transactions which affect the last list price. The List price would have a negotiation margin to cater such situations. The actual price received is a function of both cash terms and credit conditions, and these in turn can modify the perceived value of the product.

Adjusting the price is much easier compared to other elements of the marketing mix. But abrupt price changes will be taken very seriously by the customer; and their impact on their perception of the product's value will be huge. When a customer has no knowledge on the quality of a product, he may always assume that the higher the price, the higher the quality of the product.

A price reduction may lead customers to perceive the product as lower in quality, while a price increase could signal higher quality but also risks being perceived as poor value for money.

Therefore, any price adjustment must be carefully evaluated for its impact on the overall appeal of the marketing mix, ensuring it supports rather than detracts from the product's value proposition.

3.5 Promotion

Promotional decisions involve selecting the appropriate mix of tools, such as advertising, personal selling, sales promotions, exhibitions, sponsorships, and public relations, to inform the target audience about the product's existence and the benefits it offers. These tools must align with the other elements of the marketing mix to ensure consistency and effectiveness.

The choice of promotional tool depends on the nature of the product and its target audience. For example, high-value products, such as machinery, which cater to a limited customer base, are best promoted through personalized interactions between buyers and sales representatives. In such cases, mass media advertising would be inefficient and ineffective, as it provides insufficient information for customers to make a complex purchasing decision. Conversely, mass-market, low-cost products can effectively leverage mass media advertising to reach a broader audience.

Every detail of the chosen promotional tool should complement and enhance the overall marketing mix. Elements such as the media platform, celebrity endorsements, or salesperson training must be consistent with the product's positioning and reinforce the marketing strategy.

Promotion often serves as the first point of contact between the company and its potential customers. It plays a critical role in shaping customer expectations about the product. When executed effectively, promotion can elevate customer expectations and drive sales. However, excessive or unrealistic promotional claims can lead to customer dissatisfaction if the product fails to meet the expectations set by the promotion. Such experiences can result in negative word-of-mouth and lasting damage to the company's reputation, emphasizing the need for realistic and aligned promotional strategies.

3.6 Place

Place refers to decisions regarding the distribution channels, outlet locations, transportation methods, and inventory levels necessary to ensure the product is available in the right quantity, at the right time, and in the right location. Distribution channels, composed of intermediaries such as retailers, wholesalers, and distributors, provide a cost-effective means of delivering products to customers. Without these intermediaries, manufacturers would face significant costs and logistical challenges in establishing the necessary infrastructure to manage the transfer of goods to end consumers. Therefore, manufacturers must strategically manage relationships with intermediaries to ensure that both their own interests and those of the intermediaries are aligned.

Distribution channels serve three primary functions: transferring products from the manufacturer to the customer, conveying information from the manufacturer to the customer, and retrieving payments from the customer to the manufacturer. However, these functions can be separated as alternative methods for fulfilling each arise. For instance, in internet marketing, product information is delivered through the manufacturer's website, products are shipped directly to customers via courier services, and payments are processed through banks using credit cards.

When designing a distribution strategy, companies should adopt a flexible approach. While the three core functions—delivery, communication, and payment—must always be performed, they do not necessarily need to be carried out by a single channel. Instead, different channels can be utilized for each function based on their efficiency and effectiveness, enabling organizations to optimize their distribution processes and meet customer needs more effectively.

Figure 3: 4 Ps of Marketing Mix (Source: Marketing Management, Phillip Kotler, 13th Ed)

3.7 Characteristics of an Effective Marketing Mix

Marketing mix is a strategic combination of product, price, promotion and place that is used created based on the understanding of the target customer's needs, wants and demands. For marketing mix to be effective, it requires certain characteristics. These are:

3.7.1 Match customer needs

To market the product effectively, one has to appreciate the target customer's needs, their financial position, product delivery methods and also their preferred method of obtaining company information. If such an understanding is established, marketers have to figure out how the customer differentiates between competing offerings. A company should therefore be able to know the criteria which customers use in assessing various products. The customer preferences should be tailored to the marketing strategy. There are economic and psychological factors which affect the consumers to evaluate the products. Aspects such as performance, availability, reliability, durability, and potential productivity gains, are considered in economic terms such as cost of the investment, operating cost, and cost of ownership. Self-image, convenience, enjoyment and risk mitigation are psychological factors. Analysis of these customer choice criteria leads to a set of key requirements for market success. The goal of a company's marketing approach should be to better fulfil these requirements than its competitors.

3.7.2 True source of differentiation and competitive advantage

They help make the organization stand out from competitors. Offering product attributes that provide superior customer value than do their rivals afford firms an advantage. Advertising is used as a competitive tool where product benefits are highly abstract or subjective. For example, in the perfume industry advertising is indispensable as it is necessary that branded fragrances shall maintain their exclusive image. Size and quality of a company's sales force can also be a competitive advantage. In distribution decisions made, customer's viewpoint must be given prior importance in one way or other, because besides product availability, they should also take into consideration factors like service quality, outlet image and customer convenience.

3.7.3 Well blended to form a consistent theme

When a product offers exceptional advantages to consumers, its pricing strategy should reflect these added benefits, as price often serves as an indicator of quality. The entire promotional strategy should be crafted to convey a unified image. Furthermore, all components of the marketing mix ought to complement one another, thereby reinforcing the product's market position.

3.7.4 Match corporate resources

While it may be appealing to offer customers the best quality products at the lowest prices, with the utmost convenience and sophisticated marketing, such an approach would be exceedingly expensive. The selection of marketing strategies is limited by the company's financial capabilities and internal expertise, as well as the customers' readiness and capacity to pay for such an exceptional marketing package. Therefore, the ideal marketing mix must balance these factors to remain feasible and effective.

3.8 Limitations of the 4Ps Marketing Mix Approach

The marketing mix concept oversimplifies market realities, particularly in the service sector. The traditional 4Ps framework fails to account for crucial elements in services, such as the individuals delivering the service, the delivery process itself, and tangible cues. In service industries, the staff often embody the service, whilst the manner of service provision is fundamental. Tangible indicators, like checklists in automotive servicing or a surgeon's attire, convey messages about service quality and dependability to clients.

In industrial markets, success is not solely determined by manipulating marketing mix components. Instead, it relies on cultivating long-term relationships, where the connection between buyer and seller becomes so robust that it effectively deters other suppliers. This trend has become so prevalent that industrial purchasers increasingly seek enduring supplier relationships. These relationship building activities do not fit into the marketing mix approach.

However, the extensions can be included in the existing marketing mix framework. For 'product', 'people', 'process' and 'physical evidence' can be subsumed under the heading, whereas 'promotion' can comprise long term relationship building. However, the marketing mix or 4Ps approach still has its use as it forces firms to focus on tangible things that cause customers. Firms can spend work on changing individual elements or reworking them to agree with others. The marketing mix finally brings marketing down to earth from a discipline into a more practicable task.

3.9 Unit Summary

- ❖ Marketing mix represents a strategic combination of four elements: product, price, place, and promotion to satisfy customer needs and fulfil the organization's goals.
- ❖ There is a connection between the components of the marketing mix such that a cohesive marketing program is required for experiencing maximum customer satisfaction and effectiveness.
- ❖ Product decisions are aimed at creating value through innovation, solving customers' needs, and even cover areas of branding, packaging and additional services.
- ❖ Pricing is related to customer willingness to pay and it means strategies that can generate revenue and at the same time keep customers' value perception in observation.
- ❖ Tools that can be used for advertising, personal selling, and sponsorships are used in the promotional strategies to inform and persuade customers and to be consistent with the product's positioning.
- ❖ Product availability in the right quantities, at the right locations and through cost effective methods is ensured by effective distribution channels.
- ❖ A successful marketing mix meets customer needs, utilises competitive advantages, is consistent in its components and is compatible with corporate resources.
- ❖ While the 4Ps framework may oversimplify complexity in the case of services and industrial markets, however, it can be extended to incorporate extra elements as people, process and relationships.

3.10 Check your progress

1-Mark Questions

1. What are the four components of the marketing mix?
2. How does new product development contribute to product strategy?

3. What factors should companies consider when setting prices?
4. Name two promotional tools used in marketing.
5. What are the three primary functions of distribution channels?
6. Why is it important for all elements of the marketing mix to be consistent?
7. What is one limitation of the 4Ps marketing mix approach in the service sector?
8. How does pricing often serve as an indicator of quality?
9. Why is relationship building important in industrial markets?
10. What is the main advantage of using the marketing mix framework for businesses?

2-Mark Questions

1. How can product decisions lead to customer satisfaction and competitive advantage?
2. Describe two key considerations when making pricing decisions in marketing.
3. What factors should be considered when selecting promotional tools for a product?
4. Explain the three primary functions of distribution channels in the marketing mix.
5. How does the concept of place in the marketing mix relate to product availability?
6. What are two characteristics of an effective marketing mix? Briefly explain each.
7. How does the marketing mix approach help firms focus on tangible aspects of marketing?
8. Identify two limitations of the traditional 4Ps marketing mix approach.
9. How can the marketing mix be adapted for service industries? Provide two examples.

5-Mark Questions

1. Explain the four components of the marketing mix and provide an example of how they work together to meet customer needs.
2. Discuss how product innovation and supplementary services can lead to customer satisfaction and competitive advantage. Provide an example.
3. Compare and contrast two pricing methods and evaluate their ability to increase product value and match customer expectations.
4. Analyze the role of promotional tools in shaping customer expectations. What are the potential risks of excessive promotional claims?
5. Describe the three primary functions of distribution channels. How can these functions be separated in modern marketing strategies?
6. Explain the importance of matching customer needs in developing an effective marketing mix. What factors should marketers consider?
7. Discuss how the marketing mix can serve as a source of differentiation and competitive advantage. Provide examples for each of the 4Ps.
8. Evaluate the statement: "All components of the marketing mix ought to complement one another, thereby reinforcing the product's market position." How can this be achieved in practice?
9. Analyze the limitations of the 4Ps marketing mix approach, particularly in the service sector. How have these limitations been addressed?

10. Explain the concept of relationship building in industrial markets. How does this challenge the traditional marketing mix approach?

10-Mark Questions

1. List and briefly describe the four components of the marketing mix.
2. Explain how the elements of the marketing mix work together to create a consistent customer experience.
3.: Illustrate with an example how a company might adjust its marketing mix to respond to changes in customer preferences.
4. Compare and contrast the roles of price and promotion in shaping customer perceptions of product value.
5. Develop a marketing mix strategy for a new product entering a competitive market, considering all four Ps.
6. Assess the effectiveness of using mass media advertising versus personal selling for promoting high-value industrial products. Justify your answer.
7. Demonstrate how a company might use the concept of place in the marketing mix to gain a competitive advantage in the e-commerce sector.
8. Examine the limitations of the 4Ps approach in the context of service industries. Suggest how these limitations might be addressed.
9. Critically evaluate the statement: "Price is the most flexible element of the marketing mix." Provide arguments for and against this claim.
10. Create a marketing mix strategy that would be effective in building long-term relationships with customers in an industrial market. Explain your rationale for each element of the mix.

Unit 4: Understanding the concept of value

Unit Structure

4.1 Unit Objectives
4.2 Introduction
4.3 The Value Delivery Process
4.4 Value Chain
4.5 Core Competencies of Organizations
4.6 Unit Summary
4.7 Check your progress

4.1 Unit objectives:

After completion of the unit, learners will be able to:

1. Define and understand the concept of value in marketing.
2. Describe the value delivery process.
3. Understand the value chain concept.
4. Identify and explain the concept of core competencies.

4.2 Introduction

Marketing is the art and science of satisfying consumer needs and wants. It involves the development of market offerings that have the ability to create value for consumers whilst generating profit and showing social responsibility. In a highly competitive market environment, a company can have an edge over its competition only by refining and constantly monitoring their value delivery process while creating, delivering and communicating superior value. Value is the sum of all the tangible benefits and costs associated with an offering that a buyer chooses to purchase. In simple words, "value" refers to the perceived benefits that a consumer anticipates from a market offering based on the quality, features, and service against the cost, effort and time required to make the purchase. A firm offering a compelling value proposition to consumers can use it as a means of competitive advantage over other organizations.

4.3 The Value Delivery Process- Choosing, Providing and Communicating the value

In traditional markets where demand for goods and services is dependent on scarcity, a firm creates a product/service to sell to customers who are not concerned about quality. This process is predominantly seen in developing markets. Marketing activities in this situation occurs only during the selling process.

However, in markets consisting of different types of consumers with individual preferences and perceptions, marketers have to design and deliver goods and services by focussing on well-defined target consumer segments. In this case marketing activities start at the beginning of the planning phase. The process of value creation and delivery is divided into three phases.

First is ***choosing the value*** wherein marketers identify segments in the population which they will target and position their product/service accordingly. The key here is the segmentation, targeting and positioning (STP). Second phase consist of identifying the key features, pricing and distribution process which is used to ***provide the value***. The product forms the core of the marketing program representing a company's tangible offering to consumers encompassing the quality, design, features and packaging. Additionally, to gain competitive advantage, the firm can add delivery, repair and training as additional elements to the market offering. Based on the positioning of the product in the market, there may be iterations of development, testing and launch of new products for the future. Furthermore, the firm shall decide on pricing which needs to match the offering's perceived value. In this manner a company can create value through its offering. Next, a firm decides upon delivering the value associated with its product/ service to the target market. To do so, channel level activities are embarked upon by the company by identifying, recruiting and connecting various facilitators who are entrusted with the responsibility of supplying the product to the target market efficiently. These facilitators are retailers, wholesalers, logistic service providers, warehouses etc and decisions made at their levels result in the efficient distribution of products to the final customers. This the way in which value is delivered.

Finally, marketers need to ***communicate the value*** to the target market through an integrated marketing communication program that has the ability to maximize the contribution of all individual and collective communication activities made. The firm may need to establish mass communication programs such as advertising, sales promotion, events and public relations or take the online route through social media or mobile phone to target potential customers as and when appropriate. Certain products/services need customized personal communications such as direct marketing that require recruiting, training and motivating a designated salesforce. In this manner, a firm can communicate value embodied by its market offerings.

4.4 Value Chain

Michael Porter introduced the concept of value chain as a means of identifying ways to enhance customer value. The model states that a company is a culmination of multiple activities that come together in the designing, production, marketing, delivering and supporting of the market offering. It consists of a total of 9 strategic activities out of which 5 are **primary** and 4 are **support** activities. All these activities come together to create value in a business. **Primary activities** consist of the following:

- **Inbound logistics**- activities that are used to receive materials in the business

❖ **Operations-** activities that convert the raw materials received in to finished goods or work in progress.
❖ **Outbound logistics-** activities that are responsible for despatching finished goods
❖ **Marketing-** activities related to sales and service of the finished goods
❖ **Service-** activities that include after sales services provided by the organization.

Support activities are taken care by specialized departments viz. **procurement**, **technology development, human resource management, firm infrastructure**.

Based on the value chain, a firm assesses the cost and performance associated with the value creation activities which it can use to benchmark itself against competitors and find measures for improvement in the future. Each department in the value chain is equally responsible for the success of the firm and this dependent on how well the coordination between them is achieved.

The current marketing scenario has enabled companies to look beyond their value chain of suppliers, distributors and partners and establish relationships with organizations specialised in a specific domain thereby creating enhanced value delivery networks called supply chains.

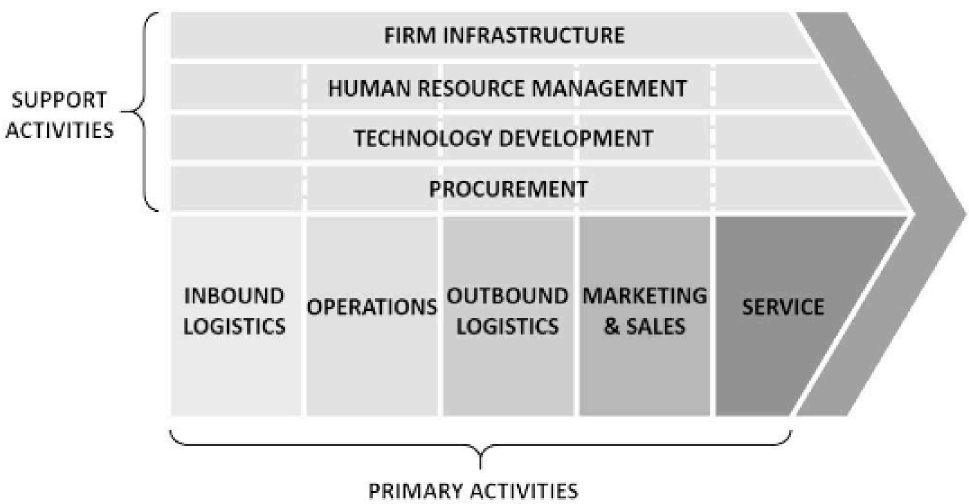

Figure 4: Porter's Value Chain (Source: Marketing Management, Phillip Kotler, 13th Ed)

4.5 Core competencies of organizations

The current business scenario has led to the outsourcing of certain resources that are not critical to the firm. In this regard, firms predominantly focus on the competencies and specializations that are the core to the essence of the business. For instance, apparel manufacturing companies outsource the zippers to companies like YKK who specialize in zipper manufacturing.

A firm's core competency is identified by three characteristics viz it provides a competitive advantage and significantly enhances perceived value for customers; applicable across diverse markets; and imitation is difficult for competitors.

Companies that are successful in identifying and nurturing their core competencies are able to differentiate themselves in the marketplace, thereby creating unique value propositions for consumers, and maintaining a sustainable competitive edge. With evolving markets and increasing competition, the continuous development and maximizing the number of core competencies becomes crucial for succeeding in the long run. Focussing on core competencies allow businesses to adapt readily to ever changing conditions, create innovative products more effectively, and finally efficiently allocate resources. This leads to improved performance and growth potential for firms.

4.6 Unit Summary

- ❖ Value is a fundamental concept that encompasses both tangible and intangible benefits and costs, influencing customer perception and decision-making.
- ❖ Value Delivery Process is a three-phase process involving choosing, providing, and communicating value to target customers.
- ❖ Choosing Value is done by identifying target segments and positioning products or services to meet their needs through segmentation, targeting, and positioning (STP).
- ❖ Providing Value is done by developing, pricing, and distributing products or services effectively to ensure customer satisfaction.
- ❖ Communicating Value is carried out using marketing communications to inform, persuade, and remind target customers about the value proposition.
- ❖ Value Chain is a framework that identifies the primary and support activities involved in creating value, helping businesses identify opportunities for improvement and competitive advantage.
- ❖ Core competencies are unique capabilities and skills that give a company a competitive advantage, enabling differentiation and superior value delivery.
- ❖ Focusing on core competencies helps businesses achieve sustainable competitive advantage, improve efficiency, and adapt to changing market conditions.

4.7 Check your progress

1-Mark Questions

1. What is the definition of "value" in marketing?
2. What are the three phases of the value delivery process?
3. Which phase of the value delivery process involves segmentation, targeting, and positioning (STP)?
4. What does the "providing value" phase of the value delivery process include?

5. Who introduced the concept of the value chain?
6. How many strategic activities are there in Porter's Value Chain model?
7. Name two primary activities in Porter's Value Chain model.
8. What are the three characteristics that identify a firm's core competency?
9. What is the purpose of focusing on core competencies for a business?
10. In the value chain, which activities are responsible for receiving materials in the business?

2-Mark Questions

1. Define the concept of value in marketing.
2. What are the three phases of the value delivery process?
3. Explain the "choosing the value" phase in the value delivery process.
4. How do firms communicate value to their target market?
5. List the five primary activities in Porter's Value Chain model.
6. What are the four support activities in the Value Chain concept?
7. Define core competencies and list their three key characteristics.
8. How does focusing on core competencies benefit a business?
9. What is the role of segmentation, targeting, and positioning (STP) in the value delivery process?
10. Explain the concept of value delivery networks in modern marketing.

5-Mark Questions

1. Explain the concept of value in marketing and describe how it impacts consumer decision-making.
2. Outline the three phases of the value delivery process and briefly explain each phase.
3. How does the traditional market approach to value creation differ from the approach used in markets with diverse consumer preferences?
4. Describe the key elements involved in "providing value" as part of the value delivery process.
5. Explain the role of integrated marketing communication in communicating value to target markets.
6. Describe Michael Porter's value chain concept and list its primary and support activities.
7. How can a company use the value chain model to enhance customer value and gain competitive advantage?
8. Define core competencies and explain the three characteristics that identify a firm's core competency.
9. Discuss the importance of core competencies in creating unique value propositions and maintaining competitive edge.
10. Explain how focusing on core competencies can lead to improved performance and growth potential for firms.

10-Mark Questions

1. Define the concept of value in marketing and explain its importance in consumer decision-making.
2. Describe the three phases of the value delivery process and explain how they contribute to creating customer value.
3. Apply Porter's Value Chain model to a company of your choice, identifying its primary and support activities.
4. Analyze the relationship between core competencies and competitive advantage in the marketplace. How do core competencies contribute to a firm's success?
5. Develop a value proposition for a new product or service, incorporating the principles of choosing, providing, and communicating value.
6. Evaluate the effectiveness of outsourcing non-critical resources in relation to a company's core competencies. What are the potential benefits and risks?
7. List and briefly explain the five primary activities in Porter's Value Chain model.
8. Illustrate how a company can use integrated marketing communications to effectively communicate value to its target market. Provide specific examples.
9.: Compare and contrast the traditional approach to marketing (focusing on selling) with the value-based approach discussed in the text. What are the key differences and implications for businesses?
10. Create a strategy for a company to identify and develop new core competencies in response to changing market conditions. Include specific steps and considerations in your plan.

Unit 5: Strategic Planning

Unit Structure

5.1 Unit objectives:

After completion of the unit, a student will be able to:

1. Explain the functions of corporate headquarters, including mission setting and SBU management.
2. Identify and evaluate internal and external factors in strategic planning.
3. Explore intensive, integrative, and diversification strategies.
4. Understand and create effective mission statements.
5. Learn the structure and purpose of a marketing plan.

5.2 Introduction:

Historically, it has been observed that only few companies have focussed on changing customer needs and effectively addressed the same. To do so, these companies have created dedicated marketing departments with strong leadership such as Chief Marketing Officers that look into strategic decision-making enabling companies to establish differentiation from the competition. To execute the right kind of marketing activities, these departments prioritize certain key areas viz. (1) manage the business similar to an investment portfolio, (2) evaluating industry's rate of growth and the position of the firm in that sector, and (3) formulating a strategy.

Majorly companies consist of 4 organizational levels viz. **corporate headquarters** that is related to strategic planning and decision making on resource allocation, **division** that plans resource allocation to business units, **business units** that strategically plans to make themselves profitable, and **product level** that creates marketing plans to achieve objectives.

Corporate headquarters generally take up four planning activities for business units:

- Setting up the corporate mission
- Setting up strategic business units (SBUs)
- Allocating resources to SBUs
- Evaluating opportunities of growth

5.3 Corporate Mission:

Organisations are established with accomplishing purposes, such as manufacturing products or providing services. This corporate mission may evolve over time to adapt to new opportunities or shifting market dynamics. For instance, Amazon.com transformed its mission from being the leading online bookstore to aiming to become the world's leading online retailer.

To define its mission, a company ought to consider Peter Drucker's fundamental questions

- What is the nature of the enterprise?
- Who are its customers?
- What do the customers value?
- What will be the future direction of the business?
- What should the business become?

Although these questions may appear straightforward, they are amongst the most challenging issues a company must address. Highly successful companies continuously strive in finding answers to these questions.

There are multiple ways in which companies define themselves. From a ***business perspective*** companies define themselves in terms of the products they create. For instance, Maruti Suzuki defines itself as an auto maker. From the ***perspective of markets***, businesses are defined as a process that satisfies customers. Whilst products and services created by companies are transient, the basic needs and customer segments persist indefinitely. For instance, if transportation is a need than a car, airplane, truck etc are products that satisfy that need. Keeping this view of satisfying customers in mind can suggest opportunities of growth.

Another key definition is from the ***perspective of target markets*** wherein the focus is on selling products or services to the current market. The target market definition of Coca-Cola would be in two ways. If the target is a customer who likes to drink carbonated soft drinks, then its competitor would be all those companies that manufacture carbonate soft drinks.

A ***strategic market definition*** would consider a broader potential market. Considering the same example, if Coca-Cola considers the target market to be anyone who would be drinking something to quench his/ her thirst, then its competitor would be companies that manufacture carbonated and non-carbonated soft drinks, packaged drinking water, juices, tea or coffee.

5.3.1 Creating the mission statement

A mission statement is carefully thought out which is developed jointly with managers, employees and customers. It offers a shared understanding of the purpose, direction and opportunities for the future. The following are the characteristics of a mission statement:

- Limited number goals such that the message is crisp and covers a number of components under it.
- Focus on the firm’s key policies and values.
- A proper definition of the industry, products, core competencies, target market segment, number of channel levels, and geographical location where the company will function.
- A long-term view wherein changes occur only when the statement ceases to be relevant.
- Should be concise, memorable but at the same time meaningful.

5.4 Strategic Business Units (SBUs)

Typically, larger corporations oversee a diverse range of enterprises, each necessitating its own distinct strategic approach. As such these companies establish **strategic business units** which are semi-independent divisions of the larger company operating on its own but reporting to the parent company.

5.4.1 Creating SBUs

SBUs have three characteristics:

- It is a single or group of related businesses wherein strategic and marketing planning can be separated from the parent company.
- The SBU has its own competitors.
- A designated manager oversees strategic planning and profit outcomes, exercising control over the majority of factors influencing profitability.

The whole idea behind creating an SBU is to formulate separate strategies and allocate appropriate funding.

5.4.2 Allocating resources to SBUs

After identifying SBUs executives must determine how to allocate the firm’s resources amongst them. Previously portfolio frameworks such as the GE/McKinsey Matrix or the BCG’s Growth-Share Matrix were widely used in this process. However, these portfolio-planning frameworks have largely fallen out of favour, being viewed as overly simplistic and subjective. Contemporary approaches utilise shareholder value analysis and assess whether a company's market value is enhanced by the presence or absence of an SBU. These value assessments examine a business's potential based on growth prospects from international expansion, strategic repositioning or retargeting, and outsourcing opportunities.

5.4.3 Evaluating growth opportunities

Evaluating expansion prospects encompasses planning for new ventures, reducing operations, and phasing out outdated businesses. The firm's management must develop or acquire new enterprises to bridge any gap between desired future revenue and projected sales, which can be determined using the strategic planning gap analysis. Three avenues exist for identifying opportunities. The first involves exploring growth potential within existing operations ***(intensive opportunities)***. The second entails recognising opportunities to establish or acquire businesses related to current operations ***(integrative opportunities).*** Third opportunity focuses on discovering attractive unrelated businesses to incorporate ***(diversification opportunities).***

5.4.3.1 Intensive growth

To achieve substantial growth, organisations should initially examine ways to enhance their current business operations. A valuable framework for this is the "***product-market expansion grid***", which evaluates a company's strategic growth prospects in relation to existing and new products and markets.

It starts when the organisation begins by exploring the possibility of increasing its market share with current products in existing markets, employing a "***market-penetration strategy***". Subsequently, it investigates the potential for discovering or developing new markets for its present offerings, known as a ***"product-development strategy".*** Finally, the company assesses opportunities to create new products for unexplored markets, referred to as a ***"diversification strategy".***

5.4.3.2 Integrative growth

Enterprises can enhance their revenue and profitability through various forms of integration within their sector, including backward, forward, or horizontal strategies. When a company acquires businesses that are further up the supply chain such as suppliers or other businesses it is called backward integration. When the company acquires intermediaries or businesses that are down in the supply chain, it is called forward integration. And, when companies acquire competitors, takes control or forms alliances with of similar part of the supply chain, it is called as horizontal integration.

5.4.3.3 Diversification Growth

Expanding into new areas through diversification works when favourable prospects exist beyond current operations. If a particular sector is appealing and the organisation possesses the appropriate combination of commercial strengths to thrive diversification growth is more feasible. However, for successful companies must assess market potential, competitive landscape, and their own core competencies to determine if they can effectively compete in the new sector. Additionally, diversification can involve significant risks, including financial investment, operational challenges, and potential dilution of focus on core business areas. Organisations should also consider the synergies between their existing operations and the new venture, as well as the potential for knowledge transfer and resource sharing. Ultimately, the decision to diversify should align with the company's long-term goals and be supported by a robust implementation plan to ensure smooth integration and sustainable growth in the new market.

The strategic-planning gap is depicted in Figure 5. The bottom curve shows the projected sales from the existing business portfolio over the upcoming five-year period, while the top curve represents the desired sales for the same timeframe. It is clear that the company aims to expand at a rate significantly higher than what its current operations can sustain. To address this strategic planning gap, three options are available.

The initial approach involves seeking growth opportunities within existing business lines (intensive opportunities). The second method entails identifying prospects to develop or acquire businesses that complement current operations (integrative opportunities). The final strategy focuses on exploring possibilities to incorporate attractive businesses unrelated to existing ventures (diversification opportunities).

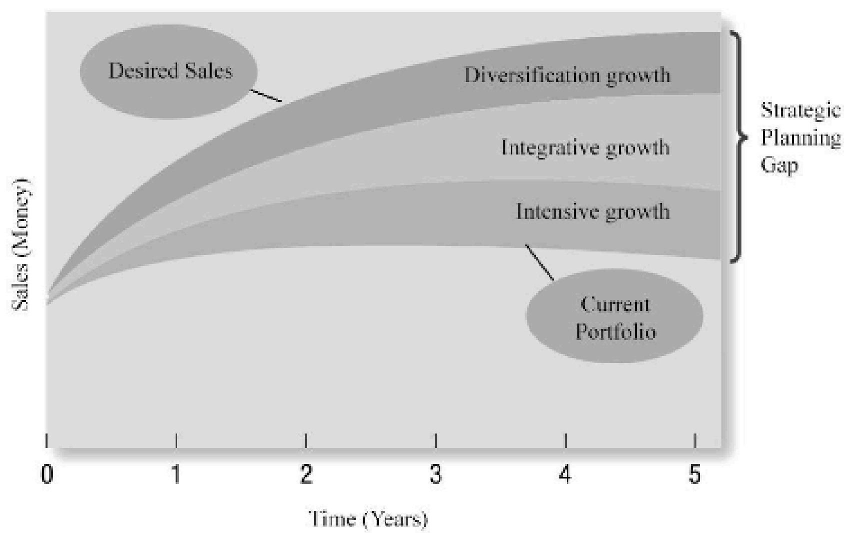

Figure 5: Strategic Planning Gap (Source: Marketing Management, Phillip Kotler, 13th Ed)

5.5 Internal and External Environment Analysis

Effective strategies require a comprehensive analysis of both internal and external environments. Internal environment analysis focuses on evaluating an organization's resources, capabilities, and core competencies. This assessment helps identify the strengths that can be leveraged for diversification and the weaknesses that may need to be addressed. External environment analysis, on the other hand, examines the factors outside the organization that can impact the success of operational and marketing efforts. By thoroughly analyzing external elements, organizations can identify potential opportunities and threats in new markets. By integrating insights from both internal and external analyses, organizations can develop well-informed diversification strategies that align with their strengths and capitalize on market opportunities while mitigating potential risks. Evaluating the overall strength, weakness, opportunities and threats of a company is called SWOT analysis which is a way of analysing the external and internal environment.

5.5.1 External environment

The external environment is analyzed by the opportunities and threats that a company has. To ensure profitability, a business unit should closely observe crucial macroeconomic factors and significant microenvironmental elements. A company must establish a marketing intelligence planning to monitor trends, notable developments, and any associated prospects or challenges.

From a marketing perspective, a ***market opportunity*** represents an area of consumer demand and interest that a firm has a strong likelihood of profitably meeting. Philip Kotler has identified that market opportunities typically arise from three primary sources. The first one involves providing a product or service that is scarce, thereby requiring minimal marketing expertise. The second one consists of delivering an existing product or service in an innovative or enhanced manner. The final method often leads to the creation of an entirely new product or service.

An **environmental threat** is an unfavourable trend or development that would lead to lower sales or profit if there is an absence of defensive marketing activity. These threats can arise from various sources, including changes in consumer preferences, technological advancements, or changes in the competitive landscape. Identifying and addressing environmental threats promptly is crucial for businesses to maintain their market position and ensure long-term sustainability.

5.5.2 Internal Environment

It is imperative for businesses to evaluate their internal **strengths** and **weaknesses**. It is a critical aspect of strategic planning for businesses, enabling organizations to understand their capabilities and limitations. This internal analysis process encompasses various key areas, including human resources, financial resources, physical assets, intellectual property, and operational efficiency. By examining these aspects, companies can identify their core competencies and areas for improvement, allowing them to leverage strengths and address weaknesses effectively. Additionally, the evaluation extends to marketing and brand strength, innovation capabilities, management effectiveness, organizational culture, and supply chain relationships, providing a comprehensive understanding of the company's internal environment. This thorough assessment empowers businesses to make informed decisions and develop strategies that capitalize on their strengths while mitigating weaknesses, ultimately enhancing their competitive position in the market.

Identifying both **absolute** and **relative strengths** and **weaknesses** is crucial. Relative strengths and weaknesses are assessed in comparison to competitors. If all produce quality products, it's not a relative strength. Two lists should be made for absolute strengths and weaknesses. Exploitable strengths can be both absolute and relative, depending on whether competitors also possess them. Relative strengths provide a business with distinctive competencies. An absolute weakness common among competitors should be noted, as overcoming it can become a relative strength. If all businesses in an industry have poor after-sales service, this weakness can present a competitive advantage. Relative weaknesses should also be listed as they may lead to competitive disadvantages requiring attention.

A robust analysis of both the internal and external environments is essential for devising effective strategies that drive organizational success. By integrating insights from these analyses, organizations can develop strategies that align with their unique capabilities while responding proactively to external factors. This comprehensive approach not only enhances competitive positioning but also equips businesses to achieve long-term sustainability and growth in a rapidly evolving market landscape.

5.6 Marketing Plan

Marketers develop specific ***marketing plans*** for individual products, brands, channels, or customer groups, working within the framework established by higher-level strategies. These plans provide an outline to the marketer's understanding of the marketplace, as well as the company's approach to achieving its marketing objectives encompassing tactical guidelines for marketing programmes and financial allocations during the planning period. A marketing plan is crucial to the marketing process, providing direction and focus for a brand, product, or company. It communicates and motivates key stakeholders both internally and externally about their marketing goals and implementation strategies. Compared to a business plan, a marketing plan has a narrower scope, detailing only the strategic objectives and specific marketing strategies and tactics, with the customer as the central focus. It is also coordinated with plans from other departments.

5.6.1 Sections in a marketing plan

A marketing plan has the following sections.

- **Executive Summary**

The executive summary provides a summarized form of the background data in terms of sales, costs, existing competition, and the macroenvironment. It also provides the details of the market, its size and the growth rate. Based on this information a firm can conduct a SWOT analysis.

- **Marketing Strategy**

In this part of the plan, the marketer defines the mission, marketing and financial objectives and the customer need that the product or service intends to fulfil and the positioning. To define the same, inputs from all departments of the company is required.

- **Marketing Tactics**

In this part of the plan, all marketing activities such as the key attributes of the offering, price range and its variation in terms of incentives and discounts, distribution and communication channels are detailed.

- **Financial projections**

Financial projections encompass three key components: sales projections, expense forecast, and break-even analysis. The revenue aspect involves projected monthly sales figures across various product categories, whilst the expense forecast anticipates the marketing costs. Finally, the break-even analysis calculates the monthly unit sales required for the company to cover its fixed costs and average variable costs per unit.

- **Implementation Controls**

The final section provides the mechanisms for supervision and adjusting the plan's execution. It generally specifies monthly or quarterly objectives and financial allocations for assessing the outcomes of each period and implement necessary corrective measures as and when required.

5.7 Unit Summary

- ❖ Companies effectively addressing customer needs often establish strong marketing departments with leadership like Chief Marketing Officers to oversee strategic decision-making and differentiation.
- ❖ Businesses operate at four levels: corporate headquarters for strategy, division for resource planning, business units for profitability, and product level for marketing plans.
- ❖ The mission evolves with opportunities and market dynamics. Successful companies align their purpose with fundamental questions like their enterprise's nature, customer needs, and future direction.
- ❖ Effective mission statements are concise, goal-oriented, value-focused, industry-specific, and have a long-term outlook, remaining relevant and meaningful.
- ❖ Larger corporations create SBUs, independent divisions with unique strategies, competitors, and managers, enabling tailored strategies and resource allocation.
- ❖ Modern methods prioritize shareholder value analysis over traditional frameworks like the BCG Matrix, focusing on growth opportunities and strategic value.
- ❖ Businesses identify opportunities through three avenues: intensive growth (e.g., market penetration), integrative growth (e.g., supply chain integration), and diversification into unrelated ventures.
- ❖ Internal evaluation focuses on resources, competencies, and limitations, encompassing financial, operational, and intellectual assets to identify strengths and weaknesses.
- ❖ External analysis identifies market opportunities and threats influenced by macroeconomic and microenvironmental factors, requiring proactive strategies to sustain competitiveness.
- ❖ Combining internal and external insights into a SWOT analysis enables businesses to align strategies with strengths, address weaknesses, seize opportunities, and mitigate threats.
- ❖ A marketing plan serves as a focused guide for achieving marketing goals, aligning tactical strategies with higher-level objectives, and coordinating across departments.
- ❖ A marketing plan includes an executive summary, marketing strategy, tactical details, financial projections (sales, expenses, and break-even analysis), and implementation controls to monitor and adjust progress.

5.8 Check your progress

1 Mark Questions

1. What are the four organizational levels in most companies?
2. Who typically oversees strategic planning and profit outcomes in an SBU?
3. What does BCG stand for in the context of portfolio planning frameworks?
4. What is the term for acquiring businesses further up the supply chain?

5. What does SWOT stand for in business analysis?
6. What is the primary focus of a marketing plan compared to a business plan?
7. How many key components are typically included in financial projections?
8. What does SBU stand for?
9. Who proposed the fundamental questions for defining a company's mission?
10. What is the term for acquiring businesses that are down in the supply chain?

2 Mark Questions

1. Explain the concept of a strategic planning gap.
2. What are the three primary sources of market opportunities according to Philip Kotler?
3. Describe the difference between absolute and relative strengths in internal analysis.
4. What are the main characteristics of an effective mission statement?
5. How does integrative growth differ from intensive growth?
6. What is the purpose of the executive summary in a marketing plan?
7. Explain the concept of a product-market expansion grid.
8. What is the significance of break-even analysis in financial projections?
9. How does backward integration differ from forward integration?
10. What is the purpose of implementation controls in a marketing plan?

5 Mark Questions

1. Analyze how a company's mission statement can evolve over time, using Amazon as an example.
2. Compare and contrast the three avenues for identifying growth opportunities in a business.
3. Evaluate the importance of both internal and external environment analysis in strategic planning.
4. Analyze the role of SBUs in large corporations and their impact on strategic decision-making.
5. Examine the process of allocating resources to SBUs and how it has evolved over time.
6. Discuss the potential risks and benefits of diversification as a growth strategy.
7. Analyze the components of a comprehensive marketing plan and their interdependencies.
8. Evaluate the importance of financial projections in a marketing plan and their role in decision-making.
9. Examine the role of Chief Marketing Officers in strategic decision-making and company differentiation.
10. Analyze the process of creating an effective mission statement and its impact on a company's direction.

