Marketing

Subject code 18K4Co08

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UNIT – 1

INTRODUCTION

1.1 What is Market?

"Marketing is the performance of business activities that direct the flow of goods and services from producer to consumer or user". -- by the American Marketing Association.

1.2 Definitions of Marketing

Philip Kotler defined Marketing as "Satisfying needs and wants through an exchange process" and a decade later defines it as "a social and managerial process by which individuals and groups obtain what they want and need through creating, offering and exchanging products of value with others"

Marketing is, more than any other business function, deals with customers. Creating customer value and satisfaction are the heart of modern marketing thinking and practice. Marketing is the delivery of customer satisfaction at a profit. The two-fold goal of marketing is to attract new customers by promising superior value and to keep current customers by delivering satisfaction. **– Philip Kotler.**

1.3 Classification of Market

Market can be classified on different basis. There are different types of markets on the basis of geographical area, time, business volume, nature of products, consumption, competition, seller's situation, nature of transaction etc.

(a) Classification of Market on the Basis of Geographical Area:

Market can be classified in local, regional, national and international level on the basis of geographical area

(i) **Local Market:**The market limited to a certain place of a country is called local market. This type of market locates in certain place of city or any area and supplies need and wants of the local people. Perishable consumer products such as milk, vegetables, fruits, etc are sold and bought in local markets.

(ii) **Regional Market:** The market which is not limited to a certain place but expanded in regional level is called regional market. Mostly, food grains such as wheat, paddy, maize, millet, sugar, oil etc are bought and sold in such regional market.

(iii) **National Market:** If buying and selling of some products is done in the whole nation, this is called national market. The products such as clothes, steel, cement, iron, tea, coffee, soap, cigarette, etc are bought and sold nationwide.

(iv) **International (or) Global Market:**Market cannot be limited to any geographical border of any country. If the goods produced in a country are sold in different countries, this is called international market. today, not any country of the world is self-dependent. All the countries are exporting the goods produced in other countries. The market of some goods such as gold, silver, tea, clothes