10 Mark Questions

1. Develop a comprehensive marketing plan for a hypothetical product, including all key sections discussed in the text.

2. Evaluate the effectiveness of traditional portfolio planning frameworks versus modern approaches like shareholder value analysis in resource allocation.
3. Create a strategy for a company facing a significant strategic planning gap, detailing how you would address it using the three growth avenues.
4. Design a process for conducting a thorough internal and external environment analysis for a multinational corporation entering a new market.
5. Evaluate the challenges and opportunities in implementing a diversification growth strategy, and propose a framework for assessing potential new ventures.
6. Develop a strategic plan for transforming a single-product company into a multi-SBU organization, addressing all key aspects of SBU creation and management.
7. Create a comprehensive SWOT analysis for a well-known company, and use it to propose strategic recommendations for future growth.
8. Evaluate the role of mission statements in guiding corporate strategy, and propose a process for developing and regularly updating an effective mission statement.
9. Design a framework for integrating marketing plans across multiple SBUs in a large corporation, ensuring alignment with overall corporate strategy.
10. Develop a strategy for a company to transition from a product-centric to a market-centric definition of its business, addressing potential challenges and opportunities.

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MODULE 2: CONSUMER BEHAVIOUR AND DEALING WITH COMPETITION

Consumer and Consumer Behaviour, Factors influencing consumer behaviour, Consumer buying decision process, Business markets vs consumer markets, Market Segmentation, Targeting and Positioning, Identifying and Analyzing competitors, Competitive Strategies of Market Leaders, Market Challengers, Followers and Nichers.

Module Structure

Unit 1: Consumer and Consumer Behaviour

Unit Structure

1.1 Unit Objectives

After completion of the unit students will be able to:

1. Understand the concept and importance of consumer behaviour in marketing.
2. Analyze key factors influencing consumer behaviour, including psychological, social, and cultural aspects.
3. Explore the stages of the consumer buying decision process and their impact on marketing strategies.
4. Compare the characteristics of business markets and consumer markets.
5. Apply insights from consumer behaviour analysis to enhance marketing decision-making.

1.2 Introduction

Marketing encompasses the activities, institutions, and processes involved in creating, communicating, delivering, and exchanging offerings that provide value to customers, clients, partners, and society at large. The study of consumer behaviour examines the actions individuals take when searching for, purchasing, utilising, evaluating, and disposing of products and services they believe will fulfil their needs. At the heart of marketing lies the identification of unmet needs and the provision of goods and services to satisfy them. Consumer behaviour elucidates how people allocate their available resources (such as time, money, and effort) towards products offered by marketers. This field of study explores which products and brands consumers purchase, their motivations for buying, the timing and location of their purchases, the frequency of their buying and usage, their post-purchase evaluations, and whether they engage in repeat purchases.

The same consumer may exhibit varying purchasing behaviours for an identical product under different circumstances. Analysing consumer behaviour enables novel market segmentation approaches and the application of diverse marketing strategies, even when the product remains constant across segments. Alternatively, distinct offerings can be crafted for various segments using different marketing approaches. The selection of target markets and the formulation of marketing strategies to serve them are significantly influenced by consumer behaviour patterns.

Few key aspects of consumer behaviour include:

- It is a multi-dimensional process since consumer decisions involve multiple steps that influenced by different factors such as lifestyle, demographics or cultural values.
- Successful marketing decisions can only be taken when underlying consumer behaviour is understood.
- Marketers have to rely heavily on the information about specific consumers that they are targeting.
- Marketing practices targeting these specific group of consumers involve ethical issues that affect the firm, consumer and the society.

1.3 Types of Consumers

Consumers who experience high levels of satisfaction or delight tend to remain loyal to specific products and brands, offer positive word-of-mouth to others, and frequently become long-term customers. Conversely, those with lower satisfaction levels or neutral feelings may immediately switch to a competitor or wait for a slightly better offer from another marketer before changing. Moreover, extremely dissatisfied customers often spread negative, and sometimes exaggerated, word-of-mouth. In their book "Consumer Behaviour", Leon G. Schiffman and Joseph Wisenblit noted that various consumer types can be identified based on their level of satisfaction. These are:

- ❖ ***Loyalists*** are devoted consumers who consistently make purchases and are fully content. ***Apostles***, on the other hand, are faithful customers whose expectations were exceeded by their experiences with the company, leading them to spread highly positive word-of-mouth about the business to others. Organisations should aim to cultivate apostles and develop strategies to achieve this goal.
- ❖ ***Defectors*** are individuals who feel neutral or merely satisfied with the company and are prone to switching to competitors offering lower prices. Businesses must enhance defectors' satisfaction levels to transform them into loyalists.
- ❖ ***Terrorists*** are clients who have encountered negative experiences with the company and disseminate negative word-of-mouth. Companies should implement measures to eliminate terrorists from their customer base.
- ❖ ***Hostages*** are unhappy customers who remain with the company due to a monopolistic environment or low prices. They are challenging and expensive to manage because of their frequent complaints. Businesses should consider terminating relationships with hostages, potentially by dismissing their recurrent grievances.
- ❖ ***Mercenaries*** are highly satisfied customers who lack genuine loyalty to the company and may defect due to lower prices elsewhere or on impulse, contradicting the satisfaction-loyalty principle. Companies ought to examine these customers and discover ways to reinforce the connection between satisfaction and loyalty.

1.4 Factors influencing consumer behaviour

Philip Kotler identified multiple factors have been identified that affect consumer behaviour. These factors include cultural, social, personal and psychological factors (Fig 6). The next sections describe each factor in detail:

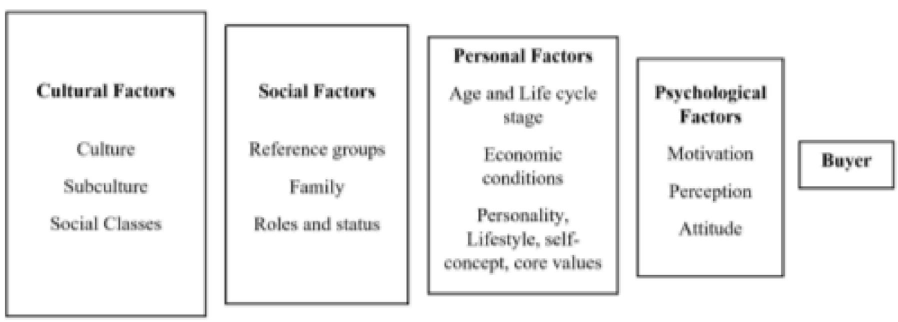

Figure 6: Factors influencing buying behaviour of consumers

1.4.1 Cultural factors

Consumer purchasing behaviour is significantly influenced by culture, subculture, and social class.

An individual's wants and behaviour are fundamentally shaped by **culture**. Children in different countries will be exposed to different values which are native to the cultural background of that country through family and other key institutions. To effectively promote existing products and identify opportunities for new ones, marketing professionals must pay close attention to the cultural values prevalent in each country they operate in.

Within every society, there exist various smaller **subcultures** that offer more precise identification and socialisation for their members. These subcultures encompass nationalities, religious affiliations, ethnic groups, and geographical areas. As these subcultures grow larger and become affluent, businesses often develop tailored marketing strategies to cater to their specific needs.

Nearly all human cultures demonstrate social stratification, typically manifested as **social classes**. These classes are enduring, relatively homogenous, and arranged in a hierarchical order. Members of each class tend to share similar values, interests, and behaviours. Notably, individuals belonging to different social classes often exhibit distinct preferences for products and brands across various domains.

1.4.2 Social Factors

Consumer behaviour is also affected by social factors such as reference groups, family and social roles and status.

An individual's attitudes and behaviour are influenced by various groups, both directly and indirectly, which are collectively known as **reference groups**. Those exerting direct influence are termed **membership groups**. These encompass **primary groups**, with whom the individual has frequent and informal interactions, such as relatives, companions, neighbours, and colleagues. Additionally, individuals are part of **secondary groups**, including religious organizations, professional associations, and trade unions. These secondary groups typically involve more formal interactions and less frequent contact.

These groups introduce individuals to novel behaviours and lifestyles, shape their self-concept and attitudes, and generate social pressure that can impact their selection of products and brands. Furthermore, people are affected by groups they are not part of. **Aspirational groups** are those an individual wishes to become a member of, while **dissociative groups** are those wherein a person rejects the whose values or conduct exhibited by the group.

In situations where reference groups wield significant influence, marketing professionals must identify strategies to access and sway the opinions of influential individuals within these groups. These key figures, known as **opinion leaders,** provide informal guidance or information about specific products or product categories, such as recommending the best brand or explaining product usage. Their impact on purchasing decisions can be substantial, as they facilitate word-of-mouth communication. Opinion leaders possess greater credibility due to their membership in the reference group and their lack of vested interest in product sales, unlike marketers who have a commercial agenda.

In society, the family unit stands as the most crucial consumer purchasing entity, with family members serving as the most impactful primary reference group. The **family of origin**, comprising parents and siblings, plays a pivotal role. An individual's orientation towards religion, politics, and economics, as well as their sense of personal ambition, self-esteem, and affection, are all shaped by parental influence. Notably, even when an individual's interaction with their parents diminishes, the parental impact on their behaviour can remain substantial.

The spouse and children of an individual, collectively known as the **family of procreation**, exert a more immediate influence on day-to-day purchasing decisions. Each individual in the family exerts different levels of influence during a purchase. For daily purchases such as food, the wife usually acts as the purchasing agent. Whereas, for expensive purchases such as both the husband and wife jointly take decisions. Children in the family also play a key role in purchases through hints, requests or demands.

Finally, individuals participate or are part of many groups such as clubs, organizations etc. An individual's standing within each group can be characterised by their role and status. A **role** entails the set of activities an individual is expected perform. Each role, in turn, implies a certain **status**. For instance, a marketing senior vice president might possess higher status than a sales manager, whilst a sales manager might outrank an office clerk in terms of status. It is crucial for marketers to recognize the potential of products and brands to serve as symbols of social standing.

1.4.3 Personal Factors

Personal factors affecting consumer buying decision include age and stage in the life cycle, occupation and economic circumstances, personality and self-concept, and lifestyle and values.

Age often influences our preferences in food, attire, home decor, and leisure activities. The **family life cycle**, including the number, age, and gender of its members at any given time, also plays a role in shaping consumption patterns. Furthermore, **psychological life-cycle** stages can be significant. As adults progress through life, they experience various transitions and transformations. Their behaviour during these periods, such as when becoming a parent, changes with time. Additionally, marketers should consider critical life events as these can generate new requirements. These life events present opportunities for service providers, to offer tailored assistance.

An individual's **occupation** can significantly shape their purchasing habits. Marketers seek to identify occupational groups with higher levels of interest in their offerings and may even customise products for specific professions. The selection of products and brands is heavily influenced by **economic circumstances** such as disposable income, savings and assets, liabilities, borrowing power, and attitudes towards expenditure and saving. For instance, when economic forecasts suggest an impending downturn, marketers may adapt by modifying, repositioning, and adjusting the pricing of their products. Alternatively, they might introduce or place greater emphasis on budget-friendly brands to ensure they continue providing value to their target consumers.

Personality refers to a collection of distinctive psychological characteristics in humans that result in fairly consistent and lasting reactions to environmental cues, including purchasing behaviour. Personality is characterized using traits such as self-confidence, dominance, autonomy, sociability, defensiveness, and adaptability. Similarly, brands also possess personalities, and consumers tend to favour brands whose personalities align with their own. **Brand personality** is defined as the unique combination of human attributes that are associated with a specific brand. Individuals often select and utilize brands with personalities that correspond to their **actual self-concept** (how they perceive themselves). However, this alignment can alternatively be based on the consumer's **ideal self-concept** (how they aspire to view themselves) or **others' self-concept** (how they believe others perceive them).

Individuals from identical subcultural backgrounds, socioeconomic groups, and occupations may embrace different **lifestyles**. A lifestyle reflects an individual's living pattern in the world, projected through their activities, interests, and perspectives. It offers a comprehensive portrayal of how a person interacts with their surroundings. As such marketers seek to identify connections between their offerings and various lifestyle segments.

Consumer lifestyles are also shaped in terms of whether they are **money constrained** or **time constrained**. Money-constrained are generally served by creating lower-cost products and services. Walmart targets money constrained consumers through their everyday low pricing and has repurposed their supply chain accordingly.

Core values, which are fundamental belief systems underlying attitudes and behaviours, significantly impact consumer choices. These values are more profound than mere behaviours or attitudes, fundamentally shaping individuals' long-term preferences and aspirations. Marketers who focus on consumers' core values believe that by appealing to their inner selves, they can effectively influence their external behaviours, particularly their purchasing decisions. This approach suggests that tapping into consumer’s inner selves can be a powerful tool in guiding their consumer behaviour.

1.4.4 Psychological factors

Consumer decision-making is influenced by a combination of marketing and environmental cues that interact with psychological processes and individual characteristics. These interactions culminate in decision-making processes and eventual purchase choices. The challenge for marketers lies in understanding the cognitive processes in a consumer's mind from the moment external marketing stimuli are perceived to the final purchasing decision.

The following psychological factors influence impact consumer buying behaviour: motivation, perception, learning, beliefs and attitudes.

All individuals have needs. Certain needs are **innate** or **biogenic** (arising from hunger, thirst etc.) and **acquired** or **psychogenic** (arising from the need for recognition, self-esteem etc.). When the intensity of the need is aroused to the level that it drives an individual to act, it becomes a **motive**. **Motivation** encompasses two aspects: **direction-** where an individual chooses one objective over others, and **intensity-** which determines the level of effort the individual invests in pursuing that objective.

A very popular theory of motivation is the Abraham Maslow's hierarchy of needs theory (Fig 7). According to the theory, an individual can be motivated based on:

- Physiological needs: Food, water, shelter
- Safety needs: Security and protection.
- Social Needs: Sense of belongingness and love
- Esteem Needs: Recognition and status
- Self-actualization Needs: Self-development

Figure 7: Abraham Maslow's Hierarchy of Needs Theory

The second psychological factor is **perception**. Perception is the "process by which a person selects, organizes and interprets sensory stimulation to form a meaningful picture of the world". It refers to how a consumer interprets and understands the information they receive. The interpretation of stimuli by consumers is influenced not only by physical properties but also with the surrounding environment and their internal state.

There are three perceptual processes based on which an individual comes up with different perceptions:

- **Selective attention:** The initial stage in the perceptual process is encountering a stimulus. For a consumer to interpret a stimulus, they must first come into contact with it. The subsequent phase involves attention. However, individuals filter out stimuli that lack relevance to them or contradict their personal experiences and convictions. As such, consumers attend to only a small percentage of the communication that they are exposed to which is called a **selective attention.** Individuals are sometimes exposed to unexpected stimuli, such as offers in a supermarket or departmental store which sometimes bypass the screening process.
- **Selective distortion:** It refers to the tendency of individuals to interpret information in a manner that aligns with their preconceptions. Frequently, consumers will skew information to match their previous beliefs and expectations regarding brands and products. As an example, a lower price might be interpreted differently by various consumers; one may perceive it as an indication of inferior quality, whilst another might view it as good value for money.
- **Selective retention:** People generally retain information that aligns with their existing views and attitudes, rather than remembering all the information they encounter. This **selective retention** means they are more likely to recall positive aspects of a product whilst forgetting the strengths of offerings from the competition. This phenomenon benefits well-established brands and underscores the importance of repetition in marketing strategies to ensure messages are not overlooked. Selective retention explains why most people struggle to remember much of the information they are exposed to, yet easily recall details that support their preconceived notions and beliefs.

The third psychological factor is **learning.** Action leads to learning, which results in behavioural modifications based on our experiences. The majority of human behaviour is acquired through learning, although much of this is incidental. Theorists propose that the process of learning is generated through the interaction of drive, environmental stimuli, cues, responses, and positive reinforcement. A **drive** is a "strong internal stimulus compels an action". **Cues** are minor stimuli that influence the timing, location, and manner of an individual's response. According to learning theory, marketers can generate product demand by linking it with powerful motivations, employing stimulating signals, and offering positive feedback.

The final psychological factor influencing consumer decisions is belief and attitude. A **belief** represents an individual's thoughts about a product or brand based on specific choice criteria. For instance, a consumer might believe that Swatch produces watches of international quality, or that a particular hotel offers excellent room service. It's important to note that beliefs are perceptions, which may not always align with factual reality. Misconceptions about products can negatively impact brand sales. For example, a consumer might perceive durable goods brand as expensive due to its advertising imagery.

An **attitude,** on the other hand, is an overall positive or negative assessment of a product. It can stem from a set of beliefs and may be either favourable or unfavourable towards the product. They can develop through information-seeking activities or as a result of product usage. Attitudes play a crucial role in product design, as designers strive to align product attributes with customer beliefs and attitudes. Additionally, attitudes are significant in persuasive communications from companies, which aim to reinforce positive beliefs and attitudes, rectify misconceptions, and establish new beliefs.

1.5 Types of buying decision behaviour

Consumers generally exhibit four types of buying behaviour which is based on their **level of involvement** of the consumer and **level of differences between brands** (Fig 8). These are:

❖ **Complex buying behaviour**

It is a phenomenon observed when consumers are purchasing expensive products. Such purchases do not happen on a frequent basis thereby, leading to high involvement in the purchase decision-making process. This behaviour is characterized by extensive research by consumers before committing to purchase. Consumers undergo a learning process wherein, consumers develop beliefs about the product, followed by the formation of attitudes, and finally, make a purchase decision. Given the complexity of this process, marketers should possess a comprehensive understanding of their products and assist consumers in navigating this complex decision-making journey. By providing detailed information and guidance, marketers can help consumers make informed choices, ultimately facilitating a more satisfying purchase experience.

❖ **Dissonance-reducing buying behaviour**

This buying behaviour is characterized by high level of consumer involvement, often arising from high prices and infrequent purchases. In this scenario, there are limited choices with very few significant brand differences, leading them to select products based on availability. For instance, the purchase of split-type air conditioners, which represents a high-involvement decision due to its cost and limited variation in options. To address potential post-purchase dissonance, marketers should implement after-sale service campaigns with targeted messaging.

These initiatives serve to support consumers and convince their brand choice, ultimately aiming to reduce cognitive dissonance and enhance customer satisfaction.

❖ Habitual buying behaviour

This type of buying behaviour consists of low levels of consumer involvement in the purchase decision. Moreover, the offerings where consumers generally show habitual buying behaviour have minimal perceived differences between brands. This behaviour is common for everyday products, where consumers make quick decisions without much thought in the decision process. In this case, consumers generally choose the product from their favourite brand, a regularly used product, an easily available option, or the least expensive option. For instance, purchasing a loaf of bread. Since, consumer engagement is low during the purchase process, marketers should employ visual symbols and imagery in their advertising so that it can capture the attention and influence purchasing decisions.

❖ Variety Seeking Buying Behavior

In this type of buying behaviour consumers exhibit low involvement and there exists significant differences between brands. In this scenario, consumers frequently switch brands due to the low cost of switching. Moreover, consumers exhibit a desire for novelty which is driven by curiosity or boredom. This desire does not depend on dissatisfaction with current products. For example, a consumer might exhibit impulsive purchase behaviour to try a new biscuit brand without much thought. Generally, market leaders maintain large inventories and run reminder advertisement frequently. In contrast, market challengers aim to capitalize on consumers' variety-seeking tendencies by employing various sales promotion strategies, such as cash discounts, special deals, coupons, and free samples, to entice consumers to try their products.

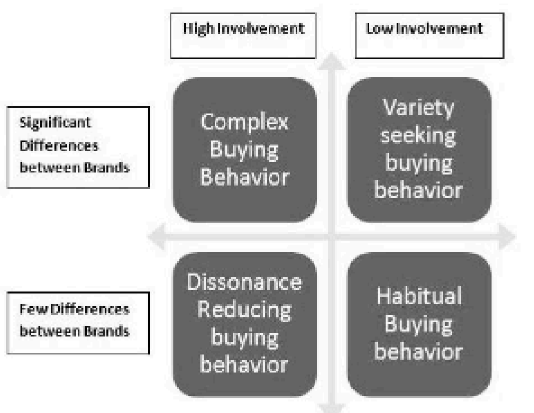

Figure 6: Types of consumers based on level of involvement and differences among brands

1.6 Consumer Buying Decision process: Five stage model

Marketing scholars proposed a "stage model" that outlines the consumer's journey through five distinct phases: **identifying a need, seeking information, comparing options, making a purchase,** and **post-purchase behaviour**. It is evident that the purchasing process begins well before the actual transaction and continues to have implications long after the purchase is made.

1.6.1 Problem recognition

The buying process starts when the consumer identifies a problem or need, prompted by either internal or external stimuli. Internal stimuli occurs when one's biogenic needs reach the threshold thereby becoming a drive. Even external stimuli may also play a role in problem recognition. For example, seeing friend's new car may inspire an individual into the thoughts of making a purchase. Effective marketing strategies can be developed by identifying specific circumstances and collecting data from consumers.

1.6.2 Information Search

Consumers typically conduct limited research while making purchases. It is crucial for marketers to understand the nature of information that consumers are seeking or willing to receive at various times and places. There are two distinct levels of information search. The first is **heightened attention** where individuals become more receptive to product-related information. The second one is **active information search** which is an intensive level involving active information gathering where consumers may go through product magazines or browse the internet for online material, contact friends, and visit stores to acquire first hand experience of the product. There are four groups of information sources that consumers use viz. personal, commercials, public and experiential.

1.6.3 Evaluation of alternatives

Consumers do not employ a uniform approach across all purchasing decisions, nor does an individual consistently use the same method. Various processes exist, and contemporary models suggest that consumers predominantly form judgements through conscious and logical reasoning. To comprehend consumer evaluation processes, several fundamental principles are crucial. Firstly, consumers aim to fulfil a specific need. Secondly, they seek particular advantages from the product solution. Thirdly, consumers perceive each product as a collection of characteristics with differing capacities to deliver these benefits. The attributes that buyers find important vary depending on the product in question.

1.6.4 Purchase decision

During the assessment phase, consumers develop preferences amongst the available brands within their selection pool and might also formulate an intention to purchase their top choice. When acting on this purchase intention, the consumer may need to make decisions on up to **five aspects**: the specific brand, the retailer, the amount to buy, when to make the purchase, and the method of payment.

1.6.5 Post purchase behaviour

Following a purchase, customers may encounter cognitive dissonance upon discovering unsettling features or learning of positive aspects of alternative brands. They will actively seek information that validates their choice. To address this, marketing communications should provide affirmations and assessments that bolster the customer's decision and foster positive feelings towards the brand. The marketer's responsibility extends beyond the point of sale. It is crucial for marketers to track customer satisfaction, behaviour, and product utilisation post-purchase, as well as how customers dispose of the product. This ongoing engagement ensures that the customer's experience aligns with their expectations and reinforces their decision to choose the brand.

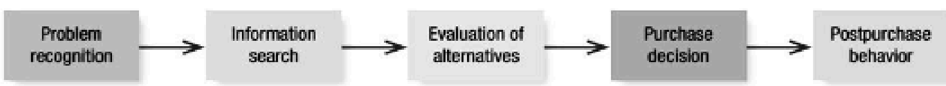

Figure 7: Five step consumer buying process

1.7 Organizational buying

According to Frederick E. Webster Jr. and Yoram Wind, organisational buying involves a decision-making procedure whereby firms establish the need for purchased goods and services, then proceed to identify, evaluate, and choose from different brands and vendors.

The commercial market encompasses all entities that procure goods and services for use in creating other products or services that are subsequently sold, leased, or provided to others. Any company supplying components for products operates within the business-to-business sector. The business market comprises several major industries, including aerospace; agriculture, forestry, and fisheries; chemical; computer; construction; defence; energy; mining; manufacturing; transportation; communication; public utilities; banking, finance, and insurance; distribution; and services.

Commercial marketers encounter similar challenges as consumer marketers, particularly in interpreting their customers and what they deem to be of value. According to Philip Kotler's book on Marketing Management, the three primary obstacles for B-to-B marketing are: (1) establishing stronger connections between marketing and sales departments; (2) enhancing relationships between innovation and marketing departments; and (3) collecting and utilising more detailed customer and market information.

1.8 Business markets vs consumer markets

Compared to consumer markets, business markets are distinct in many ways. They have:

- **Fewer, larger buyers:** Business marketers typically engage with fewer but significantly larger buyers compared to consumer marketers, especially in industries like aircraft engines and defense weapons. Companies such as Goodyear tires, Cummins engines, and Delphi control systems largely rely on securing substantial contracts from a few major automakers**.**
- **Close supplier-customer relationships*:*** Given the limited customer base and the influence of major customers, suppliers often find themselves tailoring their products to meet the specific requirements of individual business clients. Moreover, corporate purchasers frequently opt for vendors who are also their customers.
- **Professional purchasing:** In the corporate world, procurement of goods is typically handled by skilled purchasing professionals who must adhere to their company's specific procurement guidelines, limitations, and specifications. Consequently, companies marketing to businesses need to provide more comprehensive technical information about their products and highlight their competitive edge.
- **Multiple buying influences:** Business purchasing decisions typically involve a larger number of individuals. For significant acquisitions, it is common to have buying groups comprising technical specialists and senior management. To effectively engage with these skilled purchasers, companies marketing to businesses must deploy well-prepared sales personnel and teams.
- **Multiple sales calls:** Closing a sale in the case of business markets requires considerable amount of time when compared to consumer markets. This may require multiple calls to complete the sales process from quoting the job to actual delivery of the product, which may even take years.
- **Derived demand:** The demand for commercial products is fundamentally derived from consumer goods demand. As a result, business-oriented marketers must monitor end-consumer behaviours. Commercial buyers must also be vigil of economic metrics such as production levels, investment, consumer spending, and interest rates. The challenge for B2B marketers lies in vigorously competing to sustain their market position as they have minimal influence over total demand.
- **Inelastic demand:** For numerous commercial products and services, the total demand exhibits inelasticity by remaining largely unaffected by fluctuations in price. This is primarily because producers face constraints in quickly making changes in their manufacturing processes. Additionally, demand tends to be inelastic for business commodities that constitute a minor portion of an item's overall cost, such as shoelaces in footwear production.

- **Fluctuating demand*:*** Business goods and services typically exhibit more fluctuations in demand compared to consumer products. A small increase in consumer demand can lead to a significantly larger increase in the need for industrial equipment and facilities. This phenomenon is known to economists as the *acceleration effect*.
- **Geographically concentrated buyers:** Geographical clustering of manufacturers helps to minimise sales expenses. However, business marketers must remain vigilant of regional industry shifts which may change due to changing market conditions.
- **Direct purchasing:** For technically complex or high-value items such as servers or aeroplanes, business buyers frequently opt to acquire directly from manufacturers, bypassing intermediaries.

1.9 Unit Summary

- Consumer behaviour studies how individuals allocate resources to purchase products and services, including their motivations, buying patterns, and post-purchase evaluations.
- Types of consumers include loyalists, apostles, defectors, terrorists, hostages, and mercenaries, each with distinct satisfaction levels and behaviours.
- Cultural factors, including culture, subculture, and social class, significantly influence consumer purchasing behaviour.
- Social factors such as reference groups, family, and social roles/status affect consumer decisions.
- Personal factors like age, occupation, economic circumstances, personality, and lifestyle shape consumer preferences and buying habits.
- Psychological factors, including motivation, perception, learning, beliefs, and attitudes, impact consumer decision-making processes.
- Four types of buying decision behaviour exist: complex, dissonance-reducing, habitual, and variety-seeking.
- The five-stage consumer buying decision process includes problem recognition, information search, evaluation of alternatives, purchase decision, and post-purchase behaviour.
- Business markets differ from consumer markets in terms of buyer characteristics, relationships, purchasing processes, and demand patterns, requiring specialized marketing approaches.

1.10 Check your progress:

1-mark questions:

1. Define consumer behaviour.
2. List two types of consumers based on satisfaction levels.
3. Name one cultural factor influencing consumer behaviour.
4. What does the acronym B2B stand for in marketing?

5. Identify one characteristic of business markets compared to consumer markets.
6. What is the first stage in the consumer buying decision process?
7. Define cognitive dissonance in the context of consumer behaviour.
8. Name one psychological factor affecting consumer buying behaviour.
9. What does "derived demand" mean in business markets?
10. Define brand personality.

2-mark questions:

1. Explain the difference between biogenic and psychogenic needs.
2. Describe two types of reference groups that influence consumer behaviour.
3. Compare complex buying behaviour and habitual buying behaviour.
4. Outline two ways marketers can address post-purchase dissonance.
5. Explain the concept of selective attention in consumer perception.
6. Describe two characteristics of business markets that differ from consumer markets.
7. What are the two levels of information search in the consumer buying process?
8. Explain how core values influence consumer choices.
9. Describe the role of opinion leaders in consumer behaviour.
10. What is the acceleration effect in business markets?

5-mark questions:

1. Analyze the four main factors influencing consumer behaviour and provide an example for each.
2. Explain the five stages of the consumer buying decision process and their importance to marketers.
3. Discuss three key challenges faced by B2B marketers and suggest strategies to overcome them.
4. Compare and contrast the characteristics of business markets and consumer markets.
5. Evaluate the impact of cultural factors on consumer behaviour and provide examples.
6. Analyze the role of motivation in consumer behaviour, using Maslow's hierarchy of needs as a framework.
7. Explain the concept of market segmentation based on consumer behaviour and provide examples.
8. Discuss the importance of understanding post-purchase behaviour for marketers and suggest strategies to manage it.
9. Analyze the influence of social factors on consumer behaviour, focusing on reference groups and family.
10. Explain the different types of buying decision behaviour based on consumer involvement and brand differences.

10-mark questions:

1. Critically analyze the various psychological factors influencing consumer behaviour and their implications for marketing strategies.
2. Evaluate the importance of understanding consumer behaviour in developing effective marketing strategies. Provide examples to support your answer.
3. Compare and contrast the consumer buying decision process for high-involvement and low-involvement products. Discuss the marketing implications for each.
4. Analyze the key differences between business markets and consumer markets. Discuss how these differences impact marketing strategies in B2B contexts.
5. Critically examine the role of culture in shaping consumer behaviour. Provide examples of how cultural factors influence marketing strategies in global markets.
6. Evaluate the impact of digital technology and social media on consumer behaviour and discuss how marketers can adapt their strategies accordingly.
7. Analyze the concept of brand loyalty in consumer behaviour. Discuss strategies that marketers can use to build and maintain brand loyalty.
8. Critically examine the ethical considerations in marketing related to consumer behaviour. Discuss the responsibilities of marketers in influencing consumer choices.
9. Evaluate the importance of understanding organizational buying behaviour in B2B marketing. Compare and contrast it with consumer buying behaviour.
10. Analyze the role of consumer attitudes and beliefs in shaping buying behaviour. Discuss strategies that marketers can use to influence and change consumer attitudes.

Unit 2: Segmentation, Targeting and Positioning

Unit structure:

2.1 Unit objectives
2.2 Introduction
2.3 Segmentation
2.4 Bases of Segmentation
2.5 Targeting
2.6 Types of targeting
2.7 Positioning
2.8 Storytelling driven positioning
2.9 Unit summary
2.10 Check your progress

2.1 Unit Objectives:

After completion of this unit, learners will be able to

1. Explain the key components and importance of the STP (Segmentation, Targeting, Positioning) framework in developing effective marketing strategies.
2. Analyze and compare different bases for market segmentation, including geographic, demographic, psychographic, and behavioural approaches.
3. Evaluate the process and criteria for effective market targeting, including assessing segment attractiveness and company fit.
4. Describe the concept of positioning and explain how to develop an effective positioning strategy using points of parity and points of difference.
5. Demonstrate the ability to conduct market research and analyze data to identify meaningful market segments and opportunities.
6. Develop a comprehensive STP strategy for a given product or service, including segmentation analysis, target market selection, and positioning strategy.

2.2 Introduction:

The implementation of effective marketing strategies relies heavily on Segmentation, Targeting, and Positioning (STP). Segmentation involves categorising the population into distinct groups with comparable needs and behaviours, enabling more focused marketing approaches. Subsequently, targeting becomes essential, as it entails selecting and concentrating on the most lucrative consumer segments. Following segment identification, marketers must establish a unique image in the minds of consumers, a process known as positioning. This serves as a differentiation technique against competitors. Successful positioning allows marketers to convey the distinctive value proposition and primary advantages of a product or service. By employing STP, companies can address specific consumer requirements, create more pertinent products, and distribute marketing resources more efficiently, thus adopting a more consumer-oriented approach to marketing.

2.3 Segmentation

Market segmentation involves dividing a market into distinct sections. Each segment comprises customers with similar needs, wants, and desired value propositions. The marketer's role is to determine the appropriate quantity and characteristics of market segments, then select which to focus on. A customer value proposition outlines how an organisation will set itself apart from rivals to draw in, keep, and strengthen relationships with target customers.

Customers within a segment should either purchase the product for the same reason, utilise it in the same manner, or acquire it through the same means. However, customers in one segment should differ from those in other segments in at least one of these aspects. Segmenting a market is only worthwhile when the company needs to craft a unique value proposition for each segment.

2.3.1 Non-segmented markets

It is rare for a single product or service to cater to the needs of all consumers in a market. Customer preferences vary, and not everyone desires the same offering. In developing economies companies have operated considering the market to be homogeneous, providing a single product for extended periods. Marketing strategies that neglect market segmentation often prove inefficient. This approach can lead to certain segments receiving products with excessive features and value, surpassing customer requirements. Conversely, other segments may be left with products that fall short of delivering the desired value and features sought by consumers.

2.3.2 Purpose of Segmentation

Marketers face two options when approaching their target audience: they can either consider the entire market as a single unit or divide it into distinct, homogeneous groups with unique characteristics. When the whole market is addressed as one entity, this approach is known as an undifferentiated marketing strategy or mass marketing. In this scenario, organizations rely on mass production, distribution, and promotion to capitalize on economies of scale. The following points elucidate the rationale behind market segmentation:

- ❖ This approach enables marketers to stand out in the marketplace by differentiate their products, either through competitive pricing or alternative features such as design, packaging, advertising appeal, and distribution channels.

- ❖ Market segmentation forms the foundation for identifying a target market, wherein, customers within this selected segment share similar traits, allowing for the application of a unified marketing approach.

- ❖ The categorization of consumers provides marketers with a thorough insight into the requirements of each group, enabling them to tailor specific marketing approaches to address these needs effectively supporting the notion of customer satisfaction.

- ❖ Market dynamics frequently shift, and as consumer affluence grows, they pursue new experiences and values, resulting in new market segments. A company may discover an underserved niche and address its needs more efficiently than competitors. However, ignoring a market segment can be risky if competitors exploit it to gain market entry.

These points mentioned above justifies the purpose of segmentation in marketing activities.

2.4 Bases of Segmentation

6 Two broad groups of variables are used to segment consumer markets. They are

- ❖ Descriptive characteristics such as geographical, population-related, and lifestyle-based characteristics, and determining if these groups display distinct requirements or reactions to products.
- ❖ Behavioural characteristics such as how consumers react to advantages, usage situations, or specific brands, and then determining if distinct characteristics correlate with each segment of consumer responses.

Irrespective of the chosen segmentation approach, the crucial aspect is tailoring the marketing strategy to acknowledge customer diversity.

2.4.1 Geographic Segmentation

Market segmentation based on geography divides consumers into groups according to their location, such as countries, regions, cities, or neighbourhoods. This approach is founded on the premise that individuals residing in the same area share similar needs and preferences, which differ from those living elsewhere. Companies may choose to operate in select areas or across all regions, adapting their marketing strategies to accommodate local variations. This allows businesses to customise their marketing efforts to meet the specific requirements of local customer groups in various trading areas, neighbourhoods, or even individual shops. An emerging trend known as grassroots marketing focuses on tailoring activities to be 13 as personally relevant to individual customers as possible.

Proponents of localised marketing strategies argue that national advertising is inefficient, as it fails to address specific local needs. However, critics of this approach contend that it increases manufacturing and marketing expenses by reducing economies of scale and complicating logistics. Additionally, they argue that a brand's overall image may be weakened if the product and messaging vary significantly across different locations.

2.4.2 Demographic Segmentation

Marketers frequently utilize demographic factors such as “age, family size, family life cycle, gender, income, occupation, education, religion, race, generation, nationality, and social class” because these variables often correlate with consumer preferences and requirements, and are straightforward to measure. Nevertheless, these factors alone typically fail to distinguish a segment adequately. To create a distinct segment, it is necessary to combine demographic data with psychographic and sociocultural attributes.

For instance, stating that 30% of a city's residents are 'avid cricket enthusiasts' lacks specificity and relies on chance. A more effective approach for marketers would be to define the segment as 20% of the city's male population, aged 25 to 55, with an average income of "x" amount, who are 'avid cricket enthusiasts'. This refined description enables more precise targeting by marketers.

- **Age and life cycle stage:** As individuals age, their desires and capabilities evolve. Recognising this, toothpaste manufacturers like Colgate have developed three primary product ranges to cater to children, adults and senior consumers. Certain products may have a target market that logically caters to only the young.
- **Life stage:** Despite being at the same life cycle stage, people may experience different life stages, which encompass significant events such as divorce, remarriage, looking after an older parent, cohabitation, and property acquisition. The life cycle stage influences disposable income and purchasing requirements. Young couples without children are particularly attractive to sellers of consumer durables. Compared to age alone, life cycle analysis provides a more accurate method of market segmentation, as family obligations and the presence of children substantially affect buying patterns.
- **Gender:** Disparities in male and female attitudes and behaviours arise from genetic factors and social conditioning. Research shows females have historically been more community-minded, while males are more self-expressive and goal-oriented. Females are typically more aware of their surroundings, whereas males focus on environmental aspects that aid their goals. However, these gender differences have diminished as both males and females expand their roles in current times.
- **Income:** Income segmentation is common in categories like automobiles, clothing, cosmetics, financial services, and travel. However, income level does not always identify the best customers for a product. Many marketers target lower-income groups, sometimes finding less competition or more consumer loyalty.

- **Generation**: The era in which a generation or cohort matures significantly shapes its outlook. Individuals within these groups often share similar cultural, political, and economic experiences, leading to comparable perspectives and values. Advertisers may opt to target a specific cohort by employing iconic imagery from their formative years. Additionally, they might strive to create products and services that specifically cater to the unique interests or requirements of a particular generational demographic. Given this approach, marketing professionals must customise their strategies to effectively reach millennials and Generation X.
- **Race and culture:** Multicultural marketing acknowledges that diverse ethnic and cultural groups have distinct needs and preferences, necessitating targeted marketing strategies rather than a one-size-fits-all approach. This method recognises that the mass market approach lacks the refinement required to address the marketplace's diversity. When formulating their marketing strategies, businesses should consider the cultural norms, linguistic nuances, purchasing behaviours, and commercial practices of multicultural markets from the outset, rather than as an afterthought. Implementing multicultural marketing may involve utilising different marketing messages, media outlets, and distribution channels. This often requires the use of specialised media to reach specific cultural segments or minority groups effectively. However, some organisations have found it challenging to allocate sufficient financial resources and management support to fully realise such comprehensive programmes.

2.4.3 Psychographic Segmentation

Psychographics employs psychological and demographic principles to gain deeper insights into consumer behaviour. This approach divides buyers into groups based on their psychological traits, values, or lifestyle choices. It's worth noting that individuals within the same demographic category may exhibit diverse psychographic profiles. Personality, which represents a collective of individual traits in a person, plays a crucial role in this segmentation. Brands often associate themselves with personalities who embody these collective traits and serve as role models. Interestingly, personality can also be attributed to animals, as demonstrated by Mahindra's XUV 500 advertisements, which portrayed the vehicle as inspired from a cheetah.

Lifestyle segmentation is a valuable tool for marketers, enabling them to effectively link brands with individuals who represent specific psychographic profiles or lifestyles. This mode of living provides marketers with insights into consumer behaviour within the market. For instance, the internationally renowned AXE deodorant targets a youthful demographic characterised by vitality, high disposable income, and a desire to impress. Similarly, HUGO BOSS, with its premium pricing caters to consumers who are conscious of brand status.

One of the most popular commercially available classification systems based on psychographic measurements is Strategic Business Insight's (SBI) VALS which is based on psychological traits for people and classifies them into eight primary groups based on responses to a questionnaire featuring four demographic and 35 attitudinal questions. The main dimensions of the VALS segmentation framework are consumer motivation (the horizontal dimension) and consumer resources (the vertical dimension). Consumers are inspired by one of three primary motivations: ideals, achievement, and self-expression. Those primarily motivated by ideals are guided by knowledge and principles. Those motivated by achievement look for products and services that demonstrate success to their peers. Consumers whose motivation is self-expression desire social or physical activity, variety, and risk. Personality traits such as energy, self-confidence, intellectualism, novelty seeking, innovativeness, impulsiveness, leadership, and vanity—in conjunction with key demographics—determine an individual's resources. Different levels of resources enhance or constrain a person's expression of his or her primary motivation.

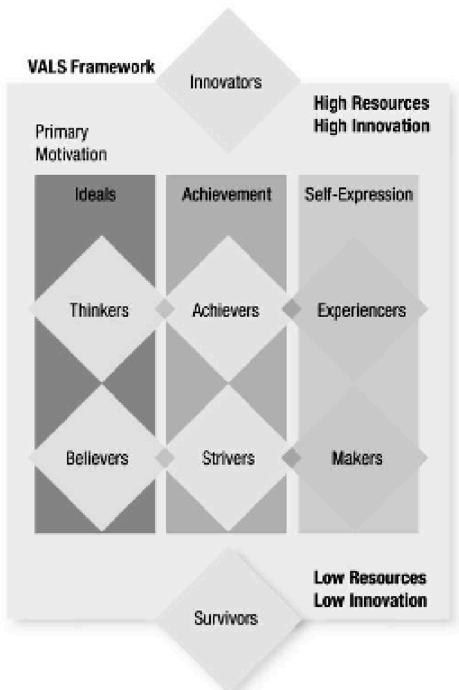

Figure 8: VALS Framework (Source: Marketing Management, Phillip Kotler, 15th Ed)

2.4.4 Behavioural Segmentation

Whilst psychographic segmentation offers a more comprehensive insight into consumers, certain marketers criticise it for being somewhat disconnected from actual consumer actions. In contrast, behavioural segmentation involves marketers categorising buyers based on their familiarity with, opinions about, usage of, or reactions to a product.

2.4.4.1 Needs and Benefits:

Consumers purchasing a product often have diverse requirements and seek varied advantages from it. Market segmentation based on needs or benefits can identify distinct groups of customers, each with specific marketing implications.

2.4.4.2 Decision Roles

Determining the purchaser for numerous products is straightforward. In a purchasing decision, individuals assume five distinct roles: Initiator, Influencer, Decider, Buyer and User. Although different individuals fulfil various roles, each one is essential in the decision-making process and overall consumer satisfaction.

2.4.4.3 User and Usage-related variables

Numerous marketing professionals consider variables associated with consumers or their consumption patterns, including occasions, user status, usage frequency, buyer-readiness phase, and loyalty level.
Occasions refer to specific times in a consumer's life, such as periods of the day, week, month, or year. Consumers can be categorized based on when they recognise a need, acquire a product, or utilise it. Products have various user types, including non-users, former users, potential users, first-time users, and regular users which defines the user status. Markets can be divided into light, medium, and heavy product users. Although heavy users often represent a small portion of consumers, they typically account for a significant percentage of total consumption. Marketers generally prefer to attract one heavy user over several light users showing that usage frequency is an important variable. Consumers can be at various stages of buyer- readiness, ranging from unaware of the product to intending to purchase. Marketers can employ the marketing funnel to segment the market according to these phases and assess their success in moving consumers from one stage to another. Finally, marketers typically identify four groups based on brand loyalty viz. hard core loyals, split loyals, shifting loyals and switchers. Hardcore loyals can highlight a product's advantages; split loyals reveal the company's primary competitors; and by analysing consumers who switch away from the brand, the company can identify its marketing weaknesses and take steps to improve them.

2.5 Targeting

Numerous strategies exist for pinpointing potential customers. After a company has recognised its market prospects, it must determine the quantity and nature of those it wishes to pursue. Marketing professionals are increasingly utilising multiple variables to identify more refined, smaller target groups. This approach allows them to craft offerings that better satisfy these customers' requirements compared to their rivals. For instance, a financial institution might not only recognise a demographic of affluent retirees but also further categorise this group based on factors such as present income, assets, savings, and attitude towards risk. This has led some market researchers to advocate a *needs-based targeting approach*.

Targeting involves the identification of customers for whom a company will tailor its offerings. In essence, it reflects the organisation's decision on which consumers to prioritise and which to disregard when crafting, promoting and delivering its products or services. This process guides the company's focus in terms of customer engagement and resource allocation.

2.5.1 Purpose of targeting

In undifferentiated marketing, companies ignore market segmentation and target the entire market with one offering, developing a strategy that emphasizes a superior product image and maximizes distribution and communication channels. This approach works when consumer preferences are largely uniform, and the market lacks natural segments, exemplified by Henry Ford's Model-T, which was only available in black.

In contrast, targeted marketing involves offering distinct products to various market segments, with the most extreme form being one-to-one marketing, where each segment is an individual customer. As organizations have improved data collection and production adaptability, they have increased their ability to personalize offerings, messages, and media. One-to-one marketing is most effective for companies that gather extensive customer information, offer a range of cross-sellable products, and provide high-value items that need regular replacement or upgrading.

Mass customization refers to a company's ability to meet individual customer needs by producing personalized products, services, programs, and communications on a large scale. An example is Coke's Freestyle vending machine, which lets consumers choose from over 100 Coke brands or create custom flavours.

2.6 Types of targeting

Companies can employ strategic or tactical approaches when pinpointing their target customers. The strategic targeting method concentrates on tailoring offerings to meet specific customer needs, whilst the tactical targeting approach identifies effective ways to reach these strategically important consumers. These two methods are not mutually exclusive; rather, they are interconnected elements in the process of determining target customers.

Although related, strategic and tactical targeting have distinct objectives. Strategic targeting involves narrowing the market to achieve a superior alignment between the product's benefits and customer requirements. This approach deliberately excludes certain customers to better cater to others with a more precisely matched offering. Conversely, tactical targeting aims to include all strategically significant customers, seeking to reach them in a cost-effective and efficient manner.

Strategic targeting prioritises a closer fit between product benefits and customer needs over market size. Instead of attempting to attract a broad range of customers with diverse requirements through a single offering, it focuses on serving specific customer segments more effectively. In contrast, tactical targeting strives to encompass all strategically important customers without exclusion, emphasising efficient and cost-effective outreach methods.

2.6.1 Strategic Targeting

A company's ability to create an offering that meets customer needs more effectively than competitors, whilst generating value for the business, guides the selection of target customers. Strategic targeting necessitates a challenging but crucial decision: consciously excluding certain potential customers to better serve others. Firms have encountered failure due to their reluctance to narrow their market focus and concentrate solely on customers for whom they could provide superior value. The targeting process extends beyond merely identifying customers to serve; it must also involve a thorough evaluation of those the company deliberately chooses not to serve. Without such an assessment, developing a viable market strategy becomes impossible.

For successful strategic targeting, target compatibility and target attractiveness plays an important role. They are discussed in the next sections.

2.6.1.1 Target compatibility

A company's target compatibility reflects its capacity to surpass competitors in meeting the needs of its intended customers, essentially creating superior value for them. This compatibility is determined by the firm's resources and its ability to utilise these assets effectively to generate value for the target market. The possession of appropriate resources is crucial, as they enable the company to develop offerings that deliver exceptional value to customers in a manner that is both efficient and cost-effective.

Essential resources necessary for a company’s successful targeting include factors such as business infrastructure consisting of manufacturing infrastructure; access to scarce resources to give a distinct competitive advantage; skilled employees at all levels; technological expertise to develop a market offering; collaborator networks consisting of suppliers and distributors. Apart from this core competencies play a crucial role in assessing the company’s resources.

2.6.1.2 Target Attractiveness

While a firm's capacity to generate value for its intended clientele is crucial, successful targeting requires an additional vital factor: the intended clientele must also be capable of generating value for the firm, signifying that the target must be appealing to the company. This underscores the significance of target attractiveness. Target attractiveness denotes a market segment's ability to produce exceptional value for the company. Consequently, the firm must meticulously choose customers for whom to customise its offerings, based on their potential to contribute value to the company and aid in achieving its objectives. Targeted customers can yield two types of value for a company: monetary and strategic. Monetary value encompasses a customer's ability to generate profits for a company, comprising both the income produced by specific customer segments and the expenses associated with serving them. Strategic value, on the other hand, refers to the non-financial advantages customers bring to the organisation. These include social value, which reflects the influence target customers have on potential buyers; scale value, relating to the extent of the company's operations; and information value, which represents the worth of customer-provided data.

Evaluating the strategic importance of various customer groups proves more complex than determining their financial worth. The strategic value is less apparent and often challenging to measure accurately. It can be difficult to directly ascertain a customer's capacity to sway others, and even when quantifiable through social media follower counts, gauging their actual impact on others' preferences remains problematic.

2.6.2 Tactical Targeting

Although both tactical and strategic targeting involve identifying target customers, their aims differ. Tactical targeting focuses on deciding which customers to pursue and which to disregard, as well as determining how to communicate and deliver the company's offering to the chosen target customers in an effective and cost-efficient manner. This can be done by defining the customer profile; aligning value with the customer profile and adding personas to add life to target segments.

- ❖ After the identification of a strategically viable target customer market, the company must collect information to define the customer profile to be able to communicate and deliver the market offering’s attributes. Tactical targeting determines the cost-efficient methods for achieving this by connecting customer needs to observable factors like the bases of segmentation.
- ❖ A crucial aspect of tactical targeting involves determining the characteristic profiles of strategically significant customer groups. Tactical targeting enables marketers to directly observe the customer value by pinpointing the demographic, geographic, psychographic, and behavioural traits of strategically chosen target customers, enabling the company to engage with them effectively. This helps marketers to align customer value and customer profile.

- ❖ Once customer value and customer profile are aligned, tactical targeting enables marketers to enable customer personas- detailed profiles of hypothetical target customers, envisioned through the bases of segmentation. Photographs and short biographies of this hypothetical customer enables to identify their appearance, behaviour and attitudes, assisting marketers to create well-defined customer perspectives. However, marketers should not over generalize personas as there may be customers who may vary in certain dimensions.

2.7 Positioning

In the competitive business landscape, a company's success hinges on its ability to differentiate its products and services from those of its rivals. The strategic brand management process involves positioning each offering to create a distinct impression in the target market's consciousness. This positioning entails crafting the company's image and offerings to secure a unique place in consumers' minds. The ultimate aim is to embed the brand in the target audience's mind, thereby maximising potential benefits for the firm. Positioning focuses on the key benefits that will motivate consumers to choose the company's product or service.

Successful positioning serves as a guide for marketing strategy by explaining the brand's core essence, identifying the consumer goals it addresses, and demonstrating its unique approach. It is crucial that all members of the organisation comprehend and utilise the brand positioning as a framework for decision-making.

Many marketing specialists contend that effective positioning should encompass both logical and emotional elements. A well-positioned brand ought to stand out in terms of both its significance and execution. For instance, if a sports or music sponsorship could be equally effective for a primary competitor, it suggests that either the positioning lacks sufficient definition or the sponsorship's implementation fails to align closely with the brand's positioning strategy.

Effective positioning depends on two crucial factors:

- ❖ Identifying the target market and competition for choosing a frame of reference.
- ❖ Based on the frame of reference identifying the optimal points of parity (POPs) and points of difference (PODs).

2.7.1 Frame of reference

When evaluating an offering, customers compare its advantages and disadvantages against a reference point that influences how attractive the offering is. This offering may seem attractive when compared to an inferior option, but less appealing when compared with a superior alternative. Consequently, this benchmark serves as a crucial standard for assessing a company's product or service. Since customers naturally establish frameworks for comparing options, marketers can craft these frameworks to highlight their offering's worth. This framework is shaped by past or future targeting strategies of firms, as well as existing consumer preferences for certain products or brands. For brands aiming to expand into new markets, it may be necessary to adopt a more comprehensive or aspirational competitive framework. Furthermore, these brands may face greater threats from emerging competitors or innovative technologies rather than the current competition.

2.7.2 Points of difference

Distinct characteristics or advantages that set market offerings apart from its rivals are known as points of difference (PODs). These are characteristics or benefits that consumers strongly link to a brand, view positively, and believe are not available to the same degree from competing brands. The associations that constitute points of difference can be founded on virtually any type of attribute or benefit. Establishing meaningful points of difference can yield significant financial rewards. PODs can be linked to brand authenticity- "degree to which consumers perceive a brand as true to its core identity and purpose"- as it is an important aspect of differentiation. Strong brands have multiples PODs.

2.7.3 Points of Parity

In contrast, points of parity (POPs) refer to characteristics or advantages associated with a brand that are not necessarily exclusive, but are common amongst various brands. These associations are of three basic forms: category, correlational, and competitive

- ❖ **Category POPs** are attributes or benefits that consumers view must have within a certain product or service category. However, the presence of these features alone does not guarantee that a consumer will choose a particular brand.
- ❖ Negative brand associations that emerge from the presence of positive brand associations are known as **correlational POPs**. For instance, if the brand is known to provide a product at a low cost, customers may not necessarily associate it to provide the highest level of quality.
- ❖ Brands employ **competitive POPs** to address perceived brand weaknesses in comparison to competitors' distinguishing features.

2.8 Storytelling driven positioning

Some marketers suggest that positioning a brand involves crafting a narrative or story, rather than simply listing specific characteristics or advantages. Consumers appreciate the depth and creativity they can extract from contemplating the backstory of a product or service. This can be done in five ways:

- The narrative of a brand is crafted through the meticulous selection of words and figurative language, intertwining its legacy, principles, and future goals into a unified story. Compelling vocabulary is utilised to forge emotional bonds with the intended audience. Analogies that strike a chord with consumers are incorporated, drawing comparisons between the brand and relatable concepts to boost its appeal and memorability.
- The customer's journey is outlined, detailing crucial phases and shifts in their connection with the brand. Essential points of contact that substantially influence the overall brand perception are identified. Throughout the customer's journey, uniformity is upheld across all interactions to bolster brand identity. Each engagement is fine-tuned to elevate the comprehensive brand experience, with an emphasis on crafting unforgettable moments that fortify the bond between customer and brand.
- A comprehensive visual branding system is crafted, encompassing a logo, colour scheme, typeface selection, and visual elements that effectively convey the brand's ethos and character. The brand distinguishes itself from rivals through the creation of a unique aesthetic, utilising distinctive design components, colour combinations, or imagery that encapsulate its core essence. While preserving brand consistency, the visual language is tailored for various platforms, taking into account how the brand's visual identity translates across printed materials, digital media, and physical environments.
- Branded environments are designed to embody the core essence of a brand, integrating aspects of its narrative and visual identity into physical locations or digital experiences. The packaging of products, sound-based components, and engaging technologies are employed to craft distinctive and immersive brand encounters that encourage participation.
- Understanding a brand's significance in consumers' lives involves examining the practical and emotional advantages it offers, addressing both tangible requirements and underlying psychological needs of its intended audience. An assessment is made of the brand's capacity to assist consumers in tackling challenges or realising ambitions, thus positioning it as a crucial ally in attaining personal or career objectives. Furthermore, the brand's potential to establish communities or nurture relationships amongst consumers is investigated, facilitating connections and collective experiences centred on the brand itself.

2.9 Unit Summary:

- Segmentation, Targeting, and Positioning (STP) are crucial for effective marketing strategies, allowing companies to address specific consumer needs and distribute resources efficiently.
- Market segmentation divides consumers into distinct groups with similar characteristics, needs, or behaviours. This enables more focused and relevant marketing approaches.

- ❖ Common bases for segmentation include geographic, demographic, psychographic, and behavioural factors. Effective segmentation often combines multiple variables.
- ❖ Geographic segmentation divides markets based on location, while demographic segmentation uses factors like age, gender, income, and education.
- ❖ Psychographic segmentation considers psychological traits, values, and lifestyles. Behavioural segmentation focuses on consumer reactions to products and usage patterns.
- ❖ Targeting involves selecting which market segments to pursue. Strategic targeting aims to align product benefits with customer needs, while tactical targeting focuses on reaching customers efficiently.
- ❖ Target compatibility reflects a company's ability to meet customer needs better than competitors. Target attractiveness considers the segment's potential value to the company.
- ❖ Positioning creates a distinct image for the brand in consumers' minds, differentiating it from competitors. It guides marketing strategy and decision-making.
- ❖ Effective positioning involves identifying the frame of reference (competitive context), points of difference (unique brand attributes), and points of parity (shared category attributes).
- ❖ Some marketers advocate for storytelling-driven positioning, crafting a narrative that incorporates brand legacy, principles, and goals to create emotional connections with consumers.

2.10 Check your progress:

1-mark questions:

1. What does STP stand for in marketing?
2. Name one base for market segmentation.
3. What is the purpose of market segmentation?
4. Define positioning in marketing.
5. What are points of parity (POPs)?
6. What is the main goal of targeting in marketing?
7. Name one type of demographic segmentation variable.
8. What does VALS stand for in psychographic segmentation?
9. What is mass customization?
10. What is the primary aim of undifferentiated marketing?

2-mark questions:

1. Explain the difference between strategic and tactical targeting.
2. What are the two main factors that determine effective positioning?
3. Describe two types of value that targeted customers can yield for a company.
4. What are the five distinct roles in a purchasing decision?

5. Explain the concept of grassroots marketing.
6. What are the main dimensions of the VALS segmentation framework?
7. How does behavioural segmentation differ from psychographic segmentation?
8. What are the three primary motivations in the VALS framework?
9. Explain the concept of one-to-one marketing.
10. What are the three basic forms of points of parity (POPs)?

5-mark questions:

1. Discuss the importance of the STP framework in developing effective marketing strategies.
2. Compare and contrast geographic and demographic segmentation approaches.
3. Explain the process of evaluating target attractiveness and its significance in marketing.
4. Analyze the role of psychographic segmentation in understanding consumer behavior.
5. Describe the concept of positioning and explain how to develop an effective positioning strategy.
6. Discuss the importance of identifying points of difference (PODs) in brand positioning.
7. Explain the concept of frame of reference in positioning and its impact on consumer perception.
8. Analyze the role of customer personas in tactical targeting and their benefits for marketers.
9. Discuss the challenges and benefits of multicultural marketing in demographic segmentation.
10. Explain the concept of storytelling-driven positioning and its five key components.

10-mark questions:

1. Critically analyze the various bases of market segmentation and their effectiveness in different industries.
2. Evaluate the process and criteria for effective market targeting, including assessing segment attractiveness and company fit.
3. Develop a comprehensive STP strategy for a given product or service, including segmentation analysis, target market selection, and positioning strategy.
4. Analyze the evolution of market segmentation approaches from mass marketing to one-to-one marketing, discussing the advantages and challenges of each.
5. Critically examine the role of psychographic and behavioral segmentation in modern marketing strategies, providing relevant examples.
6. Discuss the importance of aligning positioning strategy with overall brand identity and marketing objectives, using case studies to illustrate your points.
7. Evaluate the effectiveness of different targeting approaches (undifferentiated, differentiated, and concentrated) in various market scenarios.
8. Analyze the impact of technological advancements on market segmentation and targeting practices, discussing both opportunities and challenges.
9. Critically assess the role of customer value proposition in the STP framework and its influence on marketing strategy development.
10. Examine the ethical considerations in market segmentation and targeting, discussing potential issues and best practices for responsible marketing.

Unit 3: Competitive strategies in dynamic markets

Unit structure

3.1 Unit Objectives

After completion of the unit, learners will be able to"

1. Analyze the competitive strategies employed by market leaders to maintain and expand their dominant position in the industry.
2. Evaluate the tactics used by market challengers to gain market share and compete against established industry leaders.
3. Examine the strategies adopted by market followers to maintain their position and profitability without directly confronting market leaders.
4. Know the effectiveness of niche marketing strategies in creating and dominating specialized market segments.
5. Compare and contrast the different approaches to market expansion, defense, and innovation used by various types of market competitors.

3.2 Introduction

In the current ever-changing commercial environment, organisations utilise a range of competitive tactics to secure and retain their market position. This segment delves into the varied approaches embraced by different market contenders, including industry leaders, challenger brands, market followers, and niche players. We shall investigate how each category of competitors utilises distinctive strategies to effectively situate themselves within their respective markets. Industry leaders, given their commanding position, typically concentrate on tactics to safeguard and broaden their market share. Conversely, challenger brands employ assertive methods to gain ground against the frontrunners. Market followers generally adopt a more prudent approach, often emulating successful strategies of others whilst minimising risk. Finally, niche players carve out specialised market segments, addressing specific customer requirements that larger rivals may overlook. By examining these distinct competitive approaches, we can glean valuable insights into the intricate dynamics of market rivalry and the various routes organisations take to achieve success within their industries.

3.3 Market Leader Strategies

The organisation with the highest market shares typically dominates in areas such as pricing adjustments, launching new offerings, distribution networks, and marketing efforts. Despite the common belief that well-established brands are distinct in consumers' perceptions, even dominant companies must remain vigilant unless they possess a legal monopoly. Threats may arise from groundbreaking product innovations, competitors discovering novel marketing approaches or investing heavily in promotion, or escalating costs within the leading firm. To maintain its top position, a company must employ three strategies. Firstly, it should seek ways to expand the overall market demand. Secondly, it must safeguard its existing share through effective defensive and offensive tactics. Lastly, it should strive to increase its market share, even in a stagnant market. We shall examine each of these strategies in turn:

3.3.1 Expanding Total Market Demand:

In general, the market leader should look for new customers or more usage from existing customers. In any product category, there exists an opportunity to appeal to consumers who are either unfamiliar with the item or hesitant to purchase due to cost or missing features. Organisations can identify potential customers from three distinct groups: individuals who could utilise the product but currently do not (a market penetration approach), those who have never employed it (a new-market segment tactic), or people residing in different locations (a geographical-expansion method). Marketing professionals can employ various strategies to enhance consumption volume, intensity, or regularity. One approach involves modifying packaging or product design to increase the quantity consumed. A brand's marketing strategy can effectively convey its suitability and benefits to consumers. Additionally, there are instances where consumers' perceived usage patterns diverge from actual behaviour. Alternatively, businesses could provide more accurate information about when consumers initially used the product, when it requires replacement, or its current performance level.

3.3.2 Protecting Market Share

As the leading company seeks to grow the overall market, it must simultaneously protect its existing operations. Continuous innovation by introducing novel products and services is the most effective strategy for safeguarding market position. Industry leaders should spearhead the development of innovative offerings, enhance distribution efficiency, and reduce expenses. By providing comprehensive solutions, companies can bolster their competitive edge and deliver greater value to their clientele. This can be done by proactive marketing or defensive marketing.

- ❖ When considering **proactive marketing** strategies to meet customer needs, we can distinguish between three approaches: responsive, anticipative, and creative marketing. Responsive marketers identify and address stated customer needs. Anticipative marketers forecast and prepare for potential future customer needs. Creative marketers, however, develop innovative solutions that customers haven't asked for but receive with enthusiasm. These creative marketers represent proactive, market-driving organisations, rather than merely market-driven ones.
- ❖ The objective of a **defensive marketing** strategy is to minimise the likelihood of an attack, redirect assaults to areas of lesser vulnerability, and diminish their intensity. The rapidity of response can significantly impact profitability. A market-leading company can employ the six defensive tactics outlined in:
- ❖ Establishing a strong **position defence** involves securing the most coveted space within consumers' minds, rendering the brand virtually impregnable.
- ❖ **Flank Defense** means to safeguard a vulnerable position or facilitate a potential counteroffensive if in case the dominant competitor establishes strategic outposts.
- ❖ **Preemptive Defense** is an aggressive strategy involving the initiation of an offensive, potentially through guerrilla strikes targeting various competitors in different areas thereby, and maintaining a state of uncertainty amongst all rivals.
- ❖ **Counteroffensive Defense** strategy is when the market leader and attacker meet frontally but is able to hit its flank, such that it will have to pull back to a defensive strategy.
- ❖ In **mobile defense**, the leader broadens its domain over new geographical areas through market broadening and market diversification.
- ❖ When companies give up weaker markets and allocate resources to stronger markets it is called as **contraction defense.**

3.3.3 Increasing Market Share

Expanding market share does not necessarily lead to enhanced profitability, particularly for service-oriented businesses that rely heavily on human resources and may not benefit significantly from economies of scale. However, one point increase in market share may result in huge amount of profits. As such companies must look at certain factors viz. competitors seeking legal action on the market leader; cost of holdout would increase if consumers loyal to the competitor dislike the market leader, increase in customers may unnecessarily strain access and availability of resources resulting in bottlenecks and leading to failure in service delivery.

3.4 Market -Challenger Strategies

Numerous market contenders have made significant progress or even surpassed the industry leader. While market leaders may become complacent with their current operations, challengers often set ambitious goals.

A market challenger can increase market share by:

- ❖ Attacking the market leader
- ❖ Attacking similar sized firms that are underfinanced.
- ❖ Attacking smaller regional firms.

The challenger can incorporate five strategies of attacks:

- ❖ Through **frontal attack** where the challenger matches the leader's product, advertising, price, and distribution.
- ❖ Through a **flanking strategy** by identifying issues that are creating gaps in the market and then rapidly filling those gaps.
- ❖ Through **encirclement attack** that attempts to capture a wider part of the territory using attacks on several fronts.
- ❖ Through **bypassing attack** where the enemy attacks easier markets by introducing unrelated products, upgrading exponential in technologies or going into new geographical territories.

3.5 Market-Follower strategies

According to Theodore Levitt, imitating products can be as lucrative as inventing them. He coined the term "innovative imitation" to describe a process where the original creator invests in developing, distributing, and promoting a new product. This effort and risk typically result in market dominance. Nevertheless, another company can subsequently replicate or enhance the product. While the imitator may not surpass the pioneer, it can still achieve substantial profits without incurring the costs associated with innovation. In industries characterised by capital-intensive production and homogeneous goods firms are seen to emulate rather than confront the industry leader. This phenomenon is known "conscious parallelism" which is seen in sectors where the scope for product and brand differentiation is limited.

Market followers can act as:

- ❖ **Counterfeiters** that replicate the original manufacturer's goods and packaging, then distribute them illicitly through underground markets or unscrupulous vendors.
- ❖ **Cloners** that imitate the market leader's offerings, branding, and packaging design, with minor alterations
- ❖ **Imitators** replicates certain aspects of the market leader's approach while trying to distinguish itself through unique packaging, promotional strategies, pricing, or positioning.
- ❖ **Adapters** that adapt or enhance the products of the market leader.

3.6 Market Nicher Strategies

Rather than competing as a minor player in a large market, firms can opt to dominate a small, specialised sector. Typically, smaller enterprises avoid direct competition with larger ones by focusing on niche markets that hold little appeal for bigger companies. However, even successful large corporations may employ niche strategies for certain divisions or subsidiaries. Companies with minimal overall market share can achieve significant profitability through clever niche targeting. These firms often provide high-quality products, set premium prices, reduce manufacturing expenses, and cultivate a robust corporate ethos and vision.

On average, businesses operating in smaller markets yield higher returns on investment compared to those in larger markets. The profitability of niche strategies stems from the niche company's intimate understanding of its target customers, allowing it to better satisfy their needs than competitors who serve them casually. Consequently, the niche firm can command substantially higher prices relative to costs. While mass marketers rely on high volume, niche players benefit from high margins.

Niche businesses face three primary challenges: niche creation, expansion, and protection. The main risk lies in the potential for the niche to become obsolete or face competition. In such cases, the company may be left with highly specialised resources that lack valuable alternative applications. Companies should maintain their focus on specialisation, but not necessarily limit themselves to a single niche. This is why diversifying into multiple niches can be more advantageous than concentrating on just one. By establishing a strong presence in two or more specialised areas, an organisation enhances its likelihood of long-term success and sustainability.

3.7 Unit Summary

- ❖ Market competitors employ various strategies based on their position: leaders, challengers, followers, and niche players.
- ❖ Industry leaders focus on expanding market demand, protecting market share, and increasing their share even in stagnant markets.
- ❖ Market leaders use proactive and defensive marketing tactics, including innovation, responsive strategies, and pre-emptive defense.
- ❖ Challengers aim to increase market share by attacking leaders, similar-sized firms, or smaller regional competitors using various offensive strategies.
- ❖ Market followers can adopt strategies such as counterfeiting, cloning, imitating, or adapting the leader's products and approaches.
- ❖ Niche players focus on dominating small, specialized market segments, often achieving high profitability through targeted offerings.
- ❖ Expanding total market demand involves attracting new customers, increasing usage among existing customers, and exploring new market segments.
- ❖ Protecting market share requires continuous innovation, efficient distribution, and cost reduction to maintain competitive advantage.
- ❖ Increasing market share doesn't always lead to higher profitability, especially in service-oriented businesses with limited economies of scale.

- ❖ Niche strategies face challenges in creating, expanding, and protecting their specialized markets, with the risk of obsolescence or increased competition.

3.8 Check your progress

1 Mark Questions:

1. What is the primary focus of market leaders in terms of pricing and distribution?
2. Define "conscious parallelism" in the context of market followers.
3. What is the main risk faced by niche businesses?
4. What does Theodore Levitt mean by "innovative imitation"?
5. What is the first strategy a market leader should employ to maintain its position?
6. What type of marketing do anticipative marketers engage in?
7. What is the primary objective of a defensive marketing strategy?
8. What is a flanking strategy in market challenger attacks?
9. What is the main advantage of niche players over mass marketers?
10. What are the three primary challenges faced by niche businesses?

2 Marks Questions:

1. Explain the concept of proactive marketing and its three approaches.
2. Describe two defensive tactics that a market leader can employ.
3. What are the potential drawbacks of increasing market share for a market leader?
4. Compare and contrast counterfeiters and cloners as types of market followers.
5. How do market challengers typically set their goals compared to market leaders?
6. Explain the concept of "encirclement attack" in market challenger strategies.
7. Why might diversifying into multiple niches be advantageous for a company?
8. What are the two main strategies a market leader should focus on to maintain its position?
9. How do niche players typically achieve profitability despite their small market size?
10. Describe the three groups of potential new customers that market leaders can target.

5 Marks Questions:

1. Analyze the three main strategies a market leader should employ to maintain its top position.
2. Evaluate the effectiveness of different types of defensive marketing strategies for market leaders.
3. Compare and contrast the strategies employed by market challengers and market followers.
4. Examine the potential risks and benefits of a market leader increasing its market share.
5. Discuss the various approaches market challengers can take to attack competitors and gain market share.
6. Analyze the concept of "innovative imitation" and its potential benefits for market followers.
7. Evaluate the importance of niche marketing strategies in creating and dominating specialized market segments.
8. Discuss the challenges faced by niche businesses and strategies to overcome them.

9. Examine the role of continuous innovation in protecting a market leader's position.
10. Analyze the different approaches to expanding total market demand and their potential effectiveness.

10 Marks Questions:

1. Critically analyze the strategies employed by market leaders to maintain and expand their dominant position in the industry. Provide examples to support your answer.
2. Evaluate the effectiveness of various market challenger strategies in gaining market share against established industry leaders. Discuss potential risks and benefits of each approach.
3. Compare and contrast the strategies adopted by market followers and niche players. Analyze the situations in which each approach might be most effective.
4. Examine the concept of expanding total market demand. Discuss the various approaches and their potential impact on different types of market competitors.
5. Analyze the importance of defensive marketing strategies for market leaders. Evaluate the effectiveness of different defensive tactics in various competitive scenarios.
6. Discuss the role of innovation in maintaining market leadership. Compare proactive and defensive approaches to innovation and their potential outcomes.
7. Evaluate the potential benefits and risks of market diversification for different types of competitors (leaders, challengers, followers, and niche players).
8. Analyze the concept of "conscious parallelism" in market follower strategies. Discuss its implications for market competition and innovation.
9. Examine the challenges faced by niche businesses in creating, expanding, and protecting their market segments. Propose strategies to address these challenges effectively.
10. Critically analyze the factors that contribute to the success of market leaders, challengers, followers, and niche players. Discuss how these factors might vary across different industries or market conditions.

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MODULE 3 PRODUCT AND PRICING DECISIONS

Product Classifications, Goods and Service Differentiation, Product Mix, Product Line analysis, Product Life Cycle, Packaging, Definition of new product, new product development-process, success and failure, Price setting procedure, Adapting the price – Promotional Pricing, Discount Pricing, Differentiation Pricing, Product-Mix pricing, Geographical Pricing, Price Changes – initiation and response.

Module Structure:

Unit 1: Product Strategy
Unit 2: Pricing Strategy

Unit 1: Product Strategy

Unit Structure
1.1 Unit Objectives
1.2 Introduction
1.3 Product levels
1.4 Product classifications
1.5 Differentiation
1.6 Product and Brand relationships
1.7 Product life cycle
1.8 New product development
1.9 Packaging
1.10 Unit summary
1.11 Check your progress

1.1 Unit objectives:

After completion of the unit, learners will be able to:

1. Understand the different levels of a product and how each level contributes to customer value.
2. Classify products based on durability, tangibility, and consumer/industrial goods categories.
3. Explain product differentiation strategies and how companies can distinguish their offerings through various product and service attributes.
4. Analyze product line decisions, including product hierarchy, product mix dimensions, and strategies for product line length.
5. Describe the stages of the product life cycle and new product development process, including key activities and considerations at each stage.

1.2 Introduction

A superior product forms the foundation of an exceptional brand. Companies aiming for market dominance must deliver high-quality goods and services that provide unmatched value to customers. The initial step in marketing planning involves crafting an offering that addresses the needs or desires of the target audience. Customers evaluate an offering's merits based on three key components: product, service, and brand. Product management encompasses a wide-ranging organisational function within a firm, covering brand management, pricing strategies, distribution channel policies, and marketing communications and sales promotions. These diverse yet complementary aspects of product management aim to maximise sales revenue, market share, and profit margins. The responsibilities of product management span from strategic to tactical activities and vary according to the company's organisational structure.

1.3 Product levels

While many individuals consider a product to be a tangible item, in reality, a product encompasses anything that can be marketed to fulfil a desire or requirement. This includes not only physical goods, but also services, experiences, events, individuals, locations, properties, organisations, information, and concepts. When devising a market offering, marketers must consider five product levels. These levels form a **customer-value hierarchy**, with each successive level contributing additional value for the customer.

❖ The first level is called the **core benefit** which is the service or benefit the customer is actually buying.
❖ The second level is where the core benefit is converted into a **basic product**. Example a hotel room would have a bed, bathroom, towel, and fan (if it's a hot location).
❖ Now in the third level, the basic product becomes an **expected product** that consists of a set of characteristics and conditions that buyers normally expect while purchasing the product.
❖ The fourth level, turns the expected product into an **augmented product** wherein additional features are added that exceeds customer expectations.

• In the fifth level the augmented product is converted to a **potential product**, which consists of all the potential upgrades and enhancements that may be applied to the offering in the future. In this stage companies try to identify new ways in which customers can be satisfied and differentiate their offering. However, every enhancement incurs additional expenses, and with time, these improved features become standard expectations and essential competitive elements within the industry.

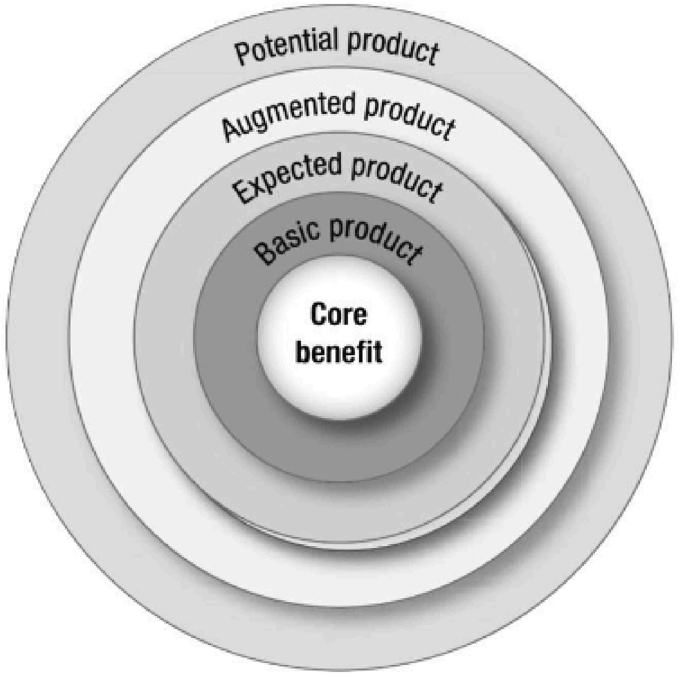

Figure 9: Product levels (Source: Marketing Management, Phillip Kotler, 15th Ed)

1.4 Product Classification

1.4.1 Durability and Tangibility

Based on durability and tangibility, products fall into three groups. **Nondurable goods** are consumable items typically used up in one or a few instances, such as lager and hair wash. Given their frequent purchase, the optimal strategy involves widespread availability, minimal price markup, and extensive advertising to encourage sampling and establish brand loyalty. **Durable goods** are long-lasting items that endure multiple uses, including fridges, industrial equipment, and apparel. These products generally necessitate more direct sales approaches and after-sales support, command higher profit margins, and require more comprehensive warranties from sellers. **Services** are non-physical, inseparable, variable, and perishable offerings that typically demand stricter quality management, enhanced provider credibility, and greater flexibility. Examples encompass haircuts, legal counsel, and domestic appliance maintenance.

1.4.2 Consumer-Goods Classification

In categorising the extensive range of consumer products based on purchasing behaviours, four distinct types are identified: **convenience, shopping, specialty, and unsought goods**.

Convenience goods are typically acquired by consumers with high frequency and promptness. These include items such as sodas, cleaning products, and newspapers and magazines. Companies producing items for spontaneous purchases or urgent needs deliberately place their goods in areas where consumers are prone to experience sudden cravings or immediate requirements for making a purchase. Consumers typically evaluate shopping goods based on factors such as suitability, durability, cost, and design. Furniture, apparel, and large household appliances are common examples. **Homogeneous shopping goods** are comparable in quality but vary sufficiently in price to warrant comparison shopping. In contrast, **heterogeneous shopping goods** differ in product characteristics and services, which may be considered more crucial than price. Retailers of heterogeneous shopping goods offer a diverse range of products to cater to individual preferences and provide training to their sales staff to educate and guide customers.

Distinctive products with unique features or brand recognition are known as **specialty goods**, for which a sufficient number of consumers are prepared to incur extra costs in their purchase. Such items include automobiles, audio equipment, and gentlemen's suits. For instance, a premium luxury automobile is considered a specialty good, as interested buyers are willing to travel considerable distances to acquire one. These products do not necessitate comparison shopping; instead, consumers invest time solely in locating dealers who stock the desired items. Retailers of specialty goods need not be situated in convenient locations, though they must effectively communicate their whereabouts to potential customers.

Unsought goods are items that consumers are typically unaware of or do not usually consider purchasing. Smoke detectors, insurance policies etc are examples of unsought goods. To promote these types of goods effectively, both advertising campaigns and direct sales efforts are necessary.

1.4.3 Industrial Goods Classification

Industrial goods are classified in terms of **materials and parts**, **capital items**, and **supplies and business services**.

- ❖ Goods that are fully incorporated into a manufacturer's product are classified as **materials and parts.** These can be divided into two categories: raw materials, and manufactured materials and parts. Raw materials are further subdivided into **two primary groups**: agricultural products (such as wheat, cotton, livestock, fruits, and vegetables) and natural resources (including fish, lumber, crude petroleum, and iron ore) and parts any sort of spares, or work in progress that are required in operational processes.
- ❖ Durable goods that aid in the production or management of finished products are known as **capital items**. These can be divided into installations and equipment. Installations include structures like factories and offices, as well as large machinery such as generators, drill presses, mainframe computers, and lifts. These are usually bought directly from

manufacturers, involving technical experts and lengthy negotiations. Equipment includes movable factory tools and apparatus, such as hand tools and forklift trucks, and office furnishings like personal computers and desks. Unlike installations, equipment doesn't become part of the final product. It has a longer lifespan than operating supplies but is less durable than installations.

- **Supplies and business services** encompass temporary goods and services that contribute to the creation or handling of the end product. These are divided into two groups: **maintenance** and **repair** items, and **operating supplies**. Collectively, these are known as MRO goods. Supplies share similarities with convenience goods and are typically procured through a simple repurchase procedure requiring minimal effort.

1.5 Differentiation

For products to establish a brand identity, they must be distinguishable from one another. Conversely, products like automobiles, commercial buildings, and furniture present numerous opportunities for differentiation. In these cases, manufacturers can set their offerings apart through various attributes, including shape, characteristics, personalisation, quality of performance, adherence to standards, longevity, dependability, ease of repair, and aesthetic appeal. As such it is important to learn about product differentiation and services differentiation.

1.5.1 Product differentiation

- Numerous items can be distinguished by their **form**, which encompasses the dimensions, contours, or physical composition of a product. Take aspirin as an example. Despite being essentially a generic substance, it can be differentiated through various attributes such as the quantity per dose, its geometric shape, hue, external layer, or the duration of its effects.
- Companies can enhance their offerings by incorporating **additional features** that complement the core functionality of their products. To determine suitable new features, firms may conduct surveys amongst recent customers and subsequently evaluate the value to consumers against the cost to the company for each potential addition.
- Product differentiation is increasingly achieved through **customization**, strategy marketers often use. Companies have improved their ability to tailor offerings, communications, and media channels to individual customers and business associates (such as suppliers, distributors, and retailers). This advancement is due to enhanced data collection capabilities and greater manufacturing flexibility.
- Products typically fall into one of four quality categories: inferior, standard, premium, or exceptional. The level at which a product's core features function defines its **performance quality**. It is crucial for marketing professionals to continuously monitor and adjust performance quality over time.
- Consumers anticipate a high level of **conformance quality**, which refers to the extent to which all manufactured items are consistent and fulfil the promised specifications. In

contrast, a product with poor conformance quality is likely to leave some customers dissatisfied.

- ❖ For durable goods such as automobiles and household appliances, longevity is a crucial characteristic that indicates how long a product is expected to function under various circumstances. The extra expense for enhanced durability should be reasonable and should not lead to rapid technological obsolescence, which is often the case with personal computers, televisions, and mobile phones.
- ❖ Consumers are typically willing to pay extra for products with higher **reliability**. The concept of reliability refers to the likelihood that an item will continue to function without fault or breakdown within a designated timeframe.
- ❖ The ability to mend a product when it breaks down or ceases to function is known as **repairability**. Optimal repairability would be achieved if consumers could rectify issues themselves with minimal expenditure of time and money.
- ❖ The appearance and sensation a product evoke in consumers is referred to as **style**. It generates a unique identity that competitors find challenging to replicate. Brands heavily rely on visual appeal. However, it's worth noting that a striking style doesn't necessarily equate to superior functionality.

1.5.2 Services differentiation

In cases where tangible products are difficult to distinguish, gaining a competitive edge may hinge on enhancing the quality and range of accompanying services.

- ❖ **Ordering ease** refers to the simplicity with which customers can submit an order to a company
- ❖ **Delivery** encompasses the efficiency and effectiveness with which a product or service reaches the consumer. This includes factors such as timeliness, precision, and attention to detail throughout the entire process. In the current market, consumers have come to anticipate swift service. Numerous companies have implemented computerised quick response systems (QRS) that interconnect the information networks of their suppliers, production facilities, logistics hubs, and retail outlets.
- ❖ The process of setting up a product for use in its intended location is known as **installation**. For purchasers of sophisticated items such as heavy machinery, and for those less familiar with technology, the simplicity of installation serves as a compelling selling feature.
- ❖ **Customer Training** provided to clients enables their staff to utilise the supplier's machinery correctly and productively.
- ❖ Sellers provide buyers with **customer consulting** services, which encompass data provision, information system support, and advisory offerings.
- ❖ **Maintenance and repair** programs help customers up keep purchased products in proper order.
- ❖ **Product returns** is an inevitable aspect of marketing, particularly in e-commerce, and this pose a significant inconvenience for all parties involved, including consumers, producers, sellers, and supply chain intermediaries.

1.6 Product and Brand Relationships

To ensure a company offers and promotes the most suitable range of products, it is essential to establish connections between different items in the product line.

1.6.1 Product Hierarchy

The product hierarchy goes from basic requirements to specific items that fulfil these needs. Within this hierarchy, there are six distinct levels,

- **Need family** is the core need that justifies the creation of a product line.
- **Product family** is a range of goods that effectively addresses a fundamental requirement with adequate efficiency.
- **Product class** refers to a collection of interconnected items within a product line that possess similar functionalities. This grouping is typically known as a product classification.
- **Product line** is a collection of items within a product category that share similarities due to their comparable functions, target consumer base, distribution channels, or price points. These products are considered closely related because they serve similar purposes, cater to the same customer segments, are sold through identical outlets or distribution methods, or fall within specific price ranges.
- **Product type** is a subset of products within a product line that share a particular form or variation of the item.
- A specific **item** (also called stock keeping unit), within a brand or product range that can be differentiated by characteristics such as dimensions, cost, visual features, or other qualities.

1.6.2 Product Systems and Mixes

A product system comprises a collection of diverse but interconnected items that operate in harmony. The range of all products and items offered for sale by a specific vendor is referred to as a **product mix**, also known as a **product assortment**.

A company's product mix has a certain width, length, depth, and consistency.

- The ***width*** of a product mix is the quantity of separate product lines offered by the company. Fig 12 indicates a 3 product lines in the product mix width.
- The ***length*** of a product mix encompasses the total number of items within the mix. The length of product mix in Fig 12 is 12. Average product line length can also be calculated by dividing total length of 12 by the number of product lines (3) which will give the value of 4.
- The ***depth*** of a product mix indicates the number of variations available for each item within the product line. If the **first** product of **product line 1** in Fig 12 came in **two variants,** then that product would have a **depth of 2**.

- ❖ The ***consistency*** of the product mix reflects the level of resemblance amongst various product lines in terms of their ultimate use, production methods, and distribution networks. Considering the company in Fig 12 is an FMCG manufacturer, the product lines are consistent since all are consumer goods distributed through same channels. In the case each line performed different functions for buyers than they would be considered less consistent.

Expansion of the business can be done in four ways using these product mix dimensions. It can broaden its product mix by introducing new product lines. Moreover, it can extend each product line. The product mix can be enhanced by adding more product variants to each product. Finally, the company can widen the appeal of its product mix.

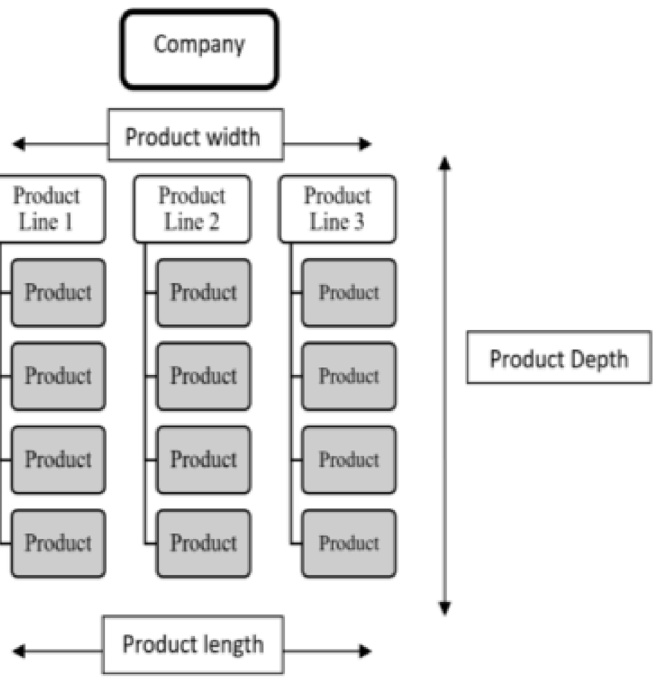

Figure 10: Product mix

1.6.3 Product line analysis

When creating a product range, businesses typically design a core platform with optional modules to cater to diverse customer needs whilst reducing manufacturing expenses. Product line managers must be aware of the revenue and profitability of each item within their portfolio. This information is crucial for determining which products to develop, sustain, maximise, or discontinue. Product line analysis can be calculated using **sales and profits**; and **market profile.**

- ❖ Within a firm's range of products, profit margins vary considerably. For instance, supermarkets earn minimal profits on staples like bread and milk, whilst achieving moderate returns on tinned and frozen items. Higher profits are generated from speciality goods such as flowers, ethnic cuisine, and fresh bakery products. For instance, there are three items wherein first item is 50% of total sales and 35% of total profits. Second item is 80% of the sales and 75% of the profits and the last item accounts for only 5% of the sales and profit. Now a product line manager might drop the last item unless it shows potential for growth in the future.
- ❖ It is essential for the manager overseeing the product line to assess how their offerings compare to those of rival companies which is basically monitoring the market profile. It is essential for the manager overseeing the product line to assess how it compares to the offerings of rival companies. As product line managers, it is necessary for them to monitor their products and what the competition is offering because based on this marketing strategies can be formulated at a later stage.

1.6.4 Product Line length

The **length of a product** line is influenced by a company's objectives. Some firms aim to encourage up-selling through their product line structure, whilst others design their offerings to promote cross-selling. Organisations seeking to expand their market share and achieve growth typically maintain more extensive product lines. Conversely, businesses prioritising high profitability tend to offer shorter lines, comprising carefully selected items.

Excess manufacturing can lead to excess pressure of creating new items. It might also happen that senior management may prune the product line length in case the manufacturing and promotional costs increase beyond control and this cycle may continue multiple times.

Lengthening product lines can be done in two ways: **line stretching** and **line filling.**

1.6.4.1 Line Stretching

A company engages in line stretching when it expands its product range beyond its current offerings, either by moving into lower-priced markets, higher-priced segments, or in both directions simultaneously. A company can introduce a **down-market stretch** when it wants to introduce lower-priced products compared to the current product line. On the contrary, if a company introduces products priced higher than their current product line then it is called **up-market stretch.** In certain cases, the company may introduce product line in both directions. In this case it is called **two ways stretching.**

1.6.4.2 Line Filling

Companies can expand their product range by introducing additional items within their existing lineup. The motivations for this strategy include pursuing extra profits, addressing concerns from retailers about missed sales opportunities due to gaps in the product range, maximising production capacity, and preventing competitors from gaining access by filling up potential gaps. However, it may lead to self-cannibalization if in case it is overdone. Differentiation of each item in the product line with **just-noticeable difference.**

1.7 Stages of Product Life-cycle

The Product Life Cycle (PLC) demonstrates versatility in its application, encompassing both brands and product lines. The conventional PLC model consists of four distinct phases: Introduction, Growth, Maturity, and Decline.

1.7.1 Introduction

However, a new product that enters the market will initially experience slow sales growth, because consumers are not aware of it and are uncertain as to whether it will be useful to them. This phase is often money losing for the company because it spends a lot on development and promotion. If adoption rates are less than satisfactory, this product may be discontinued.

The company increases the product's market presence in order to increase sales by promoting general benefits of the product. The product's advantages are still questioned by the consumers and it is not considered as something that will suit them. There is a great need for investment in advertising and direct sales. At this point, the product is basic; you're only focused on delivering reliability and functionality without adding special features for various customer segments. Product trial should be encouraged by promotional efforts that apply both advertising and sales promotions.

If there is little to no competition though the pricing can be high because the company wants to recoup huge development costs. Since the customers are not sure about the benefits of the product, lower prices could be useful there too because customers buy an inexpensive product at a lower price when they cannot understand what the product will be beneficial for.

The retailers may not distribute product consistently, as some retailers are reluctant to stock a new product until its customer acceptance is certain. But it is critical to ensure that the product is available. The company's promotional efforts may indeed create awareness, curiosity and desire for the product, but the product will be turned away by customers who can't find it on the shelves for a long time.

1.7.2 Growth

This stage is characterized by an increasing sale and profit because of the wide acceptance in the market and repeat purchases. The consumers become aware of the product and convinced of its utility. When customers understand the main benefits of the product they start to develop the preference for the brand, helping the company gain sales and market share. It focuses on keeping the customer happy and coming back to buy again, for which the company tries to build a strong brand image.

However, as companies contact a larger customer base and increase the production facilities to meet surging demand, they are forced to make substantial investments on manufacturing and marketing. The redesign of product is done to attain the differentiation and promotional efforts are done to highlight the benefits of the differentiated offering. This stage becomes crucial as the resource availability becomes important. As the market shifts towards the latter part of the growth phase, profits may start to decline as competitors are becoming attracted by the rapid sales growth and high profit potential. Finally, a competitive shakeout may mark the conclusion of the growth period, as the weaker contenders go out of business.

Emergence of specialised competitors will focus on particular market segments and take away market share from each. During the introduction stage, many pioneers sacrifice their first mover advantage by trying to indiscriminately serve all segments. Instead, the pioneer should identify a few profitable segments and focus on offering the appropriate products to the different segments. New segments will be targeted and the distribution channels will be widened, and the intermediaries will now stock the product.

1.7.3 Maturity

At this point, the market is saturated because all customers who are potential customers have acquired the product. The main source of sales growth lies in replacement purchases and population growth. With sales flattening, players are increasingly competing with each other for the same market share, leading to a market shakeout. Firms surviving the shakeout compete for market share by enhancing product, offering better and more dynamic marketing, increasing promotional activities, and reducing price, all of which decrease profit margins. A strong brand becomes that much more important when market leaders are better able to withstand pressure on profitability. Here the brand focuses on customer retention and pushing repeat purchases. For those brands not on top, the competition may eat away at prices and profits. Rather, firms may be tempted to engage in costly price wars to pull customers away from rivals, but such gains usually turn out to be short lived. Promotional pricing is one of those techniques that most companies struggle to achieve lasting shift in market share. Since so, firms should rather focus on the differentiation of their offerings than matching their competitors' pricing strategies in order to enhance their brand. In the maturity phase, however, growth rates will not match those of the earlier growth stage and companies must realize this. Growth stage firms should anticipate maturity to be a long period and to establish cost effective manufacturing and marketing systems to deliver satisfactory returns over time. These companies should strive for modest but incremental growth, by changing customer preferences in favour of their brands permanently, through differentiation and brand reinforcement.

1.7.4 Decline

When new technologies come along, or consumer tastes change, product demand declines, causing sales and profits to fall. A manufacturer may stop production or narrow what it produces. Distributors not making a profit have been eliminated, marketing budgets and product development funds slashed and so on. Organisations should expect sales to fall in the future. The single biggest reason that marketers are unsuccessful in putting suitable strategies in place for the decline phase is because they believe it is not imminent or will happen much later than expected. Firms should also evaluate how quickly the product will become obsolete by estimating the speed at which evolving customer needs and/or the efficacy and acceptance of emerging alternative solutions will render their products obsolete. Where customer requirements have changed dramatically or the new solution is extremely effective, the firm may have to formulate plans to leave the market immediately. Businesses that do this assessment early will gain a better value when they sell, before the market realizes the product is on the decline. On the other hand, if customer needs are changing slowly, or the new solution has defects and adoption is also slow, the company can work out a more gradual withdrawal.

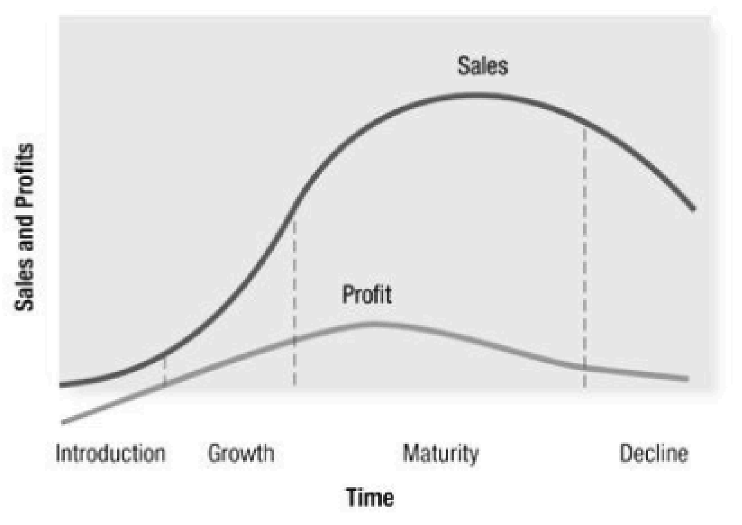

Figure 11: Product Life Cycle

1.8 New Product Development

The ongoing success of companies will increasingly depend on the introduction of innovative offerings to the market. Changing customer demands, technological progress, and competition mean companies cannot rely on just past product achievements only. While many new market offerings may fail, such failures should be seen as a part and parcel of product development. The key indicator of success in this case is the number of viable products a firm can introduce in the market. Invention is the creation of novel ideas and methods, whereas innovation occurs when these inventions can be commercialized for consumers and the society. Firms must take a proactive approach in both these areas. As such, while analyzing innovations, it is important to consider both the customer and the organisation's perspective.

1.8.1 Perspective of innovation from the customer's side

Based on the degree of change induced in consumers' established behaviours, innovations can be of three types: discontinuous innovations, continuous innovations, and dynamically continuous innovations. This classification is determined by the extent to which it alters existing customer habits.

- **Discontinuous innovations**

All customer segments come across **discontinuous innovations** as revolutionary and novel, with the introduction new products to the market. These pioneering market offerings are fundamentally different from existing products that they are able to drastically change markets and reshape competitive landscapes.

- **Continuous innovations**

At the opposite end of the spectrum lies continuous innovation, where incremental changes are applied to existing products that do not disrupt consumer behaviour. Despite significant financial investments, these are minor changes thereby making consumers fail to recognize the product to be new. Continuous innovation is effective only if it exceeds customer's perceptual threshold, wherein there exists a 'Just Noticeable Difference' (JND) between the improved product and its predecessors. This distinction is critical so that customers perceive the innovation as a genuine upgrade.

- **Dynamically continuous**

It lies between discontinuous and continuous innovation. This type of innovation in consumers' behaviour is not as revolutionary as discontinuous innovation, but more than continuous innovation. A middle ground is captured by this impact on consumer habits.

1.8.2 Perspective of innovation from the company's side

Companies may interpret innovation differently based on the objectives set for a new product. These can be:

- ❖ Product replacements done to existing products, such as making revisions or adjustments, repositioning or reducing costs.
- ❖ Expanding the existing product lines by introducing new brands, technologies, or stock-keeping units (SKUs).
- ❖ Introducing new product lines in product categories that were previously unexplored, thereby broadening the product mix.
- ❖ Introducing new to the world products that create entirely novel markets but having the highest risk because of unpredictable consumer responses. In this case market research may prove unreliable to forecast consumer demand since they may fail to grasp the benefits without experiencing the product firsthand. In case of successful adoption, these products can yield substantial rewards for the company.

1.9 Stages in New Product Development

It's a costly, uncertain and time-consuming process to develop new products. While the story of novel innovations is one of humble beginnings, firms cannot depend on a moment of genius or inspiration for their next popular and profitable product. When there is no better way than to create a new product, managers at firms take a structured approach with clearly defined checkpoints and objectives on the way for new products and greater success due to a strong marketing strategy. Seven stages of the new product development process is explained to get an insight by how new products are introduced in the marketplace. The descriptions are in the next sections:

- ❖ **Idea Generation**

Fostering a culture of innovation is essential so that it sparks creativity. In such an environment, all employees are vigilant for new opportunities. Great ideas often come up during moments of mindful reflection, away from the routines and professional obligations. Thus, new product concepts can originate from within the organisation. Scientists, engineers, marketers, sales representatives, and product designers may have numerous novel ideas. Employing brainstorming sessions that encourage idea generation and offering monetary rewards can motivate individuals to share their ideas. A company may adopt a structured approach to creating exceptional ideas out of all the ideas that are generated.

- **Idea Screening**

Although multiple ideas may emerge, evaluation for their market potential is conducted through a screening process. Assessment can be done using multiple criteria such as the market appeal of the proposed product, the alignment with company goals, and the company's capacity of manufacturing and distributing it to the end consumer. Sales growth and return on assets can be used as metrics of evaluation. As long as the idea is aligned with the objectives and capabilities, it's hard to know at this stage whether the idea will succeed, but this process allows the company to confirm that it has a reasonable chance of succeeding.

- **Concept Testing**

Once the idea is screened, concept testing follows it. A single product idea can result in several product concepts and those product concepts can be assessed based on feedback with target consumers. A product concept has features, advantages, and cost. Consumers would assess several product concepts, which unlike the early product concept stage will likely be more of a description than a tangible element but they still offer something capable of be evaluated by the customers. As a second step prospective customers would indicate whether they see advantages when these features are present.

- **Business Analysis**

The company conducts projections for sales, expenses, and earnings. It determines the magnitude, anticipated product reception and the intended consumer base over several years. Evaluation of various price points and their impact are conducted. The firm calculates costs and the break-even threshold. To examine how deviations from assumed price, cost, and consumer acceptance impact revenue and profit a sensitivity analysis is performed. Although proper conclusions cannot calculate from these assessments, this exercise compels company executives to consider the potential achievements and limitations of the proposed product for the organisation.

- **Product development**

The concept is now converted into a tangible item. Cross functional teams are to move the product through the market launch. The goal is to factor in the knowledge of all key departments to enhance the product development but at the lower costs and high-quality outcomes. The product is designed and developed by the designers and the production engineers in collaboration throughout the process. At this stage functionality and consumer acceptance are important phases of product testing. However, it is necessary to test products with consumers in order to confirm their usability. The product is compared (comparative tests) against a competitor's offering so respondents have something to compare the new product against. These tests collect data on general preference and comparisons of particular attributes.

- **Market testing**

Potential buyers have been asked about their purchase intentions throughout the product development journey to this point, but they have not yet been forced to make the purchase yet. Market testing is based on a limited product release to measure real world consumer reaction and determine if the product should be fully market launched based on the results. The goal here is to generate a shopping environment as close as possible to a real market for a group of consumers to choose among a set of products provided by the organising firm in a simulated market experiment.

Test marketing consists of placing a new product in a limited number of geographical areas chosen to be representative of the target market. The new product is given to retail outlets to see how it works out as compared to other products. An estimate of the new product's potential success can be extrapolated from test marketing results into the broader market.

- **Commercialization and diffusion of innovation**

The product will have to be directed to an initial target market and a specific positioning strategy to appeal to that audience. Understanding the innovation diffusion process is a crucial starting point for selecting target market. Therefore, if a company decides to reach the whole market during the initial launch phase, the adoption process will be slower because many in the market may not be interested in or sceptical about the product yet. Additionally, this will be more expensive in terms of launch cost and achieved adoption rate, compared to the entire potential market.

1.10 Adoption Process

Consumers are ready for new offerings in varying degrees in the marketplace. **Innovators** are the first group of people to be the target audience for the new product. Although the characteristics of innovators vary between categories, requiring market research, they tend to be adventurous and want to be unique. These are people willing to test products they are not familiar with. In consumer markets, innovators are younger, more educated, more self-assured, and more financially stable, making it easier for them to gamble on new items.

The next group of buyers will be the **early adopters** who have enough wealth and self-confidence to buy products that are neither accepted nor rejected by the society. Opinion leaders are innovators and early adopters, both of whom shape the perceptions of the product that others have. Most customers are **early and late majority**, who are more careful and careful about the product they choose, and always favor products that have been proven to be successful in the market. Even more cautious and sceptical is the late majority. The last group of **laggards** are tradition bound and only purchase innovations when it is perceived as being nearly conventional. Usually, this is the older and less educated members of society.

Target markets are dependent largely on these diffusion of innovation categories. The essential here is to find and address innovators and early adopters at launch through marketing research rather than merely guessing at who will be the early buyers.

This categorisation can be used to segment the market and select the products that will be innovative, drawing from the PLC. In the introduction phase, innovators purchase the product; then early adopters are buying during growth. Repurchases by early and late majority can sustain sales during maturity, and they drive growth. The late maturity, or even decline, may be entered by laggards. Moreover, promotional strategies to drive trial may need to be adjusted as the kind of buyers involved changes over time.

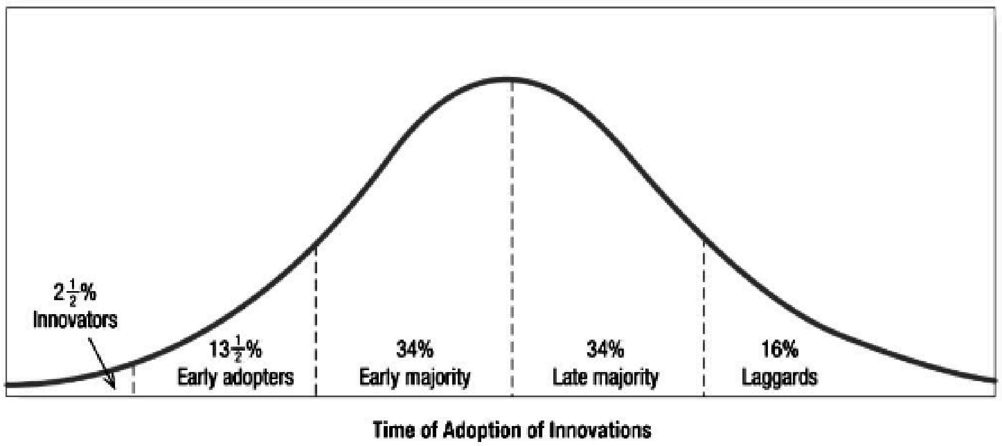

Figure 12: Time of adoption for different categories of consumers (Source: Marketing Management, Phillip Kotler, 15th Ed)

1.11 Packaging

Packaging is often the first thing that a buyer sees of a product and can therefore be an important piece in capturing their attention. Moreover, it has an impact on the assessment of the item and the final decision of purchase of the consumer.

Label is an essential part of packaging. Written, electronic or graphical information directly applied to the packaging or to any accompanying material intended to form part of the packaging, including informational tags, are also referred to as labels. The primary purposes of labels are multifaceted: they give information; permit product identification; highlight important features; stress benefits; educate on apposite use, storage, and disposal; make a visual and aesthetic appeal; and reinforce and heighten the connected brand.

There are three core packaging principles that can aid in effective packaging:

- **Visibility:** When firms try to market their products, they crowd consumers with excess information. However, this excess can be counterproductive and customers can lose focus because they see it as being irrelevant to their immediate decision-making process. It is through the visual medium of packaging that can get the shopper's attention, making them think more favourably about the product, and potentially leading to a purchase.
- **Differentiation:** Another important element of good packaging is one that sets a company's product apart from the competitions. Customers often consider packaging as their first source of information about the products they are considering, and use it to make a decision, especially when they have to choose between several options and the time is limited.
- **Transparency:** In some cases, successful packaging serves to attract consumers' attention and to distinguish the firm's products from other firms, but most important it should clearly communicate the value of the product to its intended audience. Since shoppers normally encounter packaging at point of purchase, it has to convey the value proposition of the product transparently in order to emphasize the product benefits and give shoppers a convincing reason to purchase the product.

1.12 Unit Summary

- Core benefit level: This represents the fundamental need or want that a product satisfies for consumers. It is the essential value proposition that addresses the primary reason customers purchase a product. For example, the core benefit of a car is transportation, while the core benefit of a smartphone is communication and information access.
- Consumer goods categories: a) Convenience goods: Products purchased frequently with minimal effort, such as groceries or toiletries. b) Shopping goods: Items that require more consideration and comparison before purchase, like clothing or furniture. c) Specialty goods: Unique or luxury products with strong brand preference, such as high-end electronics or designer fashion.
- Product differentiation: The process of making a product stand out from competitors by emphasizing unique features, benefits, or attributes. This strategy aims to create a distinct market position and appeal to specific customer segments.
- Product mix dimensions: a) Width: The number of different product lines offered by a company. b) Length: The total number of items in a company's product mix. c) Depth: The number of variants within each product line. d) Consistency: The degree of relatedness between product lines in terms of production, distribution, or end-use.
- First product life cycle stage: Introduction This initial stage involves launching the product in the market, characterized by high costs, low sales, and intensive marketing efforts to create awareness and stimulate adoption.
- Actual product: The tangible features and attributes of a product that customers can directly experience. This includes aspects such as design, quality, packaging, and brand name. Augmented product: Additional services and benefits that enhance the core and actual product. Examples include warranties, customer support, delivery options, and after-sales services.

- ❖ Durable goods: Products designed for long-term use and infrequent replacement, such as appliances, vehicles, and furniture. These items typically have a higher price point and longer decision-making process. Non-durable goods: Products consumed quickly and purchased frequently, including food, beverages, and personal care items. These goods generally have a lower price point and shorter decision-making process.
- ❖ Product differentiation strategies: a) Unique features or design: Developing distinctive product characteristics or aesthetic elements that set the product apart from competitors. b) Superior quality or performance: Offering products that outperform competitors in terms of durability, reliability, or effectiveness. c) Brand image and positioning: Creating a strong brand identity and emotional connection with customers. d) Customer service: Providing exceptional pre- and post-purchase support to enhance the overall product experience. e) Customization: Offering personalized options to meet individual customer preferences.
- ❖ Product line: A group of closely related products marketed under a single brand name. Product lines often share similar characteristics, target markets, or distribution channels. Relation to hierarchy: A product line forms part of a company's broader product mix, which encompasses all the products offered by the organization. The product mix consists of multiple product lines, each catering to different market segments or customer needs.
- ❖ Idea generation activities: a) Brainstorming sessions: Collaborative meetings where team members generate and discuss new product concepts. b) Customer feedback analysis: Examining customer reviews, surveys, and complaints to identify unmet needs or improvement opportunities. c) Market research: Conducting studies to identify trends, consumer preferences, and gaps in the market. d) Competitive analysis: Evaluating competitors' products and strategies to identify potential areas for differentiation. e) Technology scouting: Exploring emerging technologies that could be incorporated into new products. f) Cross-functional collaboration: Engaging diverse teams from different departments to generate innovative ideas. g) Crowdsourcing: Soliciting ideas from external sources, such as customers or industry experts. h) Trend analysis: Monitoring social, economic, and cultural trends that may influence future product needs.

1.13 Check your progress

1-Mark Questions:

1. What is the core benefit of a product?
2. Name the four categories of consumer goods classification.
3. What does the width of a product mix refer to?
4. Which stage of the product life cycle is characterized by slow sales growth?
5. What is the first level in the product hierarchy?
6. Define durable goods.
7. What does PLC stand for in marketing?
8. What is the purpose of idea screening in new product development?
9. Who are typically the first group to adopt new products?
10. What is the primary purpose of product packaging?

2-Mark Questions:

1. Differentiate between convenience goods and shopping goods.
2. Explain the concept of product differentiation.
3. What are the four dimensions of a product mix?
4. Describe the maturity stage of the product life cycle.
5. What is the difference between invention and innovation?
6. Explain the concept of line stretching in product line decisions.
7. What are the two types of raw materials in industrial goods classification?
8. Define augmented product and give an example.
9. What is meant by product line consistency?
10. Explain the concept of Just Noticeable Difference (JND) in continuous innovation.

5-Mark Questions:

1. Describe the five product levels with examples.
2. Explain the three types of innovation from a customer's perspective.
3. Outline the stages of the new product development process.
4. Discuss the importance of product differentiation in marketing strategy.
5. Explain the concept of product line analysis and its significance.
6. Describe the different categories of adopters in the diffusion of innovation process.
7. Discuss the role of packaging in product marketing and consumer decision-making.
8. Explain the concept of product systems and mixes with examples.
9. Describe the three core packaging principles and their importance.
10. Discuss the factors influencing product line length decisions.

10-Mark Questions:

1. Analyze the product life cycle stages and discuss appropriate marketing strategies for each stage.
2. Compare and contrast the classification of consumer goods and industrial goods, providing examples for each category.
3. Evaluate the importance of new product development in maintaining competitive advantage. Discuss the challenges and risks associated with this process.
4. Explain the concept of product and brand relationships. Discuss how companies can leverage these relationships to enhance their market position.
5. Analyze the factors influencing product differentiation strategies. Provide examples of successful product differentiation in various industries.
6. Discuss the role of innovation in product development and marketing. Compare discontinuous, continuous, and dynamically continuous innovations with examples.
7. Evaluate the importance of product line decisions in a company's overall marketing strategy. Discuss factors influencing product line length, width, and depth.
8. Analyze the adoption process for new products. Discuss how understanding this process can help in developing effective marketing strategies.

9. Discuss the role of packaging and labeling in product marketing. Analyze how effective packaging can influence consumer behavior and purchase decisions.
10. Evaluate the importance of product classification in marketing strategy. Discuss how different product categories require different marketing approaches.

Unit 2: Pricing Strategy

Unit Structure:

2.1 Unit Objectives
2.2 Introduction
2.3 Price setting procedure
2.4 Adapting prices
2.5 Price Change Initiations and Responses
2.6 Unit Summary
2.7 Check your progress

2.1 Unit objectives

After the completion of unit learners will:

- Understand the key factors and steps involved in setting prices for products and services.
- Analyze different pricing strategies and methods used by companies to maximize profits and market share.
- Evaluate various pricing adaptation techniques like discounts, promotional pricing, and differential pricing.
- Examine how companies initiate and respond to price changes in competitive markets.

2.2 Introduction:

There's more to the idea of price than just a number on a label. Different purposes get served by price of products and services and they appear in different forms. The relation price has historically been an important factor in consumer decision making. Individuals, procurement specialists with access to pricing and access to discount retailers pressure shops to drop their prices. These shops, in turn, pressure manufacturers into cutting their prices. Rather it can become market environment where there are huge discounts and promotional activates.

2.3 Price setting procedure:

Organisations face the challenge of setting an initial price when they launch an innovative item, introduce an existing product to a new market or sales channel, or propose bids for fresh contractual opportunities. This pricing decision is crucial as it marks the first instance of establishing a monetary value for their offering in these scenarios. The organisation needs to determine how to position its offering in terms of quality and price.

The overall pricing objective of a company dictates the price of its product or service. The more precise the firm's objective, the more straightforward it becomes to determine the price. Pricing objectives are established to guide this process.

- ❖ Several organisations are trying to reach a price point that maximizes their current cash inflow. They consider the potential demand and costs associated for a variety of price levels and choose the maximum possible immediate profit, cash flow, or return on investment level from those studied. However, in practice, it is difficult to know the demand and cost functions precisely, and this mode of approach presupposes such knowledge of the business.

- ❖ Firms eying for penetration pricing try to gain a high market share. A market is sensitive to price changes, so they set an extremely low price. The objective of this strategy is that as a result of increasing sales volume, the per unit costs will be reduced and the long-term profits will be increased.

- ❖ Novel technology introduced by firms use **market skimming** in their pricing strategy. It involved setting high prices to capture the richest from early adopters as much as possible. In this method, businesses set a high price point relative to the market so as to 'get the cream out' of the market. In doing so, they exclude all but those consumers with the strongest willingness to pay, targeting, in effect, the most profitable section of potential consumers.

- ❖ An organisation might want to be the number one quality in the market. Thus, the above position can be sustained by the firm only if it can afford to set relatively higher prices to set aside funds for research and development, manufacturing processes and delivery of customer service.

2.3.2 Steps in Price setting:

- ❖ **Step 1: Selecting the Pricing Objective**

Initially, an organisation determines its desired market positioning. The more precise a company's aims are, the simpler it becomes to establish pricing. There are five primary objectives: endurance, optimising current profits, maximising market share, peak market skimming, and leading in product quality. The chosen objective is based on three factors.

- **Survival of the firm**

Firms prioritise survival as their main goal when faced with excess capacity, fierce rivalry, or shifting consumer preferences.

- **Maximizing the current profit**

Numerous businesses attempt to set prices that will yield the highest immediate profits.

- **Maximising the Firm's Market Share**

Some firms aim to secure the largest possible market share. They believe that increased sales volume will result in reduced unit costs and greater long-term profitability. In such instances, companies employ market-penetration pricing strategies.

A market-penetration pricing strategy is particularly advantageous under the following circumstances:

  - When the market exhibits high price sensitivity and reduced prices stimulate market expansion;
  - When the costs associated with production and distribution decrease as cumulative production experience increases; and
  - When lower prices serve as a deterrent to existing and potential competitors.

- **Maximizing Market Skimming**

When introducing novel technologies, businesses often opt for elevated initial pricing to maximise profits through market skimming. A notable example is Sony, which frequently employs a **market-skimming pricing strategy**. This approach involves setting prices high at the outset and gradually reducing them as time progresses.

❖ **Step 2: Determining Demand**

To determine demand the following are to be done:

- **Price sensitivity:**

Different pricing strategies yield varying levels of consumer demand and influence a company's marketing goals differently. The typical inverse correlation between price and demand is illustrated by a demand curve. As prices rise, demand generally decreases. However, for luxury items, the demand curve may occasionally exhibit an upward slope.

The demand curve illustrates the anticipated quantity of purchases at various price points in the market. It aggregates the responses of numerous individuals with differing price sensitivities. To estimate demand accurately, one must first comprehend the factors affecting price sensitivity. Typically, consumers are less sensitive to price changes for inexpensive products or those purchased infrequently.

Consumers exhibit reduced price sensitivity under several conditions:

  - when alternatives or rivals are scarce;
  - when they fail to notice the price increase;
  - when they are reluctant to alter their purchasing patterns;

- when they perceive the higher costs as warranted; and
- when the price constitutes only a minor portion of the overall expenses associated with acquiring, utilising, and
- maintaining the product throughout its lifespan.

A seller can successfully implement a pricing strategy above that of its competitors if it can demonstrate to customers that it provides the most economical total cost of ownership (TCO). Marketing professionals often categorise the service components of a product offering as incentives to boost sales, rather than recognising them as value-enhancing additions that could justify a premium price.

- **Estimating Demand Curves:**

Consumer **surveys** can gauge the quantity of units that buyers would acquire at different price points. Although consumers might downplay their intentions when prices are higher to discourage elevated pricing, they often overstate their readiness to pay for novel products or services. **Price experiments** can modify product costs within a shop or implement varied prices for identical items in comparable regions to monitor sales impacts; this approach can also be employed online. **Statistical analysis** historical prices, sales volumes, and additional variables can reveal their correlations, utilising data collected over time (longitudinal) or across different locations simultaneously (cross-sectional). When examining the relationship between price and demand, researchers must account for factors that influence consumer demand.

- **Price Elasticity of Demand**

Marketers must understand how demand varies with price changes. High elasticity means a small price reduction can significantly increase sales volume. If demand is elastic, vendors might lower prices to boost overall revenue, assuming production and sales costs remain stable. Price elasticity is variable and depends on the scale and direction of the price change. Minor price adjustments usually yield low elasticity, while larger price changes can result in high elasticity.

❖ **Step 3: Estimating Costs**

Demand sets an upper limit and costs sets a lower limit on the price that the company can charge for its product. The organisation aims to set a price that recuperates the expenses associated with manufacturing, logistics, and marketing the item, whilst also ensuring a reasonable profit margin for their endeavours and the risks involved.

- **Types of Costs and Levels of Production:**

Overhead expenses, also referred to as **fixed costs**, remain constant regardless of production volume or sales income. A firm must settle monthly bills for expenses such as rent, heating, interest, and wages, irrespective of output levels.

In contrast, **variable costs** fluctuate in direct proportion to production levels. For instance, each calculator manufactured by Texas Instruments incurs expenses for materials like plastic, microprocessor chips, and packaging. These costs typically remain steady per unit produced, but are termed variable as their total sum changes based on the quantity of units manufactured.

The combination of fixed costs and variable costs at any production level constitutes the **average costs**. Average cost represents the expense per unit at a specific production level, calculated by dividing total costs by production volume. Company executives aim to set a price that will, at minimum, cover the total production expenses for a particular output level. As firms continue producing products, their methods of production improve wherein the average cost of production decreases with the accumulated production experience known as the **experience curve or learning curve.** As such firms can implement an aggressive pricing strategy of decreasing the prices leading to the competition not being able to keep up thereby, increasing the market share of the firm.

While experience-curve pricing can be advantageous, it also poses significant dangers. Overly aggressive pricing strategies may lead to a perception of the product as cheap. Additionally, this approach assumes that competitors are passive followers. The company may invest in expanding production facilities to meet increased demand, but a rival could potentially develop a more cost-effective technology. Consequently, the market leader may find itself saddled with outdated manufacturing methods.

- **Target Costing**

Production expenses fluctuate based on scale, expertise, and the endeavours of designers, engineers, and procurement specialists to minimise them through targeted cost management. Consumer research establishes the desired features and competitive price point for a new product. The **target cost** is determined by deducting the intended profit margin from this price. To achieve this target range, the company must scrutinise and reduce expenses across all aspects, including design, engineering, manufacturing, and sales.

❖ **Step 4: Assessing Costs, Prices, and Offers of Competitors**

When setting prices within the market demand and cost range, companies must consider their rivals' costs, pricing strategies, and potential responses to price changes. Unique features offered by the company should be valued and added to the competitor's price, while the worth of features provided by competitors but lacking in the company should be deducted. This helps decide whether to price higher, lower, or the same as competitors.

Price changes can prompt reactions from stakeholders, including customers, competitors, distributors, suppliers, and government bodies. Competitor responses are likelier in markets with few firms, homogeneous products, and informed buyers. If a competitor has a strong value proposition, reactions can be especially challenging. A competitor focused on market share will likely match price adjustments, whereas one prioritizing profit might increase advertising or improve product quality. Price reductions by rivals can be seen as attempts to gain market share, offset poor sales, or induce industry-wide price cuts to boost demand.

❖ **Step 5: Selecting a Pricing Method**

After considering the customer demand schedule, cost function, and rival prices, a firm can determine its pricing strategy. The prices set by competitors and substitute products serve as a reference point, whilst the perceived value of unique features establishes the upper limit for pricing. Organisations typically employ a pricing approach that incorporates one or more of these factors. There are six primary pricing methodologies: cost-plus pricing, return-on-investment pricing, value-based pricing, economy pricing, competitive pricing, and auction-style pricing.

- **Markup Pricing**

The simplest method of pricing involves applying a fixed markup to a product's cost. In the construction industry, companies prepare bids for projects by calculating the overall expenses and then incorporating a standard profit margin.

- **Target-Return Pricing**

When employing target-return pricing, companies establish a price that achieves their expected rate of return on investment. This approach is frequently utilised by public utilities, which are required to generate a fair return on their investments.

- **Perceived-Value Pricing**

Firms increasingly ground their pricing strategies on customer-perceived value, which includes product efficacy, distribution efficiency, warranty reliability, after-sales service, and intangible factors like supplier prestige and credibility. Organizations must deliver promised value, and customers must recognize this value.

- **Value Pricing**

In recent times, numerous firms have embraced value pricing strategies, cultivating customer loyalty by offering high-quality products at relatively affordable prices. This approach extends beyond mere price reduction; it involves restructuring company operations to achieve cost-efficiency without compromising quality, thereby appealing to a substantial base of price-conscious consumers.

A notable variant of value pricing is everyday low pricing (EDLP). Retailers adhering to EDLP maintain consistently low prices with minimal promotional activities or special offers. This steady pricing eliminates the uncertainty associated with weekly price fluctuations and contrasts with the "high-low" pricing model employed by promotion-oriented competitors. In the high-low approach, retailers set higher standard prices but frequently run promotions that temporarily reduce prices below the EDLP level. Research has demonstrated that these contrasting strategies influence consumer perceptions of pricing. Offering significant price reductions

(EDLP) may cause consumers to believe prices are lower over time compared to regular, small discounts (high-low), even when the actual mean prices are the same.

- **Going Rate Pricing**

In going-rate pricing, organizations set their prices based on competitors' rates. In oligopolistic sectors like steel, paper, or fertilizer, companies often have identical prices. Smaller firms usually adopt a "follow the leader" strategy, adjusting their prices according to the market leader's changes rather than their own demand or costs. Some might slightly mark up or reduce prices, but they typically maintain a consistent difference.

- **Auction Type Pricing**

Auction-style pricing is increasingly common, especially with many digital marketplaces offering products like livestock and second-hand vehicles, as businesses aim to liquidate excess stock or used goods. Customer satisfaction tends to be higher, future expectations more optimistic, and perceptions of opportunistic behaviour less frequent in web-based auctions characterised by numerous bidders, higher monetary value, and less transparent pricing structures.

❖ **Step 5: Final Price Selection**

Companies utilise pricing methods to establish a range for their final price selection. However, when determining the ultimate price, firms must take into account various additional elements. These include the effect of other marketing initiatives, the organisation's pricing strategies, approaches that involve sharing both profits and risks, and how the chosen price might influence other stakeholders.

- **Impact Of Other Marketing Activities:**

When determining the final price, it is crucial to consider the brand's quality and promotional efforts in relation to its competitors, taking into account the following factors:

- Products with average comparative quality but substantial advertising expenditure could command higher prices. Consumers demonstrated a willingness to pay more for familiar brands rather than unknown ones.
- Brands that excelled in both relative quality and advertising investment were able to set the highest prices. In contrast, those with inferior quality and minimal advertising had to offer the lowest prices.
- For industry leaders, the positive correlation between elevated prices and substantial advertising was most pronounced during the later phases of a product's lifecycle.

- **Company Pricing Policies:**

Pricing must align with the organisation's established guidelines. However, firms are not opposed to implementing pricing sanctions under specific conditions. Numerous companies establish dedicated pricing divisions to formulate policies and either create or endorse decisions. The objective is to guarantee that sales representatives provide quotations that are both fair to clients and financially beneficial to the company.

- **Gain And Risk Sharing Pricing**

Potential customers may hesitate to accept a vendor's offer due to a perceived high level of risk. To address this, the vendor can propose to shoulder some or all of the risk if they fail to deliver the full promised value. Recent examples of risk-sharing arrangements have been observed in major computer hardware acquisitions and healthcare plans for large trade unions.

- **Impact of Price on Other Parties**

The proposed price may raise concerns amongst distributors and retailers. Insufficient profit margins could deter them from marketing the product. It is crucial to evaluate the sales team's readiness to sell at the suggested price point. One must also anticipate how competitors might respond to the pricing strategy. There is a possibility that suppliers may adjust their prices upwards in reaction to the company's pricing decisions. Additionally, the risk of governmental intervention to prohibit the intended price should be taken into account.

2.4 Adapting Prices

Organizations usually avoid a uniform pricing approach, preferring a diverse pricing framework that considers regional demand, cost fluctuations, market segment needs, purchase timing, order quantities, delivery schedules, warranties, service agreements, and other factors. As a result, due to various discounts, allowances, and promotional initiatives, firms rarely achieve identical profit margins on each unit sold. The following sections explore several pricing adaptation strategies: location-based pricing, price reductions and concessions, promotional pricing tactics, and differentiated pricing methods.

2.4.1 Geographical Pricing

When implementing geographical pricing strategies, organisations must determine how to set prices for their products across various customer locations and countries. They need to weigh several factors, such as whether to impose higher charges on customers in remote areas to cover increased shipping expenses, or to offer reduced prices to attract more business. Additionally, companies must consider currency exchange rates and the relative strength of different monetary units when establishing product prices for international markets.

Numerous buyers seek to exchange alternative goods as payment, a method referred to as **countertrade.** Countertrade consists of multiple types:

• **Barter:** A direct exchange of goods between buyer and seller, without monetary involvement or third-party participation.

• **Compensation Deal:** The seller accepts a portion of the payment in cash and the remainder in products. For instance, a British aeroplane manufacturer sold aircraft to Brazil, receiving 70 percent in cash and the balance in coffee.

• **Buyback arrangement:** In this case, vendor supplies industrial machinery, technological solutions, or botanical resources to a foreign country. As part of the agreement, the vendor agrees to accept goods manufactured using the provided resources as partial remuneration for the transaction.

• **Offset:** The seller receives the full amount in cash but commits to investing a significant portion of the money in the buyer's country within a specified timeframe.

2.4.2 Price Discounts and Allowances

Many firms adjust their catalogue prices, offering reductions and incentives for early payment, bulk orders, and off-season purchases, but this must be handled cautiously to avoid profit shortfalls. Price reductions are common in many businesses selling goods and services, with sales representatives often using discounts to secure deals. However, this can quickly lead to a reputation for flexible pricing, undermining the perceived value of offerings. Some product categories risk self-destruction by being perpetually on sale.

Organisations with excess capacity might offer discounts or supply retailers with own-brand versions at heavily reduced prices, which can erode the manufacturer's brand share. Manufacturers should carefully consider the implications of discounting to retailers, as it may sacrifice long-term profitability for short-term volume targets.

Generally, only higher-income consumers with greater product engagement are willing to pay premium prices for enhanced features, superior customer service, quality, added convenience, and brand recognition. Thus, it may be unwise for a strong, distinctive brand to resort to price reductions in response to low-cost competitors. Nevertheless, discounting can be beneficial if the company secures concessions in return, such as extended contracts, electronic ordering, or bulk purchases.

Sales management should monitor the proportion of customers receiving discounts, the average discount, and any sales staff overly reliant on discounting. Senior management should perform a net price analysis to determine the 'actual price' of the offering.

2.4.3 Promotional pricing

To stimulate early purchases, companies can use several pricing techniques:

- **Loss-leader pricing:** Large retailers often cut prices on popular brand items to draw more customers. This strategy can be profitable if the higher sales volume compensates for the lower profit margins. However, manufacturers of these discounted brands often disapprove, as it can lower their brand's perceived value and lead to complaints from other retailers who follow the recommended retail price.

- **Special event pricing:** Retailers often implement promotional pricing strategies during specific periods to attract more shoppers. Examples include discounts offered on Black Friday or during holiday seasons.

- **Special customer pricing:** Vendors will provide exclusive discounts to specific clientele, such as frequent purchasers.

- **Cash rebates:** Manufacturers of automobiles and other consumer goods often provide monetary incentives in the form of cash rebates to stimulate sales of their products within a designated timeframe. This strategy allows companies to reduce their stock without altering the advertised retail price.

- **Low-interest financing:** Rather than reducing the price, a firm can provide consumers with low-interest financing options. Car manufacturers employed interest-free financing schemes in an effort to draw more buyers.

- **Longer payment terms:** Lenders, particularly those in the mortgage and automobile industries, extend the duration of loans to reduce monthly instalments for borrowers.

- **Warranties and service contracts:** Businesses can boost their sales by offering complimentary or inexpensive warranty or service agreements.

- **Psychological discounting:** This approach involves setting an unrealistically high initial price, followed by offering the item at a significant discount.

2.4.4 Differential Pricing

Businesses often adjust pricing based on clientele, merchandise, location, and other factors. When a company offers the same product or service at varying prices that are not directly related to differences in production costs, this practice is known as price discrimination. **First-degree** price discrimination sets individual prices based on customer demand. **Second-degree** price discrimination offers discounts for bulk purchases. However, tiered pricing for services like mobile phone plans often results in higher charges for increased usage. In **third-degree**

price a vendor charges distinct prices to various groups of customers. This approach can be observed in several instances:

• **Customer- Segment pricing:** Various consumer groups are charged distinct rates for identical goods or services. For instance, many museums offer reduced entry fees to pupils and the elderly.

• **Product-form pricing:** Diverse iterations of a product are priced differently, not necessarily in proportion to their production costs.

• **Image pricing:** Certain firms' price identical products at two distinct levels based on perceived image differences. A fragrance manufacturer might package the same perfume in two bottles, assign different names and images, and price one higher than the other.

• **Channel pricing:** The price of Coca-Cola varies depending on whether it is purchased in an upscale restaurant, a fast-food establishment, or from a vending machine.

• **Location-specific pricing:** Identical products are priced differently at various locations, despite equal offering costs. For example, theatres adjust seat prices according to audience preferences for different positions.

• **Time pricing:** In this pricing, the cost of goods and services can vary depending on the time of year, week, or even hour. For instance, energy companies adjust their rates for business customers based on whether it's a weekday or weekend, as well as the specific time of day. Restaurants offer discounts to early diners, and some hotels reduce rates on weekends.

A special case is in the aviation and hospitality sectors that employ yield management systems and **yield pricing**, offering limited early-purchase discounts, higher rates for late bookings, and the lowest prices for unsold inventory just before expiration.

2.5 Product- mix pricing

If a product is not an isolated commodity but one part of a larger range then marketers have to change the approach to pricing. In product mix pricing, the company attempts to find a set of prices that maximises profits over the whole gamut. The task is complicated by the fact that demand and costs are interlinked across different products and by the presence of different competition levels. The derivation of product mix prices depends on six different approaches to product mix pricing.

❖ **Product Line Pricing:** Usually, businesses make product lines rather than specific products and add price levels. For example, a suit offered by an apparel retailer at three different price points is thus associated by their customers as low, medium and high quality respectively. The issue for the retailer is one of how the perceived quality differences are to be justified by the price differentials.

- **Optional-feature pricing:** Many firms supply their main product along with supplementary attributes or amenities. Automotive firms develop multiple variants of the same car based on the optional extras that are added as the variants go up in price. For example, touchscreen infotainment systems, automatic height adjustable seats with memory function are generally part of the top variants while basic radio and seats are given to the base variants of the vehicles.

  The difficulty associated with determining pricing strategies for businesses is deciding what features should be added to the base cost and which should be provided as optional add ons. For example, in the restaurant industry, many restaurants set higher price points on drinks, and lower price points on food costs. By this strategy, food sales will fund the basic costs of the operation, and the bulk of its profits come from the sale of beverages, especially the alcoholic ones.

- **Captive-Product Pricing:** Certain goods necessitate the use of complementary or captive products. Razor manufacturers often employ a strategy of setting low prices for razors whilst applying substantial markups on the blades. However, if the proprietary item is excessively priced in the secondary market, it may lead to counterfeit products and substitutions, potentially diminishing sales. Presently, consumers have the option to purchase printer cartridge refills from discount retailers, enabling them to save between 20 and 30 per cent compared to the manufacturer's price.

- **Two-part pricing:** Two-part pricing strategies are employed by service companies, comprising a fixed charge and a variable usage fee. For instance, theme parks implement an entrance cost along with additional charges for rides beyond a set limit. This approach presents a challenge akin to captive-product pricing for service providers, who must determine appropriate rates for both the core service and its variable usage. The initial fixed fee should be set at an attractive level to encourage customers, whilst profits can be generated through subsequent usage fees.

- **By-product pricing:** Manufacturing certain commodities, such as meat, petroleum-based items, and various chemicals, frequently results in secondary products that should be priced according to their worth. Any revenue generated from these secondary products can enable the company to reduce the cost of its primary product if market competition necessitates such action.

- **Product bundling pricing:** When a company exclusively offers its products as a package, this is known as pure bundling. In the automotive aftermarket sector, suppliers are increasingly combining their offerings into customisable three-in-one and four-in-one packages, particularly for secondary products like tyre-and-wheel protection and paintless dent repair.

Mixed bundling, on the other hand, involves a seller providing goods both separately and as a package, typically with the bundle priced lower than the sum of its individual components. For instance, a theatre might offer a season ticket at a reduced rate compared to purchasing tickets for each performance individually.

2.6 Price Changes- Initiation and Responses

2.6.1 Reducing prices:

There may be various reasons why a company might choose to reduce prices. An example of such a case is when the firm has more production capacity than it requires and it is aimed at bringing more business with other activities already exhausted, such as intensifying the firm's sales efforts or enhancing the company's products. In a few cases, organisations use price reduction as a strategy to gain the market dominance via cost leadership. This could be because they are already cheaper than competition, or because they want a larger slice of the market which would enable them to lower costs.

Losing profits to maintain customers or overtake competitors by cutting prices may end up leading customers to expect discounts and training sales people to offer them. Using price reduction as a strategy does have its unintended side effects, for example consumers may think the quality of the product is substandard. Additionally, while low prices can capture market share, they do not create customer loyalty: these same customers are always willing to switch customers to those who advertise lower prices. Furthermore, competitors might be spurred to match or, more likely, to undercut, leading to price war.

2.6.2 Increasing prices:

Losing profits to maintain customers or overtake competitors by cutting prices may end up leading customers to expect discounts and training sales people to offer them. Using price reduction as a strategy does have its unintended side effects, for example consumers may think the quality of the product is substandard. Additionally, while low prices can capture market share, they do not create customer loyalty: these same customers are always willing to switch customers to those who advertise lower prices. Moreover, competitors may even retaliate by reducing their prices further or engaging in price war.

Several techniques can prevent hostile consumer reactions to price hikes. Maintaining a sense of fairness, such as providing advance notice for forward buying or alternative shopping, is essential. Explaining sharp price increases clearly is also important. Additionally, making low visibility price adjustments first can be effective.

2.6.3 Competitor pricing and response:

The integrating firm may seek to alter or create a new price, which will trigger reactions from customers, rivals, distributors, suppliers, and even the government. The changes in prices are effective in leading competitors to respond when the number of firms in the industry is low, the product is uniform and consumers are well informed.

Alternately, it is possible to consider each price variation or modification as a new challenge to the competitor. The company must examine competitor's current financial health, recent sales history, customer loyalty and corporate goals. The competitor should have a market share goal, and if they do, they would obviously match any price differences or changes.

The situation becomes more complex as the competitor may interpret price reductions differently. Instead, as a sign of poor performance and an attempt to boost sales, as part of an effort to win market share, or as a means of encouraging industry-wide price cuts in order to stimulate overall demand.

Sometimes thorough analysis of options is difficult and it becomes an immediate challenge. In industries where prices are constantly shifting and swift responses are necessary, the company could need to act fast, within a short amount of time. Therefore, it makes sense to consider possible changes of competitors price and to analyse alternative scenarios.

2.7 Unit Summary:

- Price setting involves considering factors like costs, customer value perception, and competitor pricing.
- Key steps in pricing include setting objectives, analyzing demand, estimating costs, and evaluating competitors' prices.
- Common pricing strategies include cost-plus, value-based, and competition-based pricing.
- Penetration pricing aims to gain market share quickly with low initial prices.
- The skimming strategy entails setting initial prices at a high level to optimise revenue from early customers.
- Companies use promotional pricing to boost short-term sales and attract new customers.
- Varied pricing strategies involve setting distinct rates for different consumer groups based on various factors such as geographical location, timing, or purchase volume.
- Discounting techniques include volume discounts, seasonal discounts, and loyalty rewards.
- Price adaptation strategies help companies adjust prices in response to market changes and competitive pressures.
- Companies must carefully consider the impact of price changes on customer perception, brand image, and long-term profitability.

2.8 Check your progress:

1 Mark Questions

1. What are the five primary pricing objectives mentioned in the text?
2. Name two types of costs involved in pricing decisions.
3. What is the term for pricing based on competitors' rates?
4. Define countertrade.
5. What is first-degree price discrimination?
6. What is yield pricing?
7. Name one reason why a company might reduce prices.
8. What is loss-leader pricing?
9. What is psychological discounting?
10. What is channel pricing?

2 Mark Questions

1. Explain the concept of price elasticity of demand.
2. Describe the difference between fixed costs and variable costs.
3. What is the experience curve and how does it affect pricing?
4. Explain the concept of target costing.
5. What is everyday low pricing (EDLP) and how does it differ from high-low pricing?
6. Describe two types of countertrades mentioned in the text.
7. What are the potential risks of using price reduction as a strategy?
8. Explain the concept of geographical pricing.
9. What is third-degree price discrimination? Provide an example.
10. How can companies prevent hostile consumer reactions to price increases?

5 Mark Questions

1. Discuss the steps involved in the price setting procedure.
2. Explain the different types of costs considered when estimating costs for pricing decisions.
3. Describe the various pricing methods companies can use when selecting a pricing strategy.
4. Discuss the factors companies should consider when making the final price selection.
5. Explain the concept of price discounts and allowances. What precautions should companies take when offering discounts?
6. Describe the different types of promotional pricing techniques used by companies.
7. Discuss the three degrees of price discrimination with examples.
8. Explain the reasons and potential consequences of reducing prices.
9. Discuss the strategies companies can use to increase prices without facing significant consumer backlash.
10. Explain how companies should analyze and respond to competitor pricing changes.

10 Mark Questions

1. Analyze the potential impact of implementing a market penetration pricing strategy for a new product launch. Consider both short-term and long-term effects on the company and market.
2. Compare and contrast cost-plus pricing and value-based pricing approaches. Discuss scenarios where each might be more appropriate.
3. Examine the relationship between pricing strategies and other elements of the marketing mix (product, place, promotion). How do these elements interact and influence each other?
4. Analyze the potential consequences of a price war in an oligopolistic market. Consider the impact on companies, consumers, and the overall industry.
5. Evaluate the effectiveness of different pricing adaptation strategies (e.g., geographical pricing, discounts, promotional pricing) in responding to diverse market conditions and customer segments.
6. Discuss the ethical implications of various pricing strategies, such as price discrimination and loss-leader pricing. Consider the perspectives of businesses, consumers, and society.
7. Analyze the role of technology in modern pricing strategies, including dynamic pricing and personalized pricing. Discuss the benefits and potential drawbacks for both businesses and consumers.
8. Examine the challenges and opportunities of international pricing strategies. Consider factors such as exchange rates, economic conditions, and cultural differences.
9. Evaluate the impact of pricing decisions on brand perception and long-term customer relationships. How can companies balance short-term profit goals with long-term brand value?
10. Analyze the potential effects of government regulations on pricing strategies in various industries. Consider examples such as price controls, anti-trust laws, and consumer protection measures.

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MODULE 4: DISTRIBUTION CHANNEL AND PROMOTION DECISIONS

Introduction to Distribution Channel and its members, Functions and Levels of distribution channels, Channel design steps, Selecting and evaluating channel members, Channel conflicts, Retailing, Channel logistics – objectives and major decisions, Communication process, Steps in developing effective communication, Communication Mix and Characteristics, Introduction to Advertising, Developing an effective advertising program.

Module Structure

Unit 1: Introduction to marketing channels and its members
Unit 2: Channel Structure and Design Steps
Unit 3: Managing Channel Conflicts
Unit 4: Managing Retailing, Wholesaling, and Logistics
Unit 5: Communication Process and Communication Mix

Unit 1: Introduction to marketing channels and its members.

1.1 Introduction
1.2 Unit objectives
1.3 Definition & importance of distribution channels
1.4 Functions and levels of distribution channels
1.5 Flows in marketing channels
1.6 Marketing channels and value networks.
1.7 Unit summary
1.8 Check your progress

1.1 Unit Objectives:

- Understand the Concept of Marketing Channels
- Identify the Different Members of Marketing Channels
- Analyze the Types of Marketing Channels
- Examine the Flow of Products in Marketing Channels
- Evaluate the Impact of Marketing Channels on Consumer Satisfaction and Business Performance

1.2 Introduction:

Marketing channels aim to generate value for consumers by ensuring products are accessible at the right time and place. Their primary function is to create convenience for customers through effective product distribution. Efficient marketing channels help in reducing costs, improving customer satisfaction, and enabling businesses to reach broader markets. The members of the marketing channel, known as **channel intermediaries**, are organizations or individuals who facilitate the movement of products through various stages, from production to consumption.

1.3 Definition & importance of distribution channels

Marketing channels are interpreted differently by various individuals. Some view them as the route a product takes from manufacturer to end-user, whilst others consider them a loose alliance of businesses united under a single banner for commercial purposes. Kotler defines distribution channels as *"sets of interdependent organizations participating in the process of making a product or service available for use or consumption. They are the set of pathways a product or service follows after production, culminating in purchase and consumption by the final end user."*

An important component of any company's marketing strategy is its distribution network. They stand as links between manufacturers and customers to help steer products to their intended customers at the right price. In this sense, in marketing distribution channels choice and management significantly affect the organizational performance.

Here are several reasons why distribution channels are important:

- **Market Access:** Businesses have access to markets that a single distribution channel cannot reach. Irrespective of whether a product is excellent or not, it is hard to get to prospective customers without appropriate channels. Businesses can increase their demographic and geographic reach through the use of middlemen — wholesalers, retailers, and agents.

- **Customer Convenience:** One of their chief advantages is that the distribution channels are a convenience to the consumers. Well established channels guarantee that products are available in the right formats, at the right time, and in the right places. This in turns leads to increase in brand loyalty and customer satisfaction. Competition drives efficient distribution systems such that products are always available.

- **Cost-effectiveness:** Distribution channels help the overall organization to divide the cost of marketing with middlemen for warehousing, transportation, and inventory. Through the use of the resources of distribution network partners, it reduces the manufacturers' or service providers' workload, which enables the latter to devote more time to production or service innovation.

- **Expanded Marketing Reach:** Marketing can be carried out through distribution networks as a tool. For example, retailers or wholesalers may help market a product in a retail store through customer service, display setup or promotion. Besides this, distribution channels also provide businesses useful feedback and insights into the market, which can cause and help them modify and improve their products.

1.4 Functions of Distribution Channels in Marketing

Distribution channels are not just conduits for delivering products; they perform several key functions that are vital to the overall marketing process:

- **Transactional Functions:**

Distribution channels play a key role in the buying or selling process in commerce. They allow participants to obtain ownership of goods from the producers. Businesses can sell more goods through using Dheeksha Bulk Products as distributors or wholesalers buy products in bulk and provide efficient movement of large volumes of goods. Moreover, these channels promote the sale of goods to the final consumers either directly, for example, by online sale or indirectly through intermediaries, for instance, by retail stores.

- **Logistical Functions:**

Assorting and storing of goods for effective meet of consumer needs is dependent on channel members. Assorting consists of mixing, sorting and stockpiling a wide diversity of products according to customers' preferences is significant in retail where customers anticipate an extensive choice of brands and types of products. A second highly important function is storage, as intermediaries hold inventory and provide the goods when needed. Warehousing and inventory management techniques good help reduce stock out and meet customer demand efficiently.

- **Facilitating Functions:**

Intermediaries occupy the front line in distribution channels in a form of financing and in promotion of products in an attempt to sell their products. Financing is provided by many intermediaries, for example by offering credit terms to buyers, resulting in more customers buying products. Finally, these channels also are characterized with promotional efforts that aim at increasing sales, using in-store sales, discounts and advertising. In addition to this, they may assist in product marketing through correlated tasteful displays, product demonstrations or increased customer service.

- **Service Functions:**

After sales service and product service is delivered through retailers and other intermediaries to improve the customer experience. Intermediaries also touch on after sales service points that include responding to customer needs in areas of warranty services, exchanges, and returns, and they frequently become the first point of contact for customers with product related issues. Moreover, distributors and retailers also provide product support by offering technical assistance, maintenance support and installation services which has the tendency to drive smooth runs of customer's experience at par.

For a business to run successfully, distribution channels are essential. It is their duty to deliver goods to customers in the right quantity, at the right time, and in the right quality. Distribution channels' transaction, logistics, facilitation, and service activities work together to ensure that the marketing plan can be implemented effectively and successfully.

1.5 Levels of distribution channels:

1.5.1 Zero-Level Distribution Channel (Direct Channel)

It is one of the most primitive forms found in nature. Avon and Eureka are examples of companies that use the approach of direct sales to deliver products by taking them straight from manufacturer to end user. There is need for a substantial financial investment to successfully work on this channel structure because no intermediary is involved in supplying the product to the consumers. Companies like bakeries making cakes use this direct-to-consumer sales model which even companies with small scale operations can use.

1.5.2 One-Level Distribution Channel

This consists of a single intermediary (e.g. a retailer or distributor) between the manufacturer and its end consumer. Under this format, retailers buy products directly from manufacturers, and sell to customers. Wal Mart, as a large retail chain, tends to perform a direct purchase of goods from the manufacturers. In some situations, a manufacturer will become a wholesaler when the manufacturer wants to keep on good terms with high value and respected retailers.

1.5.3 Two-Level Distribution Channel

This is a distribution method which employs two intermediary parties between the manufacturer and the end user. The manufacturer first sells their product to a wholesaler or distributor. Then this intermediary sells to a retailer who consequently offers the products to the final consumer. This is the process of example in electronics industry where a manufacturer provided a product to wholesaler and wholesaler provide stock to retailers. 60 After that, these retailers sell electronic items to their own customers and thus complete the distribution chain.

1.5.4 Three-Level Distribution Channel

Most typically, this is the case when a company has decided to start expansions abroad. It is usually helpful for a manufacturer entering into a foreign market to use the services of local agents to guide them through the uncharted territory. These agents know the law and could communicate with the authorities in the host country should trouble occur. There are many international airline companies which use the agents to secure their entry into the new markets and their being present.

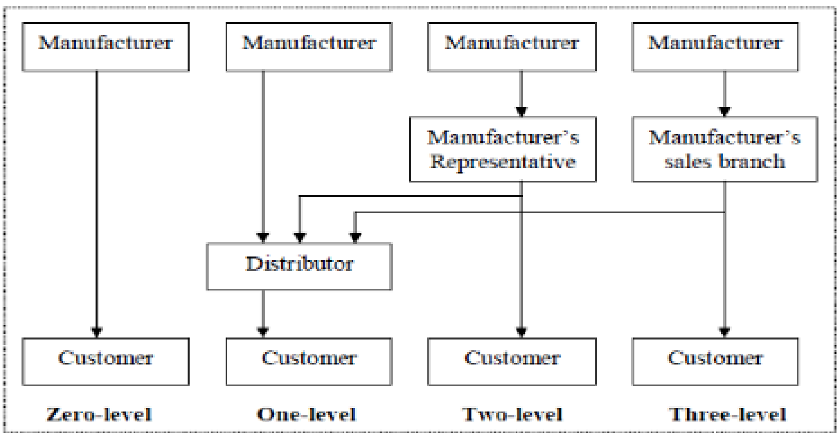

Figure 13:Levels of Distribution Channels (Source: Marketing Management, Phillip Kotler, 15th Ed)

1.6 Flows in marketing channels

Wholesaler, retailer and consumer, make a complete distribution channel. Not all channels include these marketing entities, however. In certain cases, the products go straight from the manufacturer to the consumer. Once setting up a marketing channel, a series of flows comes up. There are five most important flows namely

- Product flow
- Negotiation flow
- Ownership flow
- Information flow
- Promotion flow

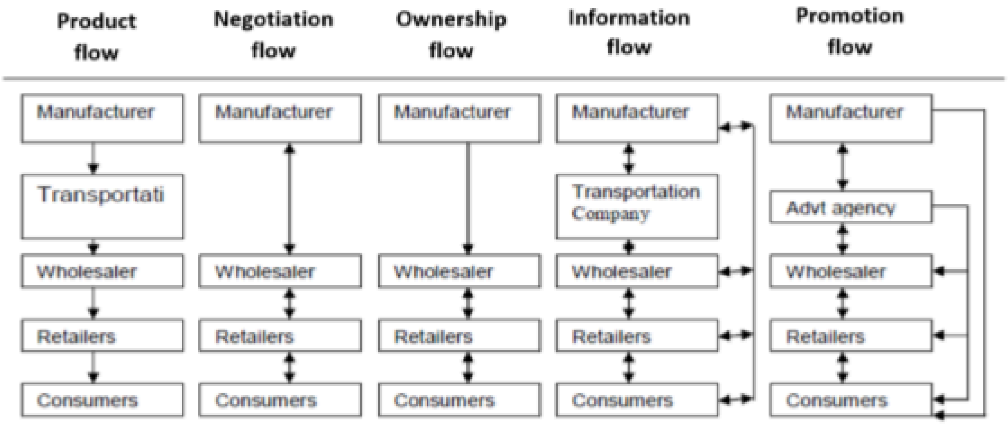

Figure 14: Flows in Marketing Channel (Source: Marketing Management, Phillip Kotler, 15th Ed)

A **product flow** consists of the physical movement of goods from manufacturers through various intermediaries to end consumers. All physical touch points, from the factory floor to the consumer, are included in the process.

It describes the **negotiation flow** that will capture buying and selling entities interaction in transfer of ownership. Looking at the diagram closer, we can see that the transport company is not part of this flow, as it is not involved in negotiations. Negotiation is a reciprocal process and is depicted with bidirectional arrows at all channel levels.

The **ownership flow** depicts the path that the title to the product travels from manufacturer to consumer. The transportation function is again missing, the transport firm does not own nor actively engage in facilitating functions here too.

Regarding **information flow**, the transport function appears once again, but all communication channels are bidirectional. It means everyone is equally involved in information exchange. For instance, a transport company would ask Coca-Cola shipping timetables and costs, and Coca-Cola would ask the transport firm how often and how much Coca-Cola expects to ship.

On the other hand, **promotion flow** is persuasive communication, through means of adverts, direct sales, media coverage, etc. One important addition to this flow is the advertising agency: this is an active agent in maintaining and sustaining the information stream. These promotional entities always work in close partnership with organisations and there is a two-way communication flow between them.

1.7 Importance of Marketing channels and value networks

Interrelated groups of organisations that facilitate the availability of products or services for use or consumption are formally characterised as marketing channels. These routes are called channels, which are the paths that goods or services take as they 'flow' away from the point of production and through to purchase and use by the consumer. **Merchants** are those certain intermediaries like wholesalers and retailers who purchase merchandise, take the ownership and resell them. Brokers and sales agents are called **agents** as they seek customers and may even negotiate for the producer without owning the goods. In addition, **facilitators** such as transport firms, independent storage facilities, financial institutions and advertising agencies contribute to the process of distribution without holding ownership or participation in buying or selling. One of the primary functions of the marketing channels is, however, to lead the potential buyers to transform into profitable customers. But these channels must create, as well as cater to the markets. Companies have to find the right balance between push and pull marketing strategies when managing intermediaries.

A **push strategy** is one where the manufacturer uses its sales force or trade promotion funds, or other means to encourage intermediaries to stock, promote and sell the product to the final user. When brand loyalty is low and brand selection is done at point of sale, the product is an impulse purchase, and consumers can easily understand the benefits of the product, this approach is very effective.

On the contrary, **pull strategy** is when manufacturers use advertising, promotion and other communication means to induce consumers to demand a particular product from intermediaries which induces the intermediate to stock the product. This strategy works well if consumers have a strong brand loyalty, high involvement, can distinguish between brands, and choose a brand prior to entering the store.

1.8 Unit Summary

- ❖ The goal of marketing channels is to create value for customers by making sure that products are available at the right time and place, making it convenient by distributing products well.
- ❖ A distribution network consists of channel intermediaries or organizations or individuals who facilitate product movement from production to consumption.
- ❖ Market access, customer convenience, cost effectiveness, and expanded market reach are derived from distribution channels.
- ❖ Transaction functions of distribution channels include buying and selling; logistical functions include assortment and storage; facilitating functions include financing and promotion; and service functions.

- There are four levels of distribution channels: The model involves a zero level (direct), one level (retailer), two levels (wholesaler and retailer) or three levels (agent, wholesaler and retailer).
- Product flow, negotiation flow, ownership flow, information flow and promotion flow are five important flows in marketing channels.
- Marketing channels provide product or services for use or consumption by merchants, agents, and facilitators.
- Therefore, channels must have an eye for markets and be able to develop the markets turning would be buyers into paying customers
- The balancing act for companies is in the context of managing intermediaries, which require push and pull marketing strategies.
- Push strategies motivate intermediaries to promote products and pull strategies motivate consumer demand by advertising and communication.

1.9 Check your progress

1-mark questions:

1. What is the primary function of marketing channels?
2. Who are channel intermediaries?
3. What does Kotler define distribution channels as?
4. How do distribution channels help in cost-effectiveness?
5. What is a zero-level distribution channel?
6. In a one-level distribution channel, who is the intermediary?
7. What is the product flow in marketing channels?
8. Who are considered merchants in marketing channels?
9. What is a push strategy in managing intermediaries?
10. What is the goal of marketing channels according to the text?

2-mark questions:

1. Explain two reasons why distribution channels are important for businesses.
2. What are the two transactional functions of distribution channels?
3. Describe the logistical functions performed by distribution channels.
4. What are the two facilitating functions of distribution channels?
5. Explain the difference between a one-level and two-level distribution channel.
6. What are the five important flows in marketing channels?
7. How does the ownership flow differ from the product flow in marketing channels?
8. Describe the role of agents in marketing channels.
9. What are the two main strategies for managing intermediaries?
10. How do marketing channels contribute to expanded marketing reach?

5-mark questions:

1. Compare and contrast zero-level and one-level distribution channels.
2. Analyze the importance of marketing channels in expanding a company's market reach.
3. Evaluate the role of intermediaries in reducing costs for manufacturers.
4. Discuss the impact of distribution channels on customer convenience and satisfaction.
5. Explain how distribution channels contribute to the overall marketing strategy of a company.
6. Analyze the five important flows in marketing channels and their significance.
7. Discuss the factors that influence the choice of distribution channel for a product.
8. Evaluate the role of technology in modern distribution channels.
9. Explain how distribution channels can provide valuable market insights to manufacturers.
10. Discuss the challenges in managing multiple levels of distribution channels.

10-mark questions:

1. Critically analyze the role of marketing channels in creating value for consumers and businesses. Provide examples to support your answer.
2. Discuss the various functions of distribution channels in marketing, explaining how each function contributes to the overall effectiveness of the marketing process.
3. Compare and contrast the different levels of distribution channels, discussing the advantages and disadvantages of each level for manufacturers and consumers.
4. Examine the importance of marketing channels and value networks in the context of modern business practices. How do they contribute to organizational performance?
5. Analyze the five important flows in marketing channels and their interdependencies. How do these flows impact the efficiency of product distribution?
6. Evaluate the role of intermediaries in marketing channels. How do they contribute to market access, customer convenience, and cost-effectiveness?
7. Discuss the challenges and opportunities in managing marketing channels in the digital age. How have online platforms and e-commerce affected traditional distribution models?
8. Critically examine the push and pull strategies in managing intermediaries. Under what circumstances would a company choose one strategy over the other?
9. Analyze the impact of globalization on marketing channels. How do international markets affect the choice and management of distribution channels?
10. Discuss the future trends in marketing channels and distribution networks. How might emerging technologies and changing consumer behaviors shape the future of product distribution?

Unit 2: Channel Structure and Design steps

Unit Structure:

2.1 Unit Objectives

By the end of this unit, learners would be able to:

- Understand the concept of distribution channel structure and its role in business.
- Identify the different types of channel structures and when to use them.
- Analyze customer needs to set clear and actionable channel objectives.
- Explore and evaluate different channel alternatives to meet business goals.

2.2 Introduction

A distribution channel is the route through which goods and services move from producers to end customers. An effective distribution ensures timely delivery of the products to the right consumers. The assessment of product availability, customer satisfaction and firm profitability depends sharply on the selection of the distribution channels. The success of a channel must therefore be in harmony with the larger marketing initiatives, organizational aims and purposes, as well as customer requirements. When increasing effectiveness and satisfying market needs, channel structure is capable of creating competitive advantage. Its complexity may vary with the product nature and the market they cover, it involves several channel intermediaries covering wholesalers, retailers, agents and brokers forming distribution channels.

2.3 Steps in designing channels

The process of developing an appropriate distribution channel can be defined in several stages to facilitate the delivery of a product to consumer and meet consumer requirements, and those of the business as well. A formal channel design process ensures a firm identifies appropriate intermediaries and distribution methods, its geographic coverage and reaches an optimal level of sale without incurring excessive costs or compromising the quality of its products. It is therefore important that the channel design steps are very well planned and implemented. Here are the key steps in designing a distribution channel:

- **Analyzing Customer Needs and Market Conditions**

This way the purpose will be to identify the needs of the target market with the intention of matching it with the distribution channel. These factors include product attributes and characteristics like, the perishability, complexity and size of the product and customer attribute and characteristics like delivery time requirements, service requirements and required product availability. Also, market conditions analysis is significant Some of the key areas of the analysis are competition analysis, geographical distribution of customers, and technological advancements of e-/digital sales platforms. This facilitates isolating the customer preference concerning the purchase through online channels or through physical stores or other platforms. The details of this are presented in section 2.4.1.

- **Establishing Channel Objectives**

The purpose is to define specific objectives for the 'distribution channel' which are in line with the business strategy. It involves deciding a suitable degree of market coverage such as intensive, selective or exclusive in accordance with the product and its demand amongst the customer. However, where intensive distribution is aimed at high exposure, selective or exclusive distribution is good for specialized or premium products. Besides, it is very important to set a customer service goal which means the level of service to be met, like delivery time, return policy, and technical support, for effective customer satisfaction.

- **Identifying Major Channel Alternatives**

The concept is to look through different channels for those that fit the user and the business need. It means choosing between direct and indirect distribution channels. The direct distribution, i.e. selling through own stores or the company's website, lets for more control and immediate touch with customers. Indirect distribution, as the name suggests, is a process wherein several intermediaries like wholesalers, retailers and agents are added for reaching out to many more people as well as taking leverage of their expertise and already established networks.

- **Designing the Channel Structure**

Choosing channel members, i.e. identifying the intermediaries and defining their specific roles (wholesalers, distributors, agents, retailers etc.) Suppose for example that manufacturers sell their products to wholesalers, who in turn distribute them to various retail outlets. This way it makes each intermediary's role in sync with the whole distribution strategy and making sure the product smoothly moves through the supply chain to the end customer.

- **Selecting Channel Members**

In order to help channel members in their decision-making process, manufacturers need to recognize the key attributes of superior intermediary. Some of these attributes include their business duration, new product lines in the business, growth and profitability track record, finesse robustness, willingness to collaborate and reputation in the business. For producers, where the intermediaries are sales representatives, they should first consider the magnitude and type of other product lines managed by the sales representative, the size of the sales team, and so forth.

- **Evaluating Potential Intermediaries**:

Marketers should identify criteria by which to assess potential channel members such as reputation, financial stability, size of customer base and logistical capabilities. Moreover, channel members should be in line with the company's brand image and values.

- **Implementing and Coordinating the Channel**

Next, ensuring that all parts of distribution system run smoothly, and the channel design is put into action. Channel integration refers to the integration of all elements of the distribution channel — the manufacturer, wholesaler and retailer — with the company's objectives to work in concert. This may mean integrating inventory management systems, order tracking and customer relationship management (CRM) software to better coordinate and to improve both efficiency and smooth operations across the channel.

- **Evaluating and Managing Channel Performance**

The goal is to evaluate the performance of the distribution channel and to adjust as needed. This means using such performance measures as market share, profitability, delivery time, inventory turnover, customer service ratings and total sales. These metrics are regularly assessed to determine improvement areas so that ensure that the channel meets both business and customer expectations.

2.4 Channel Design Decisions

2.4.1 Analyzing customer needs and establishing channel objectives

Understanding customer needs is the foundation of designing a distribution channel that delivers value to both the customer and the business. Proper analysis helps identify the most appropriate channel structure, intermediaries, and logistics that will meet customer expectations efficiently.

There are **five service outputs** that channels produce:

- **Desired lot size**: The quantity of items a distribution channel permits a typical consumer to acquire in a single purchase can differ. As an example, Hertz, when acquiring vehicles for its fleet, favours a channel that accommodates the purchase of substantial quantities. In contrast, an average household generally prefers a channel that allows for the acquisition of just one unit at a time.

- 10 **Waiting and delivery time**: The average time customers wait for receiving their goods is an important consideration, and with an increasing preference for channels that offer faster delivery.

- **Spatial convenience**: The effectiveness of a marketing channel in enabling customer purchases is vital. For instance, Toyota has greater geographical accessibility than Lexus due to its larger network of dealerships, assisting customers in reducing travel and research expenses when purchasing or servicing a vehicle.

- **Product variety**: As important, are the assortment that marketing channels offer. Typically, customers prefer to have a wider variety of options because there is a higher likelihood of something being found that meets their needs. While having a large variety of choice isn't always bad, excess choice can sometimes be a bad thing causing decision fatigue or not being happy with your purchases.

- **Service backup**: The channel offers these as supplementary services. The more extensive the service backup, the greater the advantages provided by the channel.

Three key considerations that marketers need to focus on while analyzing customer needs are:

❖ **Product Characteristics**:

Perishability is an important aspect of distribution as some products, like fresh food or pharmaceuticals, have a short shelf life so there needs to be a distribution channel that ensures the product to get to customers as quickly and as efficiently as possible reducing waste. Products requiring trained intermediaries who are able to provide added services such as installing, maintaining, or demonstrating the product are complex and their mapping is therefore also complex; the need for the product may be complex, or the product may be so complex or specialized, such as machinery or high-tech devices, that even simple products require trained intermediaries. However, according to distribution channels, other considerations exist for mass market products, such as low cost, high volume. This, however, involves an extensive distribution network to achieve maximum reach and ensure availability in widespread.

❖ **Customer Expectations**:

Customers who want ability to access their products easily need Distribution Channels which are developed in such a way that they are readily available in supermarkets and in online stores. Speed and timeliness are also important factors such that many customers prefer service with fast delivery options e.g same day or next day shipping. Furthermore, there has to be strong customer service, i.e. knowledgeable retailers, support teams or service centres to ensure pre-sale and post-sale expectations are met.

❖ **Geographic Reach**:

When designing a distribution channel, marketers must consider which market, local, regional or global, a product targets while keeping in mind regional preferences, language and logistical capabilities. Furthermore, market segmentation is involved, because different customer segments have different choices for product delivery. For instance, luxury products may need an exclusive retail experience, while mass-market products can be distributed through multiple retail outlets.

Once customer needs are understood, the next step is to define channel objectives. These are the goals that guide the design of the distribution channel to ensure it effectively serves both the business and the customer. These objectives must align with the company's overall marketing and business goals.

2.4.2 Key Considerations in Establishing Channel Objectives:

❖ **Market Coverage:**

Organisations need to determine the extent of market coverage they desire. This decision is influenced by both the nature of the product and the intended customer base.Channel objectives should clearly define whether the aim is to achieve intensive distribution (widely available in many locations), selective distribution (available in fewer, more specialized locations), or exclusive distribution (very limited outlets or high-end stores).

❖ **Customer Service Level:**

Companies must define the desired level of customer service provided through the distribution channel. High-touch services like product customization, technical support, or after-sales service may be necessary for some products, while others might focus on efficiency and cost-effectiveness.

❖ **Cost Efficiency:**

Designing a distribution channel also involves controlling costs. Companies may seek cost-effective solutions to avoid excessive margins being eaten up by intermediaries. Lower-cost channels are crucial for competitive pricing, especially in mass-market goods.

2.4.3 Identifying major channel alternatives

In designing a distribution channel, it’s essential for businesses to explore and evaluate various **channel alternatives** to determine the best path for delivering products or services from the manufacturer to the end customer. Channel alternatives are different distribution strategies or pathways that vary in terms of the number and type of intermediaries involved, the geographical scope, and the level of service provided. Channel alternatives are dependent on the different types of intermediaries, the number required and the responsibilities that each intermediary has.

2.4.3.1 Channel Types

A firm dealing in consumer electronics selling satellite radios might consider some of the following channels. Some of them could include selling directly to the manufacturers for fitment to their new models or directly to auto dealerships, rent-a-car companies or to specialized satellite radio sales outlets through it direct selling force or through distributors. Also, the company could tailor the distribution of its devices through the company owned stores, internet re-sellers, mail order catalogue or through giant giant stores.

Sometimes, different types of distribution strategies are chosen because of problems, costs or difficulties connected with traditional approaches. For instance, as old-style television video stores were being pushed to the wall, Coinstar introduced the network of easily accessible Redbox kiosks to rent DVDs and games.

2.4.3.2 Number of intermediaries

- **Intensive Distribution**

The strategy of intensive distribution aims to maximise product visibility and customer accessibility by ensuring its availability across the widest possible range of retail outlets. This approach seeks to enhance consumer convenience and product exposure to the greatest extent feasible. This approach is characterized by widespread product availability across numerous locations and is typically suited for low-cost, frequently purchased items, such as consumer goods and convenience products. Examples include soft drinks, snacks, and toiletries.

- **Selective Distribution**

Select distribution is where a manufacturer chooses a small number of intermediaries or retailers to distribute a product. This will place the product in meticulously selected locations where target market segments exist. It’s commonly used for higher priced items, when the customer wants assist or needs a specific audience. These are electronics, furniture and high-end clothes brand name.

- **Exclusive Distribution**

In exclusive distribution the intermediaries are cut down to a very small number. Although appropriate when manufacturers intend to exert control of quality of service and/or output and often involves exclusive dealing arrangements, this approach can result in such dealers' reluctance to accept delisted brands. On the other hand, manufacturers are offering exclusive distribution rights in an effort to secure more committed and well-informed sales efforts. In the case of this strategy, there is a need for a stronger alliance between the seller and the reseller, where it is used in the distribution of new motor vehicles, some big household appliances and some women's clothing brands.

2.4.3.3 Responsibilities of channel members

Each member in the distribution channel requires respect and an opportunity to make a profit. The key components in the trade relation mix are:

Pricing strategy occurs when the manufacturer proposes a price list, a schedule of discounts and allowances that intermediaries perceive as fair and adequate.

Payment conditions and terms of manufacturer warranties would be referred to as terms of sale. Cash discounts from many producers are offered to distributors to pay on time. They might even give guarantees against defective merchandise or price reductions — to encourage larger purchases.

Geographical rights of distributors are the territories which are allocated to them together with the conditions under which the manufacturer will allow the distributor to sell products to other distributors. Generally speaking, distributors assume that they are entitled to full credit for all sales within their territory, irrespective of who made the sale.

In franchised and exclusive agency channels, the **mutual services and responsibilities** have to be clearly stipulated. As an example, McDonald's provides its franchise owners with various forms of support. This includes offering premises, assistance with marketing, a system for keeping records, training programmes, and general administrative and technical aid. In return, franchisees are expected to meet company physical facility standards, support new promotional initiatives, buy supplies from designated vendors, and as appropriate, purchase other goods, provide requested information, and pay monthly franchise fees.

2.5 Channel-Management and Decisions

After a firm decides to adopt a channel system, it must select, educate, incentivise and evaluate channel intermediaries. As time goes on, the company should also redesign and redesign their channel design and arrangements, for example, opening up markets for intermediaries.

2.5.1 Channel Member Selection

In the eyes of customers, the distribution channels embody the company itself. The experience customers have with a brand, such as McDonald's, Shell Oil, or Mercedes-Benz, is directly influenced by the efficiency and reputation of its outlets and dealers. A dirty, inefficient, or unpleasant retail experience can tarnish the brand's reputation and undermine customer trust.

To select the most effective channel members, producers should consider several important factors that distinguish superior intermediaries. These include:

- **Years in Business**: The longevity of an intermediary can reflect stability and experience.

- **Product Lines Carried**: Understanding the diversity of products an intermediary handle can indicate compatibility with the manufacturer's offerings.

For certain intermediaries, like department stores or those seeking exclusive distribution rights, factors such as potential for future growth and the type of customer base they attract become especially relevant.

Moreover, the following should also be kept in mind while selecting channel members:

- **Reputation and Credibility:**

Channel partner selection targets those who have a sound image on the channel and are trusted by consumers. This way, product marketing also supports brand culture and maintains quality assurance. This approach is about entering into an association with some identified retailers or distributors who have a set of readymade clients to be marketed. Such collaborations may be useful in raising the status of a product within the market and, more importantly, in giving it a boost in perceived reliability as marked by the partner firm's reputation.

- **Financial Stability:**

The channel members should be financially healthy and capable of shouldering inventory and logistics costs. Those who have financial stability as partners should be able to pay on time and to exclude possible disturbances. For example, a distributor with enough working capital for procuring the products and managing cash cycle issues can actually enhance a distribution system.

- **Market Reach and Coverage:**

The reach and existing market coverage of potential channel members must be evaluated in order to verify that they are capable of reaching the target market – domestic, regional or global. A retailer with multiple stores is in different locations or an online store with a large customer network can increase market reach by many folds, for instance**.**

- **Capabilities and Expertise:**

Video analysis requires the assessment of the competence and relevant experience of potential channel members as concerns their experience with the specific product, their understanding of the clients' needs and their capacity to adequately handle the logistics, marketing, and customer relations aspects of the project. For instance, a distributor possessing the technical know-how when it comes to dealing with products with immensely complex features will well cater for the needs of the market, or even a retailer with a well-developed e-commerce capacity.

2.5.2 Training and Motivating Channel Members

To build a successful channel, companies must view their intermediaries not just as partners, but as an extension of their own operations. Understanding the needs and expectations of these intermediaries is vital. The company should tailor its offerings to deliver value that motivates intermediaries and fosters high performance. **Example**: Microsoft, requires third-party service engineers to complete specialized courses and certification exams, recognizing them as Microsoft Certified Professionals. This certification not only improves the intermediary's expertise but also benefits their business by enhancing credibility and marketability.

- **Channel Power**

Manufacturers vary in their ability to exert **channel power** over their channel members, and channel power refers to the manufacturer's capacity to influence intermediaries to take actions they might not otherwise consider. Several types of power can be employed:

- **Coercive Power**: This involves threatening to withdraw resources or terminate relationships if intermediaries do not comply. While coercive power can be effective, it can breed resentment and push intermediaries toward forming counteractive alliances.
- **Reward Power**: Offering additional incentives or benefits for desired actions can yield strong results. However, it's essential to manage expectations, as intermediaries may come to anticipate rewards each time the manufacturer seeks specific behaviour.
- **Legitimate Power**: Based on established contracts, this power works as long as intermediaries view the manufacturer as a legitimate leader and respect the terms of the agreement.
- **Expert Power**: When a manufacturer possesses specialized knowledge that intermediary's value, this power can be impactful. However, as intermediaries gain expertise, this power may weaken unless new knowledge or skills are continually provided.
- **Referent Power**: This occurs when a manufacturer is so well-respected that intermediaries take pride in associating with the brand. Companies like IBM, Caterpillar, and HP exemplify referent power.

- **Building Channel Partnerships**

Leading companies aim to establish long-term partnerships with their channel members. This involves clear communication of expectations regarding market coverage, inventory levels, marketing efforts, services, and the sharing of marketing information. Compensation plans are often created to reward adherence to these expectations and reinforce strong partnerships.

To streamline the supply chain and lower costs, many manufacturers and retailers have adopted Efficient Consumer Response (ECR) processes. ECR focuses on:

- **Collaborative Practices**: Coordinating efforts to respond to consumer demand that goes beyond traditional marketing activities.
- **Supply Optimization**: Enhancing logistics and supply chain management to improve efficiency.
- **Technology Integration**: Implementing collaborative information technology and process improvements that cut operational costs and support standardization.

Research has indicated that while ECR processes can enhance economic performance and capability development, they can sometimes result in an unequal distribution of benefits, leaving some partners dissatisfied.

2.5.3 Evaluating Channel Members

To ensure long-term success, companies should periodically assess the performance of their channel members. Key performance metrics may include sales, customer service, inventory levels, and delivery times. Regular evaluations provide manufacturers with insights into whether intermediaries are following established practices and achieving expected outcomes.

Example: A manufacturer may discover that holding inventory in a public warehouse has impacted product quality. To mitigate this, producers may implement tiered discount programs that reward trade performance and agreed-upon services. Underperforming intermediaries should be provided with constructive feedback, retraining, and support to help them align with performance expectations.

2.5.4 Modifying Channel Design and Arrangements

The effectiveness of channel strategies varies over the product's lifecycle. The optimal channel structure inevitably changes where the market is competitive and barriers to entry are minimal. This evolution may consist of an addition or subtraction of certain market channels or members, or of original sales methods. Often, a fledgling company starts as a local operation, selling in a small sector of the market to only a few existing intermediaries. The challenge is not always in finding the right channels, but in engaging the intermediaries to move the company's product. When a successful firm grows, it may undertake new markets using a different channel. For smaller markets, you may sell directly to the retailers whereas for larger markets you may need distributors. Partnerships with general merchants would be required in rural areas, while in the urban regions, specialty retailers might be preferable. The firm might sell through all willing outlets or might offer exclusive franchises. Sales agents in one country, local partnerships in another could be part of an international expansion. While early adopters might be happy to pay for high value-added channels, subsequent customers tend to move towards more economical channels. For example, the route to market for small office photocopiers started out with manufacturers' direct sales teams, moved to office equipment dealers, then to mass merchandisers, and now include mail order firms and online retailers. Channel systems essentially tailor to local opportunities and conditions, emerging threats and possibilities, company resources and capabilities and other such elements.

2.5.5 Decisions on modifying channels

Due to the nature of the processes, distribution strategies and arrangements are often changing. For a variety of reasons, such as changes in consumer purchasing behaviour, market growth, new rivals, alternative distribution methods, and evolution in the product's life cycle, the effectiveness of a distribution channel might falter. Incremental analysis is needed when thinking of adding or removing particular channel partners. With advanced customer databases and analytical tools available for use, these decisions can be useful. The first fundamental question is what sales and profits would the company make with and without a given intermediary. Revising the overall channel strategy is usually a tricky decision, according to the respondents. For instance, Avon changed their door to door selling of cosmetics as more women entered the workforce. Even though the banking industry is very convenient, with ATMs, online banking and telephone options, customers still want to have the choice to interact or the option to interact. As a result, banks are increasing their branch networks and employing cross selling and up selling techniques for bearing fruit of the face-to-face customer interactions.

2.6 Channel integration and systems

In recent times distribution channels have transitioned to Vertical, horizontal and multichannel marketing systems. A detailed description of each is discussed below:

2.6.1 Vertical Marketing Systems (VMS)

A Vertical Marketing System (VMS), is therefore a channel of distribution in which members work together, with the producer, wholesaler and retailer. This system is generally managed by a prominent channel member with absolute control over the other members through ownership, franchising or power to control them. Different to conventional channels where channel members function independently, a VMS is guided by the channel captain towards the greatest benefits for each of the involved parties. The development of VMSs can be attributed to the key players trying to regulate channel conduct and also to address many of the issues that may result from some members of the channel pursuing self-interest.

The strengths of having VMSs are the economies of scale, increased ability to negotiate and even the non-duplication of the services. The business segment consumers of intricate items and structures prefer explicated tangible interchange which a VMS provides.

One of the effects of VMSs is that large scale systems conflict with smaller specialty independent formats of the retail market. In the internal environment, manufacturers feel pressure over their ability to continue a cooperation with independent intermediaries while having to seize the accelerating emergence of VMSs. Three types of VMS are generally found:

- A **corporate VMS** is an arrangement wherein one organization has control over two or more phases of production and distribution.

- However, in **an administered VMS** synchronises these stages by the influence and the size of a single member. Successful brand manufacturers can generate strong support and cooperation of the retailers. Distribution programming defines the most complex supplier-distributor relationship in administered VMSs whereby a strategic, expertly managed vertical marketing structure is set up, to meet needs of the producers and distributors.

- A **contractual VMS** is a system of affiliated, yet independent firms at the different phases of the production-distribution processes. These entitles coordinate their programmes more through contracts so that they may obtain larger economic advantages or be able to contain more market influence than they could on their own. There are **three categories** of contractual VMS:

  - **Voluntary chains backed by wholesalers:** They employ interfaces that create voluntary channels of affiliated self-owned and self-managed retail stores. The objective is thus to homogenise their sales strategies and achieve economies of purchase to be able to effectively challenge the large chain organisations.

  - **Retailer cooperatives:** In this structure, retailers are more affirmative in putting in place a new business that will wholesale and may engage in some manufacturing. Members then pool their business through the retailer co-op, and also timing their respective advertising strategies. It means that profits are being shared among the members of the Walmart org in the same ration as the purchase is made by them. The access to above mentioned procurement suppliers is open to all retailers, including those non-members but they do not get any equity in the co-op's cash flows.

  - **Franchise organisations** are a type of channel member known as a franchisor, which can connect multiple consecutive stages in the production-distribution chain. In recent years, franchising has experienced the most rapid growth in the retail sector. Although the core concept is not new, certain forms of franchising are relatively recent. The conventional model is the manufacturer-sponsored retailer franchise. For instance, Ford granting licences to independent entrepreneurs to sell its vehicles by adhering to specific sales and service requirements. Another alternative is a franchise system whereby manufacturers, like Coca Cola, give wholesalers licenses that operate in different markets. Authorized franchisees buy the company's syrup concentrate, carbonated water and bottles the product, which they distribute to their own local areas. A more contemporary model is the service-firm-sponsored retailer franchise, established by a service company to deliver its offerings efficiently to consumers.

Numerous independent retailers who have not become part of Vertical Marketing Systems (VMSs) have established niche shops catering to specific market segments. This has led to a divide in the retail sector between expansive vertical marketing organisations and independent speciality stores, posing a challenge for manufacturers. These manufacturers have strong ties to independent intermediaries but may eventually need to realign with the rapidly growing vertical marketing systems under less favourable conditions. Moreover, vertical marketing systems continually pose a threat to large manufacturers by potentially bypassing them and establishing their own production facilities. The contemporary retail competition is no longer between separate business entities, but rather between comprehensive systems of centrally coordinated networks (corporate, administered, and contractual) vying to achieve optimal cost efficiencies and customer responsiveness.

2.6.2 Horizontal Marketing Systems

A Horizontal Marketing System involves two or more **unrelated companies** collaborating to leverage resources and pursue a market opportunity that would be difficult independently. These partnerships can be temporary or permanent.

Example: Supermarkets partnering with local banks to provide in-store banking services, like Citizens Bank within 500 supermarkets, where staff are more retail-focused and younger than traditional bank staff.

2.6.3 Multichannel marketing systems

Multichannel marketing means a direct and indirect interaction of a sale with a consumer using one or more Internet-addresses, physical and web-based shops, catalogues, post, electronic mail, the web, and other handheld devices. It enables the customers to respond, if possible, through a purchase of products or services through the convenient channel. At its core, multichannel marketing is really quite simple: it's about giving choices.

The importance of multichannel marketing isn't about its ability to be in multiple channels, it's about being everywhere your customers are: everywhere. In addition, with multichannel customers, they signify that they spend approximately 3 to 4 times the value of a single channel customer, which can act as motivation for businesses to adopt this strategy.

What is clear this decade is that the consumer possesses much more information as to the purchase decision than the marketer due to available choice. It has offered customers and unprecedented choice of sources from which to glean information.

The current scenario suggests that there are many more opportunities to go out to the target customers and even a far greater choice of communication channels than could ever be conceived in the recent past. And as the actual number of channels increases – that it will – recognising the value of multichannel marketing involvement becomes a business necessity rather than a mere opportunity.

2.7 Unit summary

- ❖ Distribution channels are lines through which goods are transported by manufacturers to end users for purposes of making the products reachable to the users, customer satisfaction and availed financial returns.
- ❖ Some important sub processes of channel design includes need analysis of the customers, setting of channel objectives, identification of channel alternatives and selection of channel members, performance evaluation of channel members.
- ❖ It is a process of evaluating customer needs with respect to particular characteristics of the product, customers' expectations, and the extent of geographic coverage in order to match the channels to the market.
- ❖ Strategic objectives for the marketing communication channel should therefore state the desired extent of market coverage whether intensive, selective or exclusive, the company's desired level of customer service, as well as overall cost efficiency goals.
- ❖ Direct and indirect distribution channel are the major channel alternatives although the number and tasks of intermediaries could vary considerably.
- ❖ The criteria for selecting channel members include operation and existence in business, range of products, reputation, solvency, coverage and specialization.
- ❖ Disciplining and encouraging channel members requires channel power in the form of coercive, reward, legitimate, expert, referent.
- ❖ To minimize conflict, periodic appraisal of the performance of the channel member is a sure way of maintaining a long-run consistency with firms' objectives.
- ❖ This happens due to changes in market, emergence of new competitors or shifts of customers' behaviour during product life cycle, channels designs may require some modification.
- ❖ Contemporary distribution systems include Vertical Marketing Systems (VMS), Horizontal Marketing Systems and Multichannel Marketing Systems, each containing its advantages and disadvantages.

2.8 Check your progress

1-mark questions (Remember):

1. What is a distribution channel?
2. Name three types of channel intermediaries.
3. What does VMS stand for in channel systems?
4. What are the three types of Vertical Marketing Systems?
5. Define intensive distribution.
6. What is selective distribution?
7. What is exclusive distribution?
8. What does ECR stand for in channel management?
9. What is a Horizontal Marketing System?
10. Define multichannel marketing.

2-mark questions (Understand):

1. Explain the difference between direct and indirect distribution channels.
2. What are the five service outputs produced by channels?
3. Describe two key considerations in analyzing customer needs for channel design.
4. What are the main objectives of establishing channel objectives?
5. Explain the concept of channel power.
6. What is the purpose of training channel members?
7. Why is it important to evaluate channel members periodically?
8. How does a corporate VMS differ from an administered VMS?
9. What is the main advantage of a Horizontal Marketing System?
10. Why is multichannel marketing becoming increasingly important?

5-mark questions (Apply):

1. Apply the concept of intensive distribution to a fast-moving consumer goods company. Provide examples of how they might implement this strategy.
2. How would you analyze customer needs for a luxury watch brand to determine the most appropriate distribution channel?
3. Describe how a company might use reward power to motivate its channel members. Provide specific examples.
4. Apply the concept of Efficient Consumer Response (ECR) to a grocery store chain. How might they implement ECR processes?
5. How could a manufacturer modify its channel design as its product moves through different stages of the product life cycle?
6. Explain how a company might use coercive power in channel management and discuss potential drawbacks of this approach.

7. Describe how a company might implement a multichannel marketing strategy for a new smartphone. What channels might they use and why?
8. How would you apply the concept of selective distribution to a high-end fashion brand? Provide examples of potential channel members.
9. Explain how a company might use expert power to influence its channel members. Provide specific examples.
10. How might a company evaluate the performance of its channel members? Describe specific metrics and methods they could use.

10-mark questions (Analyze):

1. Analyze the pros and cons of using a Vertical Marketing System versus a traditional distribution channel for a consumer electronics company. Provide specific examples and evaluate which might be more effective.
2. Evaluate the potential benefits and challenges of implementing a Horizontal Marketing System for two complementary but unrelated businesses. Create a detailed plan for how they might collaborate effectively.
3. Design a comprehensive distribution channel strategy for a new organic food brand entering the market. Include analysis of customer needs, channel objectives, and selection of channel members.
4. Analyze the impact of e-commerce on traditional distribution channels. How might companies need to adapt their channel strategies in response to this trend? Provide specific examples and recommendations.
5. Create a detailed plan for training and motivating channel members for a global sportswear brand. Include specific training programs, incentive structures, and methods for building long-term partnerships.
6. Evaluate the effectiveness of different types of channel power in managing intermediaries. Analyze potential scenarios where each type might be most effective and potential drawbacks.
7. Design a multichannel marketing strategy for a mid-sized B2B software company. Analyze customer preferences, select appropriate channels, and explain how these channels would work together cohesively.
8. Analyze the challenges and opportunities of global distribution channels. How might a company need to adapt its channel strategy when expanding internationally? Provide specific examples.
9. Evaluate the role of technology in modern distribution channel management. How are emerging technologies changing the way companies design and manage their channels? Provide specific examples and analysis.
10. Create a comprehensive plan for evaluating and modifying an existing distribution channel for a struggling retail brand. Include analysis of current performance, identification of issues, and specific recommendations for improvement.

Unit 3: Managing channel conflicts

Unit Structure:

3.1 Unit Objectives
3.2 Introduction
3.3 Causes of channel conflicts
3.4 Types of channel conflicts
3.5 Managing channel conflict
3.6 Dilution and Cannibalization
3.7 Legal and Ethical Considerations in Distribution Channel Management
3.8 Unit summary
3.9 Check your progress

3.1: Unit objectives

By the end of this unit, learners would be able to:

- Understand the Concept of Channel Conflict:
- Define channel conflict and explain its types (vertical and horizontal).
- Assess the negative and positive effects of channel conflict on business operations, relationships between channel members, and overall performance.
- Assess the effectiveness of conflict resolution strategies based on outcomes such as sales performance, customer satisfaction, and long-term channel relationships.

3.2 Introduction

Distribution channel conflicts occur when several parties involved in the supply chain including the producer, wholesaler, distributor, retailer or intermediary develop disharmony or tension. Disputes over these matters can arise when there are differences in the channel members' objectives, expectations or behaviour leading to lower efficiency, poorer performance, and lower quality relationships among the parties involved in the channel.

Effective management of channel conflicts is critical to maintaining a smooth and productive distribution network. If left unaddressed, conflicts can escalate, leading to disruptions in product availability, poor customer service, and financial losses. On the other hand, a well-managed conflict resolution process can foster stronger relationships, improve cooperation, and enhance overall channel effectiveness.

3.3 Causes of channel conflicts

Certain causes of channel conflicts are easier to resolve; while others are not. As such, conflicts arise due to:

- **Incompatible Goals**: We can also have the producer adopt a strategy of low pricing to gain market share quickly, or the retailers focusing on high margins and not caring about the contribution margin, but focusing on short term earnings.
- **Lack of clarity of roles and rights:** Often a company's own sales team will be going directly to the major client while the company's authorised distributor will also be trying to win the same customer. The outcome of this situation can be friction in the sharing of sales attribution and delineation of sales regions.
- **Differences in perception:** Retailers might be more sceptical about the near-term economic climate and therefore reduce stock levels and producers a more positive view might lead them to replenish higher. In the drinks sector, disagreement generally takes place between producers and wholesalers about which promotional approach is the best.
- **Intermediaries' dependence on the manufacturers:** Because of these factors, the relationship between exclusive retailers, such as automobile dealerships, and manufacturers has great potential for discord. Such tension frequently arises due to much effect that a manufacturer has on the dealers' survival in the market by taking decisions on the kind of product and pricing.

3.4 Types of channel conflicts

Channel conflicts can be categorized into two main types based on the relationships between the involved members: **vertical conflict** and **horizontal conflict**. Each type arises from different circumstances within the distribution network.

- **Vertical Conflict:**

Conflicts that arise between various tiers within the same distribution channel are known as vertical conflicts. These can occur, for instance, between manufacturers and retailers, or between wholesalers and distributors. Such disagreements typically stem from disparities in objectives, pricing strategies, methods of distribution, or disputes over territorial rights.

Examples: A manufacturer and a retailer may disagree on pricing. For instance, if the manufacturer sets a high price but the retailer discounts the product heavily, it may reduce the perceived value of the product and harm the brand's image.

❖ **Horizontal Conflict:**

Horizontal conflicts occur between channel members at the same level of the distribution channel, such as between two retailers or two wholesalers. These conflicts usually arise due to competition for the same customers or market share.

Examples: Two retailers selling the same product might clash over pricing strategies, store location, or promotions. One retailer may feel that the other is stealing customers by offering lower prices or better services.

❖ **Multichannel conflicts**:

Multichannel Conflict may occur when a manufacturer decides to sell through different channels in the same market. Particularly severe conflicts are likely when one channel sells at lower prices or with reduced margin. To reduce such conflicts, manufacturers using many distribution channels may provide models or products to different channels whose features are specifically different.

3.5 Managing channel conflict

While some channel conflict can be positive — that is, it can lead to adaptive behavior in the face of environmental changes — excessive channel conflict is also a negative. By no means are we to eliminate all conflict, which is not possible, but to better manage it. Effective conflict resolution has several approaches.

❖ **Strategic Justification:**

Sometimes the strategic rationale is compelling to balance potential conflict among channel partners, demonstrating service to distinct segments, and reduced competition. This distinctiveness is most apparent in the creation of specialized product variants which are developed for different channel members.

❖ **Dual Compensation**:

Dual compensations mean to pay current distribution channels for the sales generated through the new channels. For example, when Allstate started to sell insurance online, agents who sold face to face service and who lead customers to a quote on the web would receive a 2 percent commission. While lower than the standard 10 percent offline commission, the arrangement helped to cool tensions.

❖ **Superordinate Goals:**

A channel is one in which members can reach a consensus on their shared fundamental or overarching goal (survival, market share, quality excellence, customer satisfaction, etc.). It typically occurs when the channel is confronted with external threats, including more efficient competition channels, unwelcome regulations, or changing consumer fads.

❖ **Employee Exchange:**

Exchanging personnel between two or more channel levels constitutes a valuable approach. At GM, for instance, executives can spend some time in dealerships and ownership comes from dealership, requiring that owners spend some time in the dealer policy department. By doing this enables the participants to get insight into each other point of view.

❖ **Joint Memberships**:

Marketers can encourage trade association members to pay an additional fee for joint memberships. The universal product code is a result of effective cooperation between the Grocery Manufacturers of America and the Food Marketing Institute, or most food chains. They can deal with and systematically remedy the problems between food manufacturers and food retailers.

❖ **Co-option:**

Co-optation is an attempt by one firm to win the support of a leaders in another firm, perhaps by transferring their representation to advisory councils, boards of directors, etc. Co-optation can alleviate conflict if the organisation takes seriously invites leaders and listens to their opinions, although to do this the initiator may have to sacrifice their own policies and plans initially to gain support of outsiders.

❖ **Diplomacy, Mediation, and Arbitration**:

In cases where the ongoing disputes or those of high severity, parties must resort to more elaborate methods. Diplomatic efforts consist of each side sending representatives to talk with their counterparts about ridding of the dispute. Alternatively, mediation makes use of a neutral third-party having knowledge in bringing together the objectives of the two stakeholders. Conversely, if a business is required to submit to arbitration but the disputing parties cannot agree that they will submit their cases to one or more arbitrators, abide by the ruling of the arbitrators, and agree to that ruling as if they had been submitted to arbitration.

❖ **Legal Recourse**:

As an absolute last resort, channel partners may take legal action. Coca-Cola also provides a great example when it decided to deliver Powerade directly to Walmart regional depots. Concerned that this approach would detract from their direct store distribution (DSD) responsibilities, however, sixty bottlers took legal action. As a result, an agreement was reached allowing for exploring new service and distribution methods through collaborative exploration, which was intended to complement the existing DSD system.

3.6 Dilution and Cannibalization

For marketers, preserving the integrity of their brand(s) is a must, especially so for those of luxury brands that survive on exclusivity and personalised customer service to support their reputation in the market. The negative outcome experienced by Calvin Klein and Tommy Hilfiger when they filled discount outlets with their merchandise is an exemplar. High end fashion houses, like Dior, Louis Vuitton and Fendi, have online sites to service affluent clientele who may be too busy to shop. These serve two primary purposes: Helping customers learn about a product before entering a brick-and-mortar store or in the battle against counterfeit products on the Internet. With the kind of in store experience these brands offer (doormen, complimentary champagne, plush surroundings) they have had the spend a lot on creating a similar and outstanding online experience.

3.7 Legal and Ethical Considerations in Distribution Channel Management

Companies generally have the liberty to structure their channel arrangements as they deem appropriate. In fact, laws are designed to prevent them from using exclusionary strategies that could impede their rivals' channel access. We will succinctly review the legal aspects of certain practices, including exclusive dealing, exclusive territories, tying agreements, and the rights of dealers.

Exclusive distribution involves permitting only specific outlets to sell a supplier's goods. When these dealers are required to refrain from selling competitors' products, it is termed exclusive dealing. Both parties derive benefits from such arrangements: The supplier secures more devoted and reliable outlets, whilst the dealers obtain a consistent supply of specialised products and enhanced supplier support. These exclusive arrangements are lawful provided they do not significantly reduce competition or tend to create a monopoly, and both parties enter into them willingly.

Exclusive dealing arrangements often encompass exclusive territorial agreements. These may involve the manufacturer agreeing not to supply other retailers within a specific region, or the retailer committing to sell only within their designated area. The former practice enhances retailer enthusiasm and dedication, and is entirely lawful, as a supplier is not legally obligated to distribute through more outlets than desired. However, the latter practice, in which the manufacturer attempts to restrict a retailer from selling beyond their allocated territory, has become a significant legal concern.

3.8 Unit summary

- ❖ Channel conflict or disharmony or conflict between parties in the supply chain i.e., producer, wholesaler, distributor, retailer or other intermediaries.
- ❖ There are three main types of channel conflict: In contrast with the coordination within a single channel, vertical conflict between different levels in the same channel, horizontal conflict between members at the same level and multichannel conflict when a manufacturer markets with multiple channels in the same market.
- ❖ Channel conflict arises from such sources as incompatible goals of channel members, unclear assignments in the roles and rights of channel members, a difference in channel members' perception of market conditions or channels' strategies, and intermediaries' dependence on manufacturers.
- ❖ Although channel conflict can have negative consequences such as lower efficiency, decreased performance, and weak customer relationships, it can also achieve positive outcomes by encouraging adaptive behavior in reaction to change in environment.
- ❖ There are several strategies, such as strategic justification of decisions, dual compensation systems; establishment of super ordinate goals; employee exchange programs; participation in joint membership in trade associations; co-option of dissenting members; diplomacy; mediation; arbitration; and lastly, legal recourse.
- ❖ Channel conflict is critical for many companies—especially luxury brands—to deal with preserving brand integrity.
- ❖ Moving to expand the distribution channels exposes the risks of brand dilution and cannibalization which must be managed with care.
- ❖ Companies have, in principle, freedom to establish the channel arrangement they prefer; however, some regulations prevent companies from excluding more efficient channels based upon anticompetitive concerns.

3.9 Check your progress

1-mark questions:

1. What is channel conflict?
2. Name the two main types of channel conflict.
3. What is vertical conflict in distribution channels?
4. What is horizontal conflict in distribution channels?
5. What is multichannel conflict?
6. What does "dual compensation" mean in channel conflict management?
7. What is co-option in the context of channel conflict resolution?

8. What is the purpose of employee exchange programs in managing channel conflict?
9. What is the last resort for resolving channel conflicts?
10. What is exclusive dealing in distribution channels?

2-mark questions:

1. Explain two causes of channel conflicts.
2. How can incompatible goals lead to channel conflict?
3. Describe the concept of superordinate goals in managing channel conflict.
4. What are the potential negative effects of channel conflict?
5. How can diplomacy be used to resolve channel conflicts?
6. Explain the concept of strategic justification in managing channel conflict.
7. What is the difference between mediation and arbitration in conflict resolution?
8. How can joint memberships help in managing channel conflicts?
9. What are the risks associated with expanding distribution channels for luxury brands?
10. Explain the concept of exclusive territories in distribution channels.

5-mark questions:

1. Analyze the potential positive and negative outcomes of channel conflict.
2. Compare and contrast vertical and horizontal channel conflicts with examples.
3. Evaluate the effectiveness of employee exchange programs in managing channel conflicts.
4. Discuss the legal and ethical considerations in exclusive dealing arrangements.
5. Explain the concept of multichannel conflict and its implications for manufacturers.
6. Assess the role of strategic justification and dual compensation in managing channel conflicts.
7. Describe the process of co-option and its potential benefits in resolving channel conflicts.
8. Analyze the challenges faced by luxury brands in managing their distribution channels.
9. Evaluate the effectiveness of diplomacy, mediation, and arbitration in resolving channel conflicts.
10. Discuss the importance of clear role and rights assignments in preventing channel conflicts.

10-mark questions:

1. Critically analyze the various causes of channel conflicts and their potential impact on business operations and relationships between channel members.
2. Evaluate the effectiveness of different conflict resolution strategies in managing channel conflicts, considering their impact on sales performance, customer satisfaction, and long-term channel relationships.
3. Discuss the legal and ethical considerations in distribution channel management, focusing on exclusive dealing, exclusive territories, and tying agreements.
4. Analyze the challenges and opportunities presented by multichannel distribution strategies, including the potential for conflict and the need for effective management.

5. Compare and contrast the various approaches to managing channel conflict, including strategic justification, dual compensation, superordinate goals, and employee exchange programs. Evaluate their relative strengths and weaknesses.
6. Examine the role of perception differences and intermediaries' dependence on manufacturers as sources of channel conflict. Propose strategies to mitigate these issues.
7. Critically assess the impact of channel conflicts on brand integrity, particularly for luxury brands. Discuss strategies for preserving brand value while expanding distribution channels.
8. Analyze the potential benefits and drawbacks of using legal recourse as a means of resolving channel conflicts. Discuss alternative approaches and their relative merits.
9. Evaluate the role of communication and information sharing in preventing and resolving channel conflicts. Propose a framework for effective communication within distribution channels.
10. Discuss the evolving nature of distribution channels in the digital age and analyze how this impacts channel conflicts and their management. Consider the implications for traditional and e-commerce retailers.

Unit 4: Managing Retailing, wholesaling, and logistics

Unit Structure

4.1 Unit objectives

Upon completion of this unit, learner should be able to:

- Understand the Key Functions of Retailing.
- Analyze the Role of Wholesaling in the Distribution Channel.
- Evaluate the Importance of Logistics in Supply Chain Management.
- Assess the Challenges and Trends in Retailing, Wholesaling, and Logistics.

4.2 Introduction

Managing **retailing**, **wholesaling**, and **logistics** is a crucial aspect of the supply chain management process. These functions are interconnected, working together to ensure that products move smoothly from manufacturers to end consumers, through a network of intermediaries. Each of these functions plays a unique role in getting the right products to the right customers at the right time, while managing costs and optimizing efficiency.

4.3 Retailing definitions and its types

4.3.1 Definition of Retailing:

Retailing represents all activities related to the sale of merchandise or services directly to end consumers—household or individual use. It stages the last point in the distribution channel through which products are transmitted from wholesalers or manufacturers to the end consumer. It is the intermediaries—retailers—who ensure that the right product is available in the right time and the right place to the consumer. Retailing is full of strategies like product assortment, pricing, promotion, and customer service that must work together to provide a shopper with an experience that compels them to purchase (at a profitable rate).

4.3.2 Types of Retailing

Retailing is diverse and can be categorized based on the retail format, method of operation, or type of goods sold. The main types of retailing include:

❖ **Store-Based Retailing:**

This is the traditional form of retailing, where consumers visit physical stores to purchase goods or services. For e.g. **Departmental Stores** that offers a wide range of products across various categories.

Different retail store formats show different competition and pricing dynamics. For example, discount outlets are more competitive with each other than most other retail types, and retailers serve a high range of consumers in terms of their desired service levels and specific offered items. Store based retailers position themselves as one of the **four service categories**:

- All discount operations are built upon **self-service**. There are plenty of shoppers who will go through their own 'locate compare select process' to not only save time and avoid the high cost of a professional shop, but also to get the best price available.

- This is similar to self-service, called, **self-selection**, where customers choose for themselves what they need, but they can request assistance, if they like.

- **Limited-service** establishments that stock a wider range of shopping goods and additional services (credit line and merchandise return facility). In these settings, patrons often need more information and more support.

- Full-service establishments where staff—members are available to assist with the **full-service request** throughout the entire "locate, compare, select" process. Customers that do appreciate personalised attention are attracted to this format. A high-cost retail model is created by having elevated staffing costs, higher proportion of speciality goods, slower inventory turnover, and numerous services.

❖ **Non-Store Retailing:**

Non store retailing has been the result of the advent for technology as well as website shopping; business that sell goods and services without a physical shop. This form of retailing encompasses four primary categories: These include direct selling, direct marketing (including telemarketing and Internet sales), automatic vending machines, and buying services by storeless retailers. **Direct selling**, also known as **multilevel or network marketing** where salespeople sell door to door or host home parties to show off and sell their products. Pioneered by Amway, through which independent distributors are recruited, who earn commissions from their personal sales and from sales by their recruits. These firms are looking at a variety of distribution strategies as fewer people are available at home. Mail order and catalogue sales are the roots of **direct marketing** and the family now includes telemarketing, television direct response marketing and e-commerce. As online shopping becomes more popular, consumers are buying a greater variety of products and services from a greater number of websites. A variety of items are offered from the **automatic vending** machines ranging from impulse purchases (sweet, soft drinks,) to practical goods (hosiery, paperbacks). They can be found in offices, petrol stations, retail stores and everywhere in between, offering round the clock self-service and fresh stock. **Storeless retailers** catering to special clientele, such as employees of large organizations, tend to be buying services. Members of these services can have access to a list of retailers who will offer discounts in exchange for access to them.

❖ **Corporate retailing and franchising**

Although many retail businesses operate on their own, an increasing proportion is affiliated to corporate retail organisations. These entities have advantages over standalone shops, having been able to enjoy economies of scale, stronger purchasing clout, greater brand name recognition, and superior staff training.

- Franchising systems comprise of a close-knit network of enterprises whose operations are studied out, planned, directed and supervised by the inventor of the concept, referred to as the franchisor. Franchises are characterised by three key features:

- A franchise is granted when the franchisor allows a franchisee to use a trade or service mark of the franchisor in return for a royalty fee.

- The system is one for which a franchisee invests in order to join. These initial expenses include equipment and fixture rental and leasing and a recurring licence fee.

- A franchisee gets a franchisor's business model. Material procurement protocols exist for Franchisees to follow.

There are benefits for both sides to the franchising model. Franchisees inject the franchisor with drive and diligence and local knowledge, permit the franchisor to draw on the purchasing power of the franchise network. Franchisees benefit from the association with a well-known and established reputable brand. For them, it's easier to get business loans from banks and they get help in multiple areas like marketing and advertising, location selection and recruitment.

While franchisees must be independent, they also must be loyal. There are franchisors that are empowering their franchisees with more freedom over the way their operations are run, from allowing them to personalized store names to customization of product offerings and pricing.

4.3.3 Product differentiation strategies in Retailing

Product differentiation is a marketing strategy used by retailers to distinguish their products or services from those of competitors. In a competitive retail environment, where many businesses sell similar products, differentiation allows a retailer to create a unique identity and offer added value to customers. By doing so, they can attract and retain customers, often commanding higher prices and customer loyalty.

Once the store's product range has been established, the retailer faces the crucial task of crafting a strategy for product differentiation. Several approaches can be considered:

❖ **Offer Exclusive National Brands**: Retailers partner with well-known designers or brands to secure exclusive rights, ensuring customers can only find these products at their stores. For example, Saks might exclusively carry dresses from a prominent international designer.

❖ **Focus on Private-Label Merchandise**: Retailers like **Benetton and Gap** design and sell their own branded products, offering unique styles and controlling pricing. Similarly, many supermarkets and drugstore chains provide private-label options as competitive alternatives to national brands.

❖ **Host Unique Merchandise Events**: Retailers create buzz and draw attention with distinctive themed events. For instance, Bloomingdale’s organized a month-long celebration to commemorate Barbie’s 50th anniversary, offering a memorable and engaging shopping experience.

4.4 Wholesaling

Wholesaling deals with the link between a manufacturer and a retailer, business, or another organisation by purchasing big quantities of goods from a manufacturer for smaller quantities to be sold to a retailer, business or another organisation. Role: Wholesalers act as intermediary in the supply chain, connecting producers to retailers and purchase manufacturers to a wider market. They buy goods and warehousing them for further sells to retailers with no packaging. Utilizing their extensive resources, wholesalers offer solutions that bring together producers and customers.

Distributors, also known as wholesalers, are different from retailers in some ways. Their clientele being business customers rather than end consumers, they put less emphasis on promotion, the atmosphere and the location. Furthermore, wholesale transactions are of larger size along with wider trade area than retail transactions. Moreover, the laws and taxes governing wholesalers are different from those imposing on retailers.

The use of wholesalers by manufacturers, instead of selling directly to retailers or consumers, can be attributed to their efficiency in performing certain functions:

- **Sales and promotion:** Wholesalers can reach a lot of small business customers cost-effectively. Buyers tend to have more trust in wholesalers than distant manufacturers do, and they have more contacts.

- **Purchasing and assortment creation:** Items can be selected and assortments created by wholesalers that meet the needs for their customers, saving wholesalers' effort.

- **Bulk breaking**: In turn, wholesalers help customers save costs since they acquire in volume and split it into smaller lots.

- **Storage:** Wholesalers limit excess inventory costs and risk to both supplier and customer by holding stock.

- **Logistics:** Wholesalers usually deliver goods faster because they are closer to buyers.

- **Monetary support:** Financial assistance to customers is made by provision of credit and to suppliers is extended by placing early orders and paying the invoices on time to wholesalers.

- **Risk bearing:** Some risk is assumed by the wholesalers who own and bear the costs of theft, damage, deterioration and obsolescence.

- **Industry information:** Suppliers and customers receive information on competitor activities, product innovations, and price trends for the wholesalers.

- **Management support and operational guidance**: The wholesalers also help retailers improve their operations by providing sales staff training, help in shop layout and displays and introducing them to accounting and inventory management systems. In addition, they may provide technical assistance and training to industrial customers.

4.4.1 Types of Wholesaling

Wholesalers can be classified into different types based on factors such as ownership, functions, and the way they interact with both manufacturers and retailers. The main types of wholesalers include:

❖ **Merchant Wholesalers**

These are independent enterprises which buy large quantities of goods from manufacturers and sell them to retailers or to other businesses. For these wholesalers, they own the products and take on the cost of storage and of sales.

❖ **Full-service wholesalers**

These distributors maintain inventory, employ sales force, provide credit facilities, handle deliveries, and offer managerial support. Primarily, these wholesale merchants cater to retailers, with some carrying diverse product ranges, others focusing on one or two lines, and some specialising in specific product segments. Similarly, industrial distributors extend services such as credit and delivery, but their clientele consists of manufacturers and other industrial entities.

They provide multiple services to their customers viz. inventory management, delivery, credit facilities, market research, and promotional support. Full-service wholesalers are further divided into:

- **Wholesale Merchants:** Focus on selling goods to retailers, industrial users, and other merchants. They deal in various product categories like food, apparel, or furniture.

- **Industrial Distributors:** Specialize in serving industrial customers with products like machinery, equipment, and supplies.

❖ **Limited-service wholesalers**

There are many different types of limited-service wholesalers. Wholesalers known as **cash and carry** wholesalers provide a restricted range of quick turn over goods to small retailers with immediate payment. **Truck wholesalers** distribute and deliver a chosen assortment of semi perishable items supermarkets, grocers, hospitals, eateries and hotels. Grocery retailers are catered to by grocery retailers with non-food products, called **rack jobbers**. In this group of delivery personnel, they arrange displays, set prices, and keep stock records, yet reserve ownership of goods and invoice retailers only for goods purchased at year end. Cooperatives of producers gather farm produce for sale in the nearby markets. Distribution of catalogue to the retail, industrial institutional clients, fulfilling the orders by post, railway, air, and road transport is performed by mail order wholesalers. They service industries dealing with high volume bulk commodity such as coal, timber and heavy machinery. From order acceptance through delivery, they own and risk the commitment. **Drop shippers** do not physically handle or store products; unlike traditional wholesalers. When an order is placed, they pass it on to the manufacturer or another wholesaler that directly ships the goods from the manufacturer to the customer. Drop shippers are intermediaries who can complete a transaction without holding inventory or shipping products. They are generally internet based, joining customers to manufacturers or other wholesalers, earning payment on commissions or purchase markups on sold products. **Specialized e-commerce websites** that offer products without managing inventory themselves.

❖ **Agent Wholesalers (or Brokers)**

Agent wholesalers do not take ownership of the goods they sell. Instead, they act as intermediaries between manufacturers and retailers, facilitating transactions and earning a commission or fee for their services.

Key Features:

- They do not own the products they sell.
- Their role is mainly to bring buyers and sellers together and help negotiate deals.
- They earn a commission or fee for each transaction or sale.

There are essentially two types of agent wholesalers

Manufacturers' Representatives: These agents represent the manufacturers' products to retailers and wholesalers and receive a commission based on sales made.

Brokers: These agents connect buyers and sellers, typically in industries like food or commodities, and may not have long-term relationships with the companies they represent.

4.5 Distributors

Distributors are specialised wholesalers which concentrate on a particular range of products in a particular industry, and develop long term relationship with manufacturers. Acquire goods from producers, maintain inventory and sell the acquired goods to retailer or other businesses. Distributors not only are who primary role is offering their products to wholesalers and retailers, but could also provide marketing and services of such to large companies which sell their products. Usually, they have expertise in one product category or sector. The services delivered by distributors reach more than the simple supply of product; product education, guarantee support, and promotion are included. In certain situations, distributors may obtain exclusive arrangements with manufacturers to distribute selected products. **Tech Distributors** (distribute electronics and components to retailers or businesses), **pharmaceutical Distributors** (distribute drugs to pharmacies or hospitals).

4.6 Market Logistics

Physical distribution begins at the manufacturing facility where the journey begins. In selecting a network of warehouses (storage locations) and transport providers that will deliver products to their ultimate destinies within a desired timeframe or at the lowest overall expense, management must show that the geographical structure of the network is optimal depending on the product type and place of its production. The idea of physical distribution has become the more complex supply chain management (SCM). This includes more, starting before physical distribution. It deals with how to achieve efficient combination of inputs (raw materials, components, capital equipment, etc.) to transform them into the finished goods, and finally dispatch them to final destinations. Beyond that, a wider perspective takes in how the firm's suppliers, in turn, attain their inputs. From a supply chain viewpoint, a company's ability to select the best suppliers and distributors, as well as improve productivity and decrease costs, can be achieved.

4.6.1 Steps in logistics planning

Market logistics refers to planning, executing, and controlling physical material and finished product flows from source to destination to meet certain pre-determined customers' needs while establishing adequate infrastructure to meet those needs profitably. The market logistics planning process involves four key stages:

- Creating customer value proposition for the company.
- Deciding which design(s) of the channel is optimal and to identify the network strategy that reaches both customers(s).
- To develop excellence in operational areas such as sales forecasting, warehouse management, transportation management and materials management.
- The deployment of the solution using the best information systems, equipment, policies and procedures.

4.7 Channel logistics objectives

Channel Logistics refers to the management of goods and services, flowing through the distribution networks, between the manufacturers to the consumers. All this includes transport, storage, stock control, order processing and dissemination. Channel logistics aims to supply products to customers at the right quality, in the right quantity, at the target price and at the right time and in an effective and efficient manner at the lowest possible cost. Ensuring that the proper products get to the proper place, at the proper time, these activities are vital in creating an optimized supply chain from creation to consumption.

The key logistics objectives in the context of distribution channels include:

❖ **Cost Efficiency**

One of the primary objectives of channel logistics is to minimize the costs associated with transporting and storing products. Achieving cost efficiency involves **optimizing transportation** by choosing the most cost-effective modes (truck, rail, air, etc.) and routes.

❖ **Timeliness of Delivery**

A critical objective of logistics is to ensure that products get delivered at the right time and place. Timely delivery helps to meet customer expectations, maintain customer satisfaction, and avoid lost sales. This includes: Meeting promised delivery dates. Ensuring just-in-time (JIT) delivery to maintain inventory levels while reducing storage costs.

❖ **Balancing the trade-offs**

Given the large trade-offs that exist in market - logistics operations, managers must take a total system view in developing market - logistics operations decisions. The first step would be to study customer requirements and to evaluate competitor offerings. They want punctual deliveries, able suppliers to respond quickly to their urgent needs, careful handling of the goods and supplier ability to accept and immediately replace faulty products.

❖ **Competitor service standards:**

Organisations must assess their rivals' service standards when establishing service standards. It is still the goal, however, by and large, to be able to meet or exceed competitors' service levels, but ultimately, profitability must be maximized, not sales volume. Different businesses adopt varied approaches: Others choose reduced service offerings at lower price points, while other players offer a richer product at premium price points.

4.7.1 Logistics decisions

Four major decisions that are 87 to be taken into account while making logistics decisions include:

❖ **Order Processing:**

Organisations are constantly seeking to shorten the length of their order to payment cycle (time from when an order is placed to received and paid for). There are many stages at the process of this type, on the transmission of orders from sales representatives, order entry and the checking of customer credit, the planning of inventory and production, dispatch of orders and invoices, the receipt of funds. This cycle has a direct nexus to the customer satisfaction and company profitability; the longer it is, it is for longer the customer is not contented and the less profitability of the business.

❖ **Warehousing**:

Companies must store finished goods until sold, primarily because there is a gap between the production cycle and consumption cycle. This saves time, as more stocking locations can make good delivery faster to customers, but it brings big warehouse and inventory cost. The company aims to reduce these costs by centralizing inventory at one spot and to quickly fill orders. Companies hold part of the inventory at or near the plant while the rest is kept in warehouses in other locations. The company might own private warehouses, as well as taking space in public warehouses. Goods are stored in storage warehouses for periods form moderate too long. Warehouse goods of different company plants or suppliers are received and moved out as soon as possible.

❖ **Inventory:**

The underlying cost of holding these units of stock is inadequately appreciated by salespeople who wish to hold stock so as not to leave back orders on customers, but this is not cost-effective way. Improving customer service levels comes at a price, since inventory costs escalate rapidly as one seeks 100% service. Thus, Management must decide whether the sales have to increase and profits follow in the same proportion, and the inventories must increase accordingly to generate a faster fulfilment of orders. When inventory levels decline, management must choose the reorder point at which to order, accounting for the trade-off between stockouts and over stock costs. The second approach is the order quantity, which determines how many times reorders need to be made, trading off order processing with inventory costs. The order processing cost means (setup cost + production cost) for manufacturers. When setup costs are low, having frequent production keeps the average cost small. Manufacturers with high setup costs can reduce average costs by producing in larger quantities and having higher levels of inventory if it lowers setup costs. Storage, capital cost, taxes, insurance, depreciation and even obsolescence are included in cost of inventory carrying costs which increase as average stock size increases.

- **Transportation:**

Selection of transport methods determines product cost, timely product delivery along with state of goods upon arrival at the customer, which eventually impacts customer contentment. Firms may choose to dispatch items to warehouses, retailers and consumers using rail, road, air, sea or pipeline, or a combination of these vehicles.

Containerisation is further making shippers use increasingly multiple transport modes. This means putting goods in crates or trailers that can move from one mode of transport to another. Various combinations exist: Rail/lorry **piggyback**, water/lorry **fishyback**, water/rail **trainship** and air/lorry **airtruck**. Finally, each combined approach has different benefit. For instance, adaptability and ease of use is still obtained through piggyback which is economically more favourable than lorry transport alone.

4.8 Unit summary

- Retailing is selling of products or services directly to end consumers at different levels such as stores, online and direct selling.
- The retailing is of kinds such as store based (e.g department stores), non store (e.g online, vending machines), corporate retailing/franchising.
- Retailing includes product differentiation strategies of exclusive brands, private label merchandise, and unique merchandise events.
- Wholesaling is purchasing large quantities connecting manufacturers to retailers and selling in smaller amounts to businesses.
- Functions, such as sales/promotion, bulk breaking, storage, logistics, financial support and market information are imparted on wholesalers.
- There are three main types of wholesalers: merchant buildings (full service and limited service), agent building, and distributors.
- Market logistics is related to the planning of the flow of materials and products from source to destination so that customer needs can be met profitably.
- The key logistics objectives are to be cost effective, to have timely delivery and strike the right balance between service level and profit.
- Order processing, warehousing, inventory management and transportation are major logistics decisions.
- The desired outcome of effective logistics is to deliver the right products to the right place at the right time at the minimal costs and highest customer satisfaction.

4.9 Check your progress

1 Mark Questions

1. Define retailing.
2. What is wholesaling?
3. Name one type of non-store retailing.
4. What does SCM stand for in logistics?
5. What is the primary role of distributors?
6. Define channel logistics.
7. What is containerization in transportation?
8. Name one type of full-service wholesaler.
9. What is a cash and carry wholesaler?
10. What does JIT stand for in logistics?

2 Mark Questions

1. Explain the difference between store-based and non-store retailing.
2. Describe two functions of wholesalers.
3. What are the key features of agent wholesalers?
4. Explain the concept of product differentiation in retailing.
5. What is the main difference between wholesalers and retailers?
6. Describe the role of logistics in supply chain management.
7. What are the two main types of agent wholesalers?
8. Explain the concept of bulk breaking in wholesaling.
9. What is the purpose of warehousing in logistics?
10. Describe the order-to-payment cycle in logistics.

5 Mark Questions

1. Analyze the advantages and disadvantages of private-label merchandise for retailers.
2. Compare and contrast full-service and limited-service wholesalers.
3. Examine the factors that influence a company's choice of transportation methods in logistics.
4. Analyze the role of inventory management in achieving logistics objectives.
5. Discuss the importance of order processing in customer satisfaction and company profitability.
6. Evaluate the impact of e-commerce on traditional retailing methods.
7. Analyze the benefits and challenges of franchising in retail business.
8. Examine the role of market logistics in creating customer value.
9. Discuss the factors that influence a company's decision to use wholesalers instead of selling directly to retailers.
10. Analyze the importance of timeliness in delivery for channel logistics objectives.

10 Mark Questions

1. Evaluate the effectiveness of different product differentiation strategies in retailing. Provide examples to support your answer.
2. Critically assess the role of wholesalers in the modern distribution channel. Are they becoming more or less important? Why?
3. Analyze the major decisions involved in logistics planning and their impact on overall business performance.
4. Evaluate the trade-offs between cost efficiency and customer service in channel logistics. How can companies balance these competing objectives?
5. Critically examine the challenges and trends in retailing, wholesaling, and logistics in the current business environment.
6. Assess the impact of technology on the evolution of retailing, wholesaling, and logistics. How has it changed traditional practices?
7. Evaluate the importance of supply chain management in achieving competitive advantage. Provide examples to illustrate your points.
8. Analyze the key factors that contribute to successful franchising in retail. What are the potential pitfalls?
9. Critically assess the role of market logistics in creating and delivering customer value. How can companies optimize their logistics operations?
10. Evaluate the future trends in retailing, wholesaling, and logistics. How might these functions evolve in the next decade?

Unit 5: Communication process and communication mix

Unit Structure

5.1: Unit objectives

By the end of this unit, learners would be able to:

- ❖ Understand the key components and process of marketing communication, including the macromodel of communication and the various elements of the communication mix.
- ❖ Analyze the characteristics and benefits of different communication mix elements like advertising, sales promotion, public relations, events, direct marketing, and personal selling.
- ❖ Evaluate the steps involved in developing effective communications, including identifying target audiences, determining objectives, designing messages, and selecting appropriate channels.
- ❖ Examine approaches for establishing marketing communication budgets and creating effective advertising campaigns, including setting objectives, determining budgets, and developing creative strategies.

5.2 Introduction

Successful marketing and business operations hinge on effective communication. It is essential for organisations to convey messages clearly to customers, staff, stakeholders, and the general public. To deliver the appropriate message to the intended audience most efficiently, businesses must comprehend the communication process and mix.

Firms utilise marketing communications as a means to educate, persuade, and prompt consumers about their offerings and brands, both explicitly and implicitly. Serving as the company's and its brands' voice, these messages promote interaction and build connections with customers. Marketing communications can boost customer equity by reinforcing consumer loyalty.

Marketing communications offer advantages to consumers by illustrating the how, why, when, where, and who of product usage. Consumers can learn about the product's creator, the company's principles, and the brand's identity, and may receive incentives for sampling or utilising the product. Companies can leverage marketing communications to link their brands with various individuals, locations, occurrences, brands, experiences, emotions, and objects. These communications can bolster brand equity by establishing the brand in consumers' minds and moulding its image, whilst also driving sales and potentially influencing shareholder value.

Technological advancements and other factors have significantly altered how consumers process communications, and even whether they choose to engage with them at all. The swift adoption of multifunctional smartphones, along with broadband and wireless Internet connections, has diminished the effectiveness of mass media. In today's landscape, an advertisement would need to be broadcast on over 100 channels to achieve the same marketing impact. Consumers now have a wider range of media options and can decide whether and how they wish to receive commercial content.

5.3 Macromodel of communication process

Understanding the communication process is crucial before delving into effective communication techniques. This process describes the flow of information from its origin to its destination. It encompasses the transmission and interpretation of messages, involving several key elements such as the initiator, the content, the channel, the recipient, and the response. The primary aim of this process is to ensure accurate reception and comprehension of the intended message. Key components of the communication process include:

- **Sender:** The source of the message, which could be an individual, organisation, marketing team, or public relations department.
- **Message**: The message or substance being conveyed, which may take the form of spoken words, non-verbal cues, or symbolic representations.
- **Encoding**: Converting the message into a suitable format for transmission, such as verbal communication, written text, or visual representations.
- **Medium**: The medium utilised to convey the message, which may include printed materials, television broadcasts, radio programmes, social networking platforms, electronic mail, or in-person interactions.
- **Receiver**: The individual or group that receives and comprehends the communicated information.
- **Decoding**: The method through which the recipient decodes and comprehends the communicated information.
- **Feedback**: The feedback from the recipient, which could encompass verbal comments, behavioural reactions, or emotional expressions, assists the communicator in determining whether the intended message was accurately comprehended.

❖ **Noise**: External elements that may disrupt or alter the intended message, including environmental distractions, misunderstandings, or technological problems.

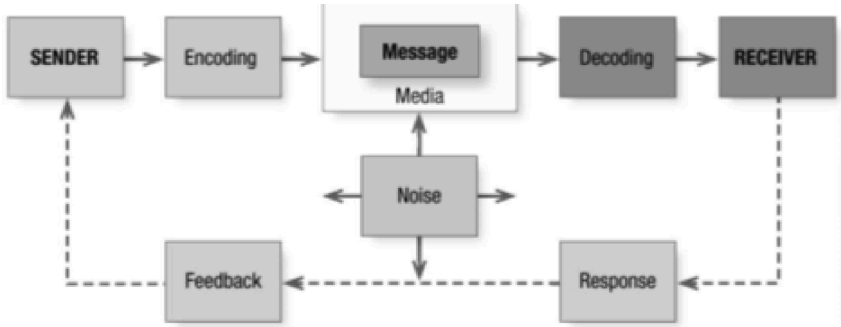

Figure 15: Macro Model of Communication Process (Source: Marketing Management, Phillip Kotler, 15th Ed)

5.4 Communication Mix:

The promotional mix, also referred to as the communication mix, encompasses a range of techniques and channels employed by organisations to engage with their intended audience. These diverse methods are utilised in conjunction to convey a unified message aimed at shaping the audience's attitudes, behaviours, and perceptions. The mix incorporates both conventional and digital media platforms, alongside strategies for person-to-person communication.

Key elements of the communication mix include:

❖ **Advertising**: Advertising is a compensated form of messaging where companies promote their offerings, services, or corporate identity through various channels, including television, radio, printed materials, outdoor displays, and online platforms. It typically aims to reach a wide demographic to enhance brand visibility and establish product recognition.

❖ **Sales Promotion**: Temporary incentives aimed at prompting swift consumer action or purchases. These encompass various promotional tactics such as price reductions, vouchers, prize draws, complimentary product trials, and other limited-time offers designed to generate a sense of immediacy and draw in potential customers.

❖ **Public Relations (PR)**: Efforts directed at shaping an organisation's public perception and fostering positive stakeholder relations. Public relations strategies typically encompass interactions with the media, issuance of press statements, involvement in community initiatives, and handling of crises.

❖ **Personal Selling**: One-on-one, in-person interaction between a salesperson and a prospective client. Personal selling aims to establish connections, provide clarification, and assist customers in making purchasing choices. This approach is particularly crucial in sectors dealing with intricate products or services.

- **Direct Marketing**: A marketing approach that employs targeted customer outreach through various channels such as electronic mail, phone-based selling, postal correspondence, or smartphone-based promotions. This strategy enables companies to connect with specific individuals using tailored offerings.
- **Events and experiences:** Brand-related initiatives and events organised by corporations to foster regular or unique interactions with consumers. These encompass sporting fixtures, artistic showcases, entertainment gatherings, charitable functions, and more casual engagements.
- **Interactive marketing:** Web-based initiatives and programmes aimed at captivating customers or potential clients, with the purpose of directly or indirectly enhancing brand recognition, improving corporate image, or stimulating the purchase of goods and services.
- **Word-of-mouth marketing**: Interpersonal exchanges, whether verbal, written, or digital, that discuss the quality or encounters associated with acquiring or utilising goods or services.

5.5 Characteristics of communication mix

- **Advertising:**

Marketing campaigns can reach consumers across vast geographical areas. While some advertisements, aim to establish a lasting product image, others promotions are designed to prompt immediate purchases. The financial requirements for advertising vary; television commercials often demand substantial investment, whereas newspaper adverts can be more economical. The sheer visibility of advertising may influence sales, as consumers might perceive heavily promoted brands as offering good value. Here are a few observations regarding advertising:

- **Pervasiveness**—Repetition of messages is made possible through advertising, enabling sellers to communicate multiple times. Simultaneously, it provides buyers with the opportunity to obtain and evaluate messages from various competitors. The use of extensive advertising campaigns suggests positive attributes about the seller's magnitude, influence, and achievements.

- **Amplified expressiveness**—Through the skilful utilisation of print, audio, and visual elements, advertising creates opportunities for companies to showcase their brands and products in a dramatic fashion.

- **Control**—The marketing professional has the ability to select which elements of the product and brand to emphasise in their promotional messages.

- ❖ **Sales Promotion:**

Companies utilise a range of promotional tactics, including coupons, contests, complimentary items, and comparable incentives, to stimulate a more vigorous and swift reaction from prospective customers. These approaches are intended to generate short-term outcomes, such as highlighting product offerings and reinvigorating stagnant sales. The implementation of sales promotion tactics offers three key benefits:

- **Capacity to attract attention**: These components draw notice and may direct consumers towards the product.
- **Motivation**: They incorporate some form of concession, enticement, or contribution that provides value to the consumer.
- **Call to action**: They feature a clear invitation to participate in the transaction immediately.

- ❖ **Public Relations and Publicity**

Public relations are often underutilised by marketers, despite its potential for significant impact when thoughtfully integrated with other communication strategies, particularly in addressing consumer misconceptions. The effectiveness of public relations and publicity stems from three key advantages:

- **Enhanced credibility:** Readers tend to find news articles and features more genuine and trustworthy compared to advertisements.
- **Reaching elusive audiences:** Public relations can engage potential customers who typically avoid mass media and targeted promotional efforts.
- **Storytelling capacity:** Public relations offer the opportunity to convey the narrative behind an organisation, brand, or product.

When coordinated effectively with other elements of the communications mix, a well-designed public relations programme can yield exceptional results.

- ❖ **Events and Experiences**

Events and experiences offer numerous benefits, provided they possess the following attributes:

- **Pertinence**: A carefully selected event or experience can be deemed highly pertinent, as the participant often has a personal stake in the outcome.
- **Captivating**: Due to their live, real-time nature, events and experiences tend to be more actively captivating for participants.

- **Subtle**: Events typically employ an indirect, understated approach to promotion.

❖ **Direct and Interactive Marketing**

Direct and interactive marketing communications come in various forms, including telephone calls, online interactions, and face-to-face encounters. These methods share three key attributes:

- **Personalised**: The content can be tailored to appeal specifically to the targeted individual.
- **Current**: Messages can be crafted swiftly.
- **Responsive**: The communication can be adjusted based on the recipient's reaction.

❖ **Word-of-Mouth Marketing**

Word-of-mouth communication manifests in various forms, both digitally and in person. Three significant attributes are:

- **Persuasive:** As individuals trust those, they are familiar with and admire, word of mouth can be exceptionally influential.
- **Individualised:** Word of mouth can involve an intimate exchange that conveys personal experiences, views, and information.
- **Opportune:** Word of mouth occurs when people desire it and are most receptive, often following significant or impactful events or encounters.

❖ **Personal Selling**

As the purchasing journey progresses, particularly in the final stages of cultivating buyer preference, conviction, and action, face-to-face sales techniques prove to be the most effective strategy. This method possesses three unique characteristics

Personal selling facilitates an instantaneous and dynamic exchange between two or more individuals, allowing each party to discern the other's reactions. This method enables the formation of various relationships, spanning from straightforward business transactions to profound personal bonds. The prospective buyer is frequently presented with individualised options and prompted to provide immediate feedback.

5.6 Developing effective communications

5.6.1 Identifying the target market

Initiating the process requires a well-defined target audience: prospective customers, existing users, decision-makers, influencers, specific groups, or the general public. This target audience significantly shapes the communicator's choices regarding the content, method, timing, location, and recipients of the message.

When addressing market segments, several key questions must be considered:

- Is the target audience new to the product category or an existing user?
- Does the target exhibit brand loyalty, competitor loyalty, or brand-switching behaviour?
- For brand users, are they high-volume or low-volume consumers?

The answers to these queries will inform the development of an appropriate communication strategy.

5.6.2 Determining the Communication Objectives

- ❖ **Category Need:** Developing a novel product or service category to bridge the gap between current and desired motivational states. Pioneering products, such as electric vehicles, initially aim to establish a need for their category.

- ❖ **Brand Awareness:** Improving consumers' capacity to identify or recollect the brand within its category, with sufficient detail to enable a purchase. Recognition is less challenging than recall; recall is vital outside the shop, whilst recognition is crucial within. Brand recognition forms the foundation of brand equity.

- ❖ **Brand Attitude:** Assisting customers in assessing how well a brand can fulfil a specific requirement. These requirements may be negative in nature (such as resolving issues, averting problems, addressing incomplete satisfaction, or replenishing depleted resources) or positive in nature (for instance, providing sensory enjoyment, intellectual engagement, or social recognition).

- ❖ **Brand Purchase Intention:** Motivating consumers to resolve to buy the brand or take associated actions. Promotional incentives such as vouchers or buy-one-get-one-free offers encourage a mental commitment to purchase. Many consumers lack an explicit category need and may not be in the market when they encounter an advertisement, making them unlikely to form purchase intentions.

5.6.3 Designing the communication

Key considerations when designing communication include:

- **Message Strategy:** The management team selects appeals, themes, or concepts that align with the brand's positioning to establish points of parity or differentiation. These can be related to the product's performance (such as quality, economy, or value) or external factors (like contemporary, popular, or traditional image).

- **Creative Strategy:** The effectiveness of communication depends on both its expression and content. Ineffective communication can result from either an incorrect message or poor delivery. Creative strategies convert messages into specific communications by employing either fact-based or emotional appeals. Fact-based appeals emphasise the features and advantages of products or services, such as advertisements that present solutions to problems. Informational appeals focus on detailing product or service attributes and benefits (for example, problem-solution advertisements). Conversely, transformational appeals emphasise non-product-related benefits or images, portraying the type of individual who uses the brand.

- **Message Source:** Communications conveyed by appealing or well-known individuals, including celebrities, can garner increased attention and be more memorable. Celebrities are particularly impactful when they are deemed trustworthy or exemplify a crucial product characteristic. Their credibility stems from three factors: expertise, trustworthiness, and likability. Expertise involves specialised knowledge, trustworthiness relates to perceived objectivity and honesty, whilst likability refers to the source's attractiveness.

5.6.4 Selecting the communication channels

Selecting an effective means of communication is complex due to the diverse array of available channels. These channels can be classified as either personal or non-personal, each comprising various subcategories.

- **Personal Communication Channels**

Personal channels encompass direct or audience-based interactions via telephone, post, or electronic mail, renowned for their individualised approach and ability to garner feedback. These channels include direct marketing, interactive communication, word-of-mouth promotion, and personal sales techniques, which are further categorised into advocate, expert, and social channels. Advocate channels involve sales representatives contacting potential customers; expert channels feature independent specialists offering advice to buyers; and social channels involve communication from acquaintances, friends, relatives, and associates.

❖ **Nonpersonal (Mass) Communication Channels**

Non-personal channels reach a broader audience through advertising, promotional offers, events, experiences, and public relations activities. Recently, there has been a surge in the use of events and experiences, with marketers utilising venues such as museums, zoos, and ice shows to engage both clients and employees.

❖ **Integration Of Communication Channels**

Although face-to-face interaction often yields stronger results, mass media can serve as a catalyst for such communication. The influence of mass media on individual attitudes and behaviours occurs through a two-step process: information initially flows from media outlets to opinion leaders, who then exert influence over groups less engaged with media sources. This suggests that the impact of mass media on public opinion is mediated by opinion leaders, and consumption patterns are not solely influenced by a 'trickle-down' or 'trickle-up' effect from mass media.

5.6.5 Establishing the total marketing communications budget

Deciding on the appropriate budget for marketing communications is one of the most challenging aspects of marketing strategy. Four widely-used approaches to tackle this issue will be outlined: the affordability method, the sales percentage technique, the competitive equivalence approach, and the objective-and-task strategy.

❖ **Affordable Method**

Certain organisations set their communication budgets based on what they believe they can afford, failing to recognise promotional activities as an investment with immediate effects on sales. This method leads to unpredictable yearly budgets, making it challenging to plan for the long term.

❖ **Percentage Of Sales Method**

Some companies set their communication budgets as a fixed proportion of current or expected revenue or product prices. For example, car makers often allocate a set percentage based on the intended vehicle cost. Supporters of this approach claim it ensures spending aligns with the company's financial capacity, pleases financial managers by connecting expenses to sales variations, encourages leadership to consider the interplay between communication costs, product pricing, and per-unit profit, and fosters consistency when rivals spend comparable percentages on communications. Nevertheless, this method assumes sales determine communication budgets rather than the reverse, resulting in budgets limited by available resources instead of market prospects and discouraging counter-cyclical or bold spending strategies.

❖ **Competitive Parity Method**

Certain companies set their communication budgets by mirroring their competitors' spending, believing that this approach reflects industry wisdom and prevents communication conflicts. However, this strategy is flawed for several reasons. Firstly, competitors' budgets are not reliable benchmarks due to variations in organisational reputation, available resources, market opportunities, and strategic objectives. Secondly, there is no empirical evidence to suggest that matching competitors' spending prevents communication wars. Therefore, basing communication budgets on competitive parity is not a sound approach.

❖ **Objective And Task Method**

In this method marketers are required to define specific objectives, identify necessary activities to achieve those objectives, and assess the associated costs while achieving those objectives. Objectives might include:

- Setting a market share goal, e.g., targeting 8 percent of 50 million potential users (4 million users).
- Determining the percentage of the market to reach via advertising, e.g., reaching 80 percent (40 million prospects).
- Calculating the proportion of informed potential customers motivated to sample the product.
- Calculating the number of advertising impressions per 1 percent trial rate.
- Determining the number of gross rating points needed.
- Calculating the advertising expenditure by utilising the mean expense of procuring a gross rating point.

This method compels management to clarify assumptions about the relationship between spending, exposure levels, trial rates, and regular usage.

5.7 Effective Advertising

Advertising plays a vital role by moulding brand perception, showcasing products, and swaying consumer actions. Contemporary businesses must ensure their advertising strategies align with their marketing aims. Successful adverts generate awareness, spark interest, foster loyalty, and stimulate purchases. They can be a cost-efficient means of cultivating brand allegiance or disseminating information to the public. Despite the complexities of the current media environment, well-designed advertisements can deliver favourable outcomes. Kotler identifies five crucial advertising decisions, dubbed "the five Ms":

- **Mission:** What are the goals of the advertising campaign?
- **Money**: How much can we spend, and how should we distribute the funds across various media channels?
- **Message:** What details should the advertisement communicate?
- **Media:** Which media platforms ought to be utilised?
- **Measurement:** How can we gauge the effectiveness of the marketing campaign?

❖ Setting the Objectives

Advertising objectives should be established based on previous decisions regarding the target audience, brand positioning, and marketing strategy. An advertising objective is a precise communication task with a specific achievement level, aimed at a particular group within a set timeframe. Brand recognition and awareness for new products or innovative features in existing ones are created through informative advertising. **Persuasive advertising** aims to foster affinity, preference, conviction, and purchase of a product or service. Some persuasive adverts employ comparative advertising, directly contrasting the attributes of multiple brands. **Comparative advertising** is most potent when it simultaneously evokes cognitive and affective motivations. Repeated purchases of products and services are encouraged through reminder advertising. **Reinforcement advertising** seeks to reassure existing customers about their purchase decision. The advertising objective should be derived from a comprehensive analysis of the current market landscape. For a well-established product category where the company leads the market but brand usage is low, the aim should be to promote increased consumption.

❖ Deciding on the Advertising Budget

While advertising is considered a current expenditure, it also functions as an investment in developing brand value and consumer loyalty:

- **Stage of product life cycle:** Novel products typically require substantial advertising budgets to generate awareness and encourage consumer trials, whereas well-established brands generally need lower budgets in proportion to sales.
- **Market standing and clientele:** Brands with significant market share often require less advertising expenditure as a percentage of sales to sustain their position, whilst expanding market share demands higher outlays.

- **Competition and market saturation:** In fiercely competitive markets with considerable advertising costs, brands must invest more in advertising to distinguish themselves. Even non-competitive advertisements contribute to market clutter, necessitating increased advertising efforts.
- **Advertising frequency:** The repetition required to effectively convey the brand's message influences the advertising budget.
- **Product distinctiveness:** In sectors where products are similar or lack distinct features, such as the beer, soft drink, banking, and airline industries, companies must invest heavily in advertising to create a distinctive brand identity.

❖ **Developing the Advertising Campaign**

Marketing professionals blend creativity and analysis to develop message and creative strategies for advertising, encompassing message creation, implementation, and social responsibility review.

- **Message Creation and Assessment**

Modern car ads often depict vehicles on winding roads or deserts. Advertisers aim for innovative concepts that appeal emotionally and rationally, distinguish the brand, and adapt across media and markets.

- **Creative Conception and Implementation**

Ad effectiveness relies on both content and execution, with each medium having unique strengths and limitations. Key media include television, print, and radio. Television is a powerful platform, reaching diverse audiences at low cost per exposure. It excels in showcasing product features and benefits, and vividly portraying brand personality and user imagery. Radio remains prevalent, with 93% of U.S. residents aged 12+ tuning in daily, averaging 20 hours per week. Much listening occurs in vehicles and outside the home, though traditional radio faces competition from streaming services. Radio's adaptability, targeted audiences, and economical production make it effective, particularly in the morning, balancing broad and local market reach.

While radio suffers from the absence of visual elements and tends to foster passive listening, it offers opportunities for innovative advertising. Some industry professionals contend that the lack of visuals can actually be advantageous. They argue that clever utilisation of audio components such as music and sound effects can spark listeners' imagination, resulting in compelling, pertinent, and well-received mental imagery.

- **Legal And Social Issues**

Some advertisers believe that to stand out amidst the noise, they must adopt a daring approach and challenge the conventional expectations of consumers regarding advertisements. However, in pursuing this strategy, marketing professionals need to ensure that their promotional content does not transgress societal and legal boundaries or cause offence to the general populace, ethnic communities, racial minorities, or special interest organisations.

5.8 Unit Summary

- ❖ Effective communication is crucial for successful marketing and business operations, allowing organizations to convey messages clearly to various stakeholders.
- ❖ Marketing communications serve as the voice of a company and its brands, fostering dialogue and relationships with consumers while strengthening customer loyalty.
- ❖ The communication process involves key components such as sender, message, encoding, medium, receiver, decoding, feedback, and noise.
- ❖ The communication mix includes advertising, sales promotion, public relations, personal selling, direct marketing, events and experiences, interactive marketing, and word-of-mouth marketing.
- ❖ Each element of the communication mix has unique characteristics and advantages, such as advertising's pervasiveness and sales promotion's ability to motivate immediate action.
- ❖ Developing effective communications involves identifying the target market, determining communication objectives, designing the message, and selecting appropriate channels.
- ❖ Communication objectives may include establishing category need, brand awareness, brand attitude, and brand purchase intention.
- ❖ Budgeting for marketing communications can be approached through methods like affordability, percentage of sales, competitive parity, or objective-and-task.
- ❖ Effective advertising requires careful consideration of mission, money, message, media, and measurement (the five Ms).
- ❖ Advertising campaigns should blend creativity and analysis, with message creation, implementation, and social responsibility review being key aspects of development.

5.9 Check your progress

1-mark questions:

1. What is the primary purpose of marketing communications?
2. Name one element of the communication mix.
3. What does PR stand for in the context of marketing communications?
4. What is the first step in developing effective communications?
5. What are the "five Ms" in advertising decisions?
6. What type of advertising aims to create brand awareness for new products?

7. What is the term for advertising that compares attributes of multiple brands?
8. Which communication channel is known for its individualized approach?
9. What method of setting communication budgets is based on matching competitors' spending?
10. What is the term for advertising that encourages repeated purchases?

2-mark questions:

1. Explain two key components of the communication process.
2. What are two characteristics of sales promotion as a communication mix element?
3. Describe two benefits of public relations in marketing communications.
4. What are two attributes of events and experiences in the communication mix?
5. Explain two objectives of brand communication.
6. What are two factors to consider when deciding on an advertising budget?
7. Describe two strengths of television as an advertising medium.
8. What are two challenges faced by radio advertising?
9. Explain two aspects of the "objective and task" method for setting communication budgets.
10. What are two considerations when developing a creative strategy for advertising?

5-mark questions:

1. Discuss the macromodel of the communication process and its key elements.
2. Compare and contrast advertising and personal selling as elements of the communication mix.
3. Explain the process of identifying the target audience and determining communication objectives.
4. Analyze the factors influencing the selection of communication channels in marketing.
5. Evaluate the different methods of establishing a total marketing communications budget.
6. Discuss the role of creativity and analysis in developing an effective advertising campaign.
7. Explain the concept of integrated marketing communications and its importance in modern marketing.
8. Analyze the impact of technological advancements on marketing communications effectiveness.
9. Discuss the legal and social considerations in developing advertising campaigns.
10. Evaluate the strengths and weaknesses of different media types in advertising.

10-mark questions:

1. Critically analyze the evolution of marketing communications in the digital age, discussing challenges and opportunities for marketers.
2. Evaluate the effectiveness of various elements of the communication mix in achieving different marketing objectives. Provide examples to support your answer.

3. Develop a comprehensive marketing communications strategy for a new product launch, considering all aspects of the communication process and mix.
4. Critically assess the role of brand equity in marketing communications and discuss strategies to build and maintain strong brand equity through effective communications.
5. Analyze the impact of consumer behavior and psychology on the effectiveness of marketing communications. How can marketers leverage these insights to improve their communication strategies?
6. Evaluate the importance of measuring and analyzing the effectiveness of marketing communications. Discuss various metrics and methods used to assess communication impact.
7. Critically examine the ethical considerations in marketing communications, including issues of transparency, privacy, and social responsibility. How can marketers balance effectiveness with ethical practices?
8. Analyze the role of storytelling and emotional appeal in marketing communications. Provide examples of successful campaigns that have effectively used these techniques.
9. Evaluate the challenges and opportunities of global marketing communications. How can marketers adapt their strategies to different cultural contexts while maintaining brand consistency?
10. Critically assess the future of marketing communications, considering emerging technologies, changing consumer preferences, and evolving media landscapes. What skills and strategies will be crucial for marketers in the coming years?

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MODULE 5: FUNDAMENTALS OF BRANDING

Introduction to branding: definition, importance, and evolution, the role of brands- consumer & firms, brand equity, brand power, cobranding, luxury branding.

Module Structure:

Unit 1: Brands and Branding
Unit 2: Brand Equity

Unit 1: Brands and Branding

Unit Structure

1.1 Unit objectives
1.2 Introduction
1.3 The role of brands- consumer & firms
1.4 Brand equity & Brand Power
1.5 Cobranding
1.6 Luxury branding
1.7 Unit summary
1.8 Check your progress

1.1 Unit Objectives:

After completion of this unit learners would be able to

- Understand the concept of brand equity and its importance in strategic brand management.
- Analyze the different roles brands play for consumers and firms in the marketplace.
- Evaluate the various approaches to measuring brand equity and brand power.
- Know about cobranding and luxury branding in modern marketing.

1.2 Introduction:

In the 21st century, successful brand marketers must be adept at strategic brand management, which involves designing and executing marketing initiatives to construct, evaluate, and oversee brands, maximising their worth.

The distinctive capability of marketers is in their ability to create, maintain, improve, and protect brands. **Brand** is defined by the American Marketing Association as "a name, term, sign, symbol, or design, or a combination thereof, intended to identify the goods or services of one seller or group of sellers and to differentiate them from those of competitors." Primarily a brand has to deliver value to consumers, the organisation, and its associates and it has to exceed the individual value that the product and service components offer.

The process of imbibing products and services with the strength of a brand is known as **branding.** It focuses on differentiating products from one another. Brand names and other elements are utilised by marketers to communicate the identity and characteristics of a product to consumers, as well as to highlight its appeal. Successful branding creates cognitive structures that help consumers organise their understanding of products and services, thus simplifying decision-making and generating value for the company.

Although companies initiate brand development through marketing campaigns and other strategies, the essence of a brand ultimately resides within consumers' thoughts and emotions. For branding efforts to be effective and generate value, customers must perceive significant distinctions between brands in a given product or service category.

Branding can be applied to virtually any context where consumers have a choice. Branding can be applied to various entities, including tangible products, services, retail stores, destinations, organizations, and even ideas.

1.3 The role of brands- consumer & firms

Brands serve to distinguish the manufacturer of a product, enabling consumers to attribute its quality and performance to the specific producer or distributor. For both consumers and companies, brands fulfil various important roles.

1.3.1 Role for consumers

A brand represents a commitment from a company to its customers. It serves as a mechanism to establish consumer expectations and mitigate their perceived risks. In exchange for customer allegiance, the company pledges that its offerings will consistently provide an anticipated positive experience and a set of coveted advantages. A brand may even be characterised by its unpredictability, provided that this aligns with consumer expectations. The crucial aspect is that it meets or surpasses customer expectations in fulfilling their desires and requirements.

The way consumers perceive identical products can vary depending on their branding. Brands may also take on personal importance for individuals, becoming a crucial part of their self-concept. These brands can mirror either the actual or desired self-image of consumers. Some individuals may even attribute human characteristics to certain brands. Marketers must be vigilant about all forms of communication and activities that could potentially strengthen or weaken the connection between consumers and the brand.

1.3.2 Role for firms

Brands serve crucial functions for companies beyond consumer recognition. They streamline product management by facilitating inventory and accounting processes. A reputable brand indicates a consistent quality level, enabling satisfied customers to easily repurchase. Brand loyalty ensures stable demand and erects barriers against market entrants. While manufacturing processes and designs can be replicated, the positive impressions created by years of satisfactory product experiences and marketing efforts are challenging to duplicate. Thus, branding can provide a significant competitive edge. Marketers often realise the true value of brand loyalty only when they alter a key brand element.

For businesses, brands represent highly valuable legal assets capable of influencing consumer behaviour, being traded, and guaranteeing long-term revenue streams. Companies have made substantial investments in brand acquisitions, often rationalising the premium based on projected increased profits and the challenges of building comparable brands from the ground up.

1.4 Brand equity & Brand Power

Two fundamental concepts encompass the value generated by a brand: brand equity and brand power.

1.4.1 Brand equity

Brand equity refers to the financial worth of a brand, reflecting the additional value placed on a company's valuation due to brand ownership. It encompasses the total future financial returns a brand will generate, discounted to present value. Understanding and managing the elements that influence brand equity, as well as developing techniques to assess it, are essential for a company's financial well-being. It is crucial to comprehend the concept of brand equity and its consequences.

In accounting, the term 'goodwill' encompasses brand equity and denotes the monetary value of all intangible assets possessed by an organisation. Although goodwill takes into account concrete assets such as real estate, facilities, raw materials, and financial holdings, it also incorporates intangible assets including trademarks, intellectual property rights, know-how, permits, supply chains, company ethos, and operational procedures. As a result, goodwill is a more all-encompassing concept than brand equity, as it includes not only the value of a firm's brand but also its other intangible assets.

Three approaches can be employed to measure brand equity: the cost approach, the market approach, and the financial approach.

1.4.1.1 Cost Approach:

Brand equity is defined by the cost approach as the costs of research, design, communication, management as well as legal fees that are related to the development of the brand. In either case, this method is based on either historical brand creation expenditures, or the replacement value of the brand, i.e., the financial amount that would be required to rebuild the brand at the time of assessment.

1.4.1.2 Market Approach:

Brand equity is measured in the market approach by determining the revenue disparity between a branded good and its unbranded version after considering costs related to brand development. This comparison method uses sales numbers and adjusts out brand building expenses to determine the value added by the brand itself.

1.4.1.3 Financial Approach:

The financial method measures brand equity by calculating the net present value (NPV) of a brand's future earnings. This approach typically involves three main stages: The company's projected cash flow is determined, the brand's impact on these future earnings is assessed, and a risk factor is applied to account for the variability in brand attributable income. The risk adjustment is evidence of the volatility in the earnings derived from the brand.

1.4.2 Brand Power

Brand power, also known as **customer-based brand equity**, denotes the additional value that a brand contributes to a product or service. It signifies the degree to which a brand impacts consumers' perceptions, emotions, and behaviours towards it. Essentially, brand power represents the unique effect that brand recognition has on consumers' reactions to the brand's promotional activities. A brand is considered to have positive power when consumers exhibit a more favourable response to a product and its marketing efforts upon brand identification, as opposed to when the brand remains unidentified. Conversely, negative brand power occurs when consumers display a less favourable reaction to a brand's marketing initiatives under comparable circumstances.

The concept of brand power stems from variations in consumer responses elicited by a brand. In the absence of such differences, a branded product may be perceived as a commodity, likely resulting in price-based competition. These disparities in response are a consequence of consumers' brand knowledge, encompassing all associated thoughts, emotions, imagery, experiences, and beliefs.

There are **two methods** for evaluating brand power:

❖ The indirect method examines potential origins of brand power by identifying and monitoring consumers' knowledge of the brand.

❖ The direct method evaluates the actual effect of brand knowledge on consumer reactions to various marketing aspects.

To effectively utilise brand power for strategic purposes and guide marketing choices, professionals in marketing must thoroughly comprehend two key aspects: firstly, the origins of brand equity and their impact on desired outcomes, and secondly, how these sources and results potentially evolve over time. Brand audits are crucial for addressing the former, whilst brand tracking is essential for the latter. A **brand audit** comprises a focused set of procedures aimed at evaluating brand health, identifying the foundations of brand equity, and proposing methods to enhance and capitalise on that equity. **Brand tracking** employs the brand audit as a basis for gathering longitudinal quantitative consumer data.

1.5 Cobranding:

Usually, companies combine their brands to create the superior market value. Cobranding, also known as dual branding, is the term used to describe the joint marketing of two or more brands. A primary benefit of this strategy is that it allows to put a product in the proper position by using various brand identities. Cobranding has the potential to increase sales in current markets as well as to attract new consumer segments and channels. It can also cut the expenses of product launches by utilizing the merged recognition of recognized brands, quickening adoption. In addition, cobranding provides insight into the behavioural pattern of consumers and alternative marketing methods. All these advantages have been exploited in automotive industry.

But cobranding is not without its issues. Primarily, if your fans were to align themselves with another brand, this could pose risks in a negative way to you, the fact they’re not under your control. Since expectations for co-branded products are supposed to be high, any underperformance can have a negative impact on both brands. Moreover, if a brand partners in too many cobranding relationships, it could lead to such overexposure that it begins to dilute the transmission of relevant associations.

For a cobranding initiative to be successful, both brands must possess individual brand equity, characterised by sufficient brand awareness and a positive image. The most crucial factor is a logical compatibility between the two brands, which maximises their respective strengths while minimising weaknesses. Consumers are more likely to view co-brands favourably when they are complementary and offer unique qualities, rather than being overly similar and redundant.

1.6 Luxury branding

Luxury brands exemplify the significance of branding, as the brand and its image often provide crucial competitive edges that generate substantial value for both the company and its clientele.

Luxury brands are traditionally priced considerably higher than typical products in their categories and are associated with social standing and aspirational identity of the consumer. However, in many developed nations, luxury has evolved to encompass style and substance, while combining personal gratification with self-expression. To satisfy a luxury consumer, the product must be perceived as truly exceptional. Consequently, the hallmarks of luxury brands are excellence and distinctiveness. The concept of luxury varies across different parts of the world but is always associated with aspiration, rooted in product quality, status, and prestige.

1.7 Unit Summary

- ❖ Strategic brand management involves designing and executing marketing initiatives to construct, evaluate, and oversee brands, maximizing their worth.
- ❖ A brand is defined as a name, term, sign, symbol, or design intended to identify and differentiate goods or services from competitors.
- ❖ Branding creates mental frameworks that help consumers organize product knowledge, facilitating decision-making and providing value to firms.
- ❖ Brands serve important roles for both consumers and companies, including quality assurance, risk mitigation, and personal significance for consumers.
- ❖ Brand equity refers to the financial worth of a brand, reflecting additional value placed on a company's valuation due to brand ownership.
- ❖ Brand power, or customer-based brand equity, is the additional value a brand brings to a product or service, influencing consumer thoughts, feelings, and actions.
- ❖ Brand equity can be measured using cost, market, and financial approaches, while brand power is evaluated through indirect and direct methods.
- ❖ Cobranding involves joint marketing of two or more brands, offering benefits such as effective positioning and market expansion, but also carries risks.
- ❖ Luxury brands exemplify the significance of branding, often providing crucial competitive edges that generate substantial value for both companies and clients.
- ❖ Successful luxury brands combine style, substance, personal gratification, and self-expression to satisfy consumers.

1.8 Check your progress

1-mark questions:

1. What is the definition of a brand according to the American Marketing Association?
2. What is the primary aim of a brand?
3. What does the term "branding" refer to?
4. In which context can branding be applied?
5. What is brand equity?
6. What does the accounting term 'goodwill' include?
7. What is customer-based brand equity also known as?
8. What are the two methods for evaluating brand power?
9. What is cobranding?
10. What are the hallmarks of luxury brands?

2-mark questions:

1. Explain the fundamental aim of a brand and how it creates value.
2. How does effective branding assist consumers in decision-making?
3. What are the two key roles that brands fulfill for consumers?
4. How do brands serve as valuable legal assets for businesses?
5. What are the three approaches used to measure brand equity?
6. Describe the financial approach to measuring brand equity.
7. What are the two key aspects marketers must understand to effectively utilize brand power?
8. What is a brand audit and what is its purpose?
9. List two benefits and two risks of cobranding.
10. How has the concept of luxury evolved in many developed nations?

5-mark questions:

1. Analyze the importance of strategic brand management in the 21st century marketplace.
2. Evaluate the role of brands for consumers and explain how they can become part of a consumer's self-concept.
3. Discuss the significance of brands for firms, including their impact on product management and market competition.
4. Compare and contrast the three approaches to measuring brand equity: cost, market, and financial.
5. Explain the concept of brand power and its importance in strategic brand management.
6. Describe the indirect and direct methods of evaluating brand power and their significance.
7. Analyze the potential benefits and risks associated with cobranding strategies.
8. Discuss the evolution of luxury branding and its current significance in different parts of the world.
9. Explain the relationship between brand equity and goodwill, and their importance for a company's financial health.
10. Evaluate the importance of brand loyalty and its impact on a company's competitive advantage.

10-mark questions:

1. Analyze critically the concept of brand equity, its measurement approaches, and its significance in strategic brand management.
2. Evaluate the roles that brands play for both consumers and firms, and discuss how these roles contribute to a brand's overall value in the marketplace.
3. Compare and contrast brand equity and brand power, discussing their measurement methods and importance in marketing strategy.
4. Analyze the process of strategic brand management, including the design, execution, and oversight of marketing initiatives to maximize brand worth.
5. Discuss the concept of cobranding, its potential benefits and risks, and provide examples of successful cobranding strategies in the marketplace.
6. Evaluate the evolution of luxury branding, its current significance, and the challenges faced by luxury brands in different global markets.
7. Analyze the importance of brand audits and brand tracking in maintaining and enhancing brand equity over time.
8. Discuss the relationship between branding and consumer behavior, including the impact of brands on consumer decision-making and loyalty.
9. Evaluate the role of brand elements (name, logo, symbol, etc.) in creating and maintaining brand equity, and discuss strategies for effective brand element selection.
10. Analyze the challenges and opportunities in building and managing global brands, considering cultural differences and market variations.

Unit 2: Brand Equity

Unit Structure

2.1 Unit Objectives

After completion of this unit learners would be able to

- Understand and explain key concepts of brand equity, including customer-based brand equity and its essential components.
- Compare and contrast different brand equity models, including the Brand Asset Valuator, Brandz, and Brand Resonance models.
- Analyze approaches to managing brand equity through reinforcement and revitalization strategies.
- Evaluate various branding strategies for new products, including brand extensions and sub-brands.
- Apply brand equity concepts and models to real-world marketing scenarios and develop strategies to build and maintain strong brands.

2.2 Introduction

Brand equity refers to the additional value that consumers associate with products and services. This value is evident in consumer perceptions, emotions, and behaviours towards the brand, as well as in its financial performance, including pricing, market share, and profitability.

Researchers and marketing professionals employ various approaches to examine brand equity. Consumer-centric methods analyse it from the viewpoint of individual or organisational customers, recognising that a brand's strength is rooted in the cumulative experiences, knowledge, and impressions that customers have gathered about the brand over time.

Customer-based brand equity is defined as the varying impact that brand knowledge has on consumer responses to the brand's marketing efforts. A brand possesses positive customer-based brand equity when consumers respond more favourably to its product and marketing strategies when the brand is identified, compared to when it is not. Conversely, negative customer-based brand equity occurs when consumers react less positively to the brand's marketing activities under identical circumstances. The concept of customer-based brand equity comprises three essential components.

- The distinctiveness in consumer response gives rise to brand equity. In the absence of such distinctions, a branded product may be viewed as a basic commodity, likely resulting in price-based competition.
- Consumer responses vary due to brand knowledge, encompassing the entire spectrum of thoughts, emotions, imagery, experiences, and convictions associated with a brand. To succeed, brands must establish robust, positive, and distinctive associations in the minds of their customers.
- Brand equity manifests in the perceptions, preferences, and behaviours related to all marketing aspects of a brand. Brands with greater strength typically generate higher revenue.

Marketers face the task of ensuring that consumers experience products, services, and marketing initiatives in a manner that cultivates the intended thoughts, emotions, and brand awareness.

The direction a brand should take in the future is determined by **consumers' brand knowledge**. Based on their thoughts and feelings about the brand, people will form opinions on its appropriate trajectory and whether to endorse any marketing initiatives or campaigns. The brand's path forward is ultimately shaped by the perceptions and approval of its customer base.

2.2 Brand Equity Models

While there is consensus among marketing professionals regarding fundamental branding concepts, various models of brand equity present slightly different viewpoints. Few models of brand equity are described in the sub-sections:

2.2.1 Brand Asset Valuator model

The advertising firm Young and Rubicam (Y&R) created a brand equity model known as the Brand Asset Valuator (BAV). This model, based on a study involving over 800,000 consumers across 51 nations, evaluates the brand equity of numerous brands in various categories. The BAV model comprises four key components. "Energized Differentiation" that assesses degree of uniqueness a brand appears compared to others and its ability to command premium pricing. "Relevance" evaluates the suitability and range of a brand's appeal. "Esteem" assesses the perceptions of quality and loyalty, reflecting how well-regarded and respected the brand is. "Knowledge" measures consumer awareness, familiarity, and depth of experience with the brand.

The combination of energized differentiation and relevance determines brand strength, which serves as a leading indicator predicting future growth value. Esteem and knowledge together form brand stature, indicating past performance and serving as a lagging indicator of current operating value. The interrelationships between these dimensions, referred to as a brand's "pillar pattern", offer significant insights into a brand's present and future standing.

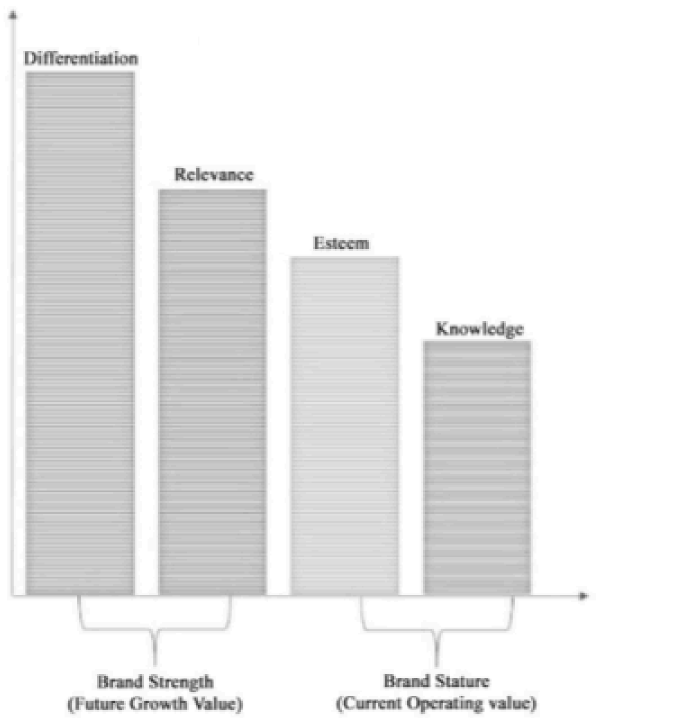

Figure 16: Brand Asset Valuator model (Source: Marketing Management, Phillip Kotler, 15th Ed)

2.2.2 Brandz model of brand strength

The Brandz model of brand strength (Fig 19), devised by marketing research firms Millward Brown and WPP, centres on the **BrandDynamic model**. This system measures brand equity using Millward Brown's **Meaningfully Different Framework**, revealing a brand's current standing and growth prospects. Brand Dynamics utilises straightforward scores that encapsulate a brand's equity and correlate directly with real-world financial and business outcomes.

According to Brand Dynamics, three crucial types of brand associations contribute to building customer inclination to purchase a brand: "**meaningful, different,** and **salient** brand associations". A brand's performance across these three dimensions is reflected in three key outcome measures: "**power**", which forecasts the brand's volume share; "**premium**", indicating the brand's capacity to command higher prices than the category average; and "**potential**", the likelihood of a brand increasing its value share.

The model suggests that the effectiveness of brand activation in the marketplace, coupled with the existing competition, determines how strongly **brand predisposition** ultimately converts into sales.

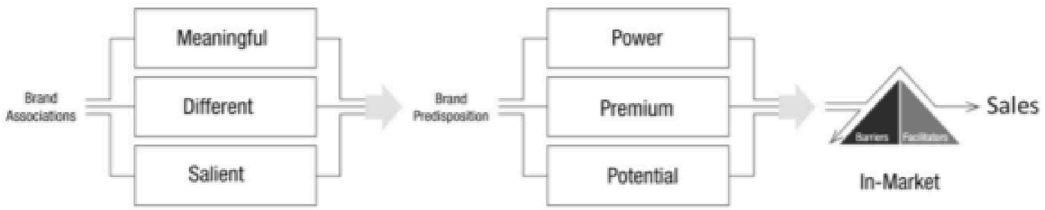

Figure 17: BRANDZ model of brand strength (Source: Marketing Management, Phillip Kotler, 15th Ed)

2.2.3 Brand Resonance Model

The brand resonance model (Fig 20) portrays brand building as an upward progression of stages:

- ❖ ensuring brand recognition and its association with specific product categories or needs;
- ❖ solidifying brand meaning by strategically connecting various tangible and intangible brand associations;
- ❖ prompting appropriate customer reactions regarding brand-related assessments and emotions; and
- ❖ transforming customers' brand responses into strong, dynamic loyalty.

This model suggests that executing these four stages establishes a pyramid comprising six "brand building blocks". It underscores the dual nature of brands—with the logical approach to brand building on the pyramid's left side, and the emotional approach on the right. Achieving substantial brand equity necessitates reaching the pyramid's summit, which is only possible when the correct building blocks are in place. The buildings blocks of the model are as follows:

- ❖ "Brand Salience" refers to the frequency and ease with which customers recall the brand in various purchasing or consumption contexts—the depth and breadth of brand awareness.
- ❖ "Brand performance" relates to how effectively the product or service fulfils customers' functional requirements.
- ❖ "Brand imagery" depicts the external attributes of the product or service, including how the brand aims to satisfy customers' psychological or social needs.
- ❖ "Brand Judgements" centre on customers' personal opinions and evaluations.
- ❖ "Brand feelings" encompass customers' emotional responses and reactions towards the brand.

❖ "Brand resonance" describes customers' relationship with the brand and the extent to which they feel aligned with it.

Resonance signifies the strength of customers' psychological connection to the brand and the level of activity it generates.

2.3 Management of Brand Equity

The effectiveness of marketing initiatives on consumers is influenced by their knowledge and recollection of a brand. This can be accomplished through short-term marketing strategies that alter brand perception, thus enhancing or diminishing the long-term efficacy of subsequent marketing efforts. The management of brand equity can be achieved via two approaches: "brand reinforcement" or "brand revitalisation".

Figure 18: Brand resonance pyramid (Source: Marketing Management, Phillip Kotler, 15th Ed)

2.3.1 Brand Reinforcement

A brand, being a company's enduring asset of significant value, requires careful management to prevent its depreciation. To strengthen brand equity, marketers should consistently communicate the brand's essence, encompassing the products it embodies, the fundamental benefits it delivers, and the needs it fulfils; and how the brand elevates its products and which robust, positive, and distinctive brand associations should be established in the minds of consumers. Reinforcing brand equity necessitates continuous brand progression—in an appropriate direction with innovative and engaging offerings and marketing strategies.

Maintaining consistent marketing support is crucial in reinforcing brands. However, consistency does not equate to uniformity without change: Whilst there is little necessity to alter a successful positioning, numerous tactical adjustments may be required to sustain the brand's strategic impetus and direction. Marketers must acknowledge the balance between activities that bolster the brand and reinforce its significance, such as a well-received product enhancement or an imaginatively designed advertising campaign, and those that capitalise on or utilise existing brand equity to secure financial advantages, such as a short-term promotional price reduction.

2.3.2 Brand Revitalization

A brand's success can be significantly influenced by shifts in the marketing landscape. However, numerous brands have demonstrated remarkable resurgences in recent times. The initial step in revitalizing a brand often involves identifying the original sources of its equity. It's crucial to determine whether positive associations are diminishing in strength or uniqueness, or if negative associations have become linked to the brand. Subsequently, one must decide whether to maintain the existing positioning or establish a new one, and if so, which direction to take.

In some instances, the marketing programme itself may be the root cause, failing to fulfil the brand's promise. In such cases, reverting to fundamental principles might be the appropriate strategy. Conversely, there are situations where the original positioning is no longer viable, necessitating a complete reinvention. The spectrum of revitalisation strategies ranges from a pure "back to basics" approach at one end to complete reinvention at the other, with various combinations in between. The challenge often lies in striking a balance: implementing sufficient changes to attract new customers without alienating existing ones. Regardless of the chosen strategy, nearly all brand revitalisation efforts begin with the product itself.

2.4 Branding Strategies

A company's brand architecture reflects the quantity and nature of shared and unique brand components. The approach to branding new products is crucial, with three primary options available:

- Creating fresh brand elements for the new offering.
- Utilising existing brand elements.
- Employing a mix of new and current brand elements.

When an established brand is used to launch a new product, it's termed a **brand extension**. If a new brand is combined with an existing one, the resulting brand extension may also be called a **sub-brand**. The original brand that spawns a brand extension or sub-brand is known as the **parent brand**. Should the parent brand already be linked to multiple products through brand extensions, it may be referred to as a **master brand** or **family brand**.

Brand extensions fall into two broad categories. A **line extension** occurs when the parent brand introduces a new product within its current product category, such as new flavours, forms, colours, ingredients, or package sizes. Conversely, a **category extension** involves the parent brand entering a different product category altogether.

A brand line encompasses all products—original and extensions alike—sold under a particular brand. The **brand mix** (or brand assortment) comprises all brand lines offered by a specific seller. Many firms are introducing branded variants, which are distinct brand lines supplied to specific retailers or distribution channels, often in response to retailer pressure for unique offerings. A **licensed product** is one where the brand name has been licensed to other manufacturers who actually produce the item.

2.5 Unit summary

- ❖ Brand equity refers to the added value consumers associate with products/services, reflected in perceptions, behaviours, and financial performance.
- ❖ Customer-based brand equity is defined by how brand knowledge impacts consumer responses to marketing efforts.
- ❖ Three key components of customer-based brand equity are: distinctiveness in consumer response, variations due to brand knowledge, and manifestation in all aspects of marketing.
- ❖ The Brand Asset Valuator model evaluates brand equity using four dimensions: energized differentiation, relevance, esteem, and knowledge.
- ❖ The Brandz model focuses on meaningful, different, and salient brand associations to measure brand strength and predict outcomes.
- ❖ The Brand Resonance Model depicts brand building as a pyramid with six blocks: salience, performance, imagery, judgments, feelings, and resonance.
- ❖ Brand equity management involves brand reinforcement (maintaining consistency while evolving) and brand revitalization (identifying sources of equity and repositioning if needed).
- ❖ Branding strategies for new products include creating new brand elements, using existing ones, or combining both.
- ❖ Brand extensions can be line extensions (new products in the same category) or category extensions (entering a new product category).
- ❖ Effective brand management requires balancing activities that strengthen the brand with those that capitalize on existing brand equity.

2.6 Check Your Progress

1-mark questions

1. What is brand equity?
2. Define customer-based brand equity.
3. What are the three essential components of customer-based brand equity?
4. Who created the Brand Asset Valuator (BAV) model?
5. What does BAV stand for?
6. What are the four key components of the BAV model?

7. What does the Brandz model of brand strength focus on?
8. What are the three crucial types of brand associations in the Brandz model?
9. What are the six "brand building blocks" in the Brand Resonance Model?
10. What are the two main approaches to managing brand equity?

2-mark questions:

1. Explain the concept of positive customer-based brand equity.
2. How does negative customer-based brand equity occur?
3. Describe the relationship between brand strength and brand stature in the BAV model.
4. What insights can be gained from a brand's "pillar pattern" in the BAV model?
5. Explain the three key outcome measures in the Brandz model.
6. How does the Brand Resonance Model portray brand building?
7. What is the significance of reaching the pyramid's summit in the Brand Resonance Model?
8. Describe the concept of brand reinforcement.
9. What is brand revitalization and when is it necessary?
10. Explain the difference between line extension and category extension.

5-mark questions:

1. Analyze how a brand's strength can impact its future growth value using the BAV model.
2. Compare and contrast the BAV model and the Brandz model of brand strength.
3. Apply the Brand Resonance Model to a well-known brand, explaining each level of the pyramid.
4. Examine the challenges in balancing consistency and change in brand reinforcement.
5. Analyze the factors that contribute to the need for brand revitalization.
6. Evaluate the importance of brand knowledge in influencing consumer responses to marketing efforts.
7. Discuss the role of brand associations in building customer inclination to purchase a brand.
8. Analyze the dual nature of brands as presented in the Brand Resonance Model.
9. Examine the relationship between brand equity and a company's marketing strategies.
10. Discuss the potential risks and benefits of brand extensions.

10-mark questions:

1. Evaluate the effectiveness of the Brand Asset Valuator model in measuring brand equity across different industries.
2. Develop a comprehensive brand reinforcement strategy for a struggling brand in a competitive market.
3. Create a brand revitalization plan for a once-popular brand that has lost its market share, detailing specific steps and potential challenges.
4. Critically assess the strengths and limitations of the Brand Resonance Model in understanding and building brand equity.

5. Design a branding strategy for a new product launch, considering the various options for leveraging existing brand elements and creating new ones.
6. Evaluate the long-term implications of frequent brand extensions on a parent brand's equity.
7. Develop a framework for measuring and monitoring customer-based brand equity over time.
8. Critically analyze the role of emotional and rational factors in building strong brand equity, using examples to support your argument.
9. Propose and justify a new model for brand equity that addresses potential shortcomings in existing models.
10. Evaluate the impact of digital transformation on brand equity management and propose strategies for brands to adapt in the digital age.

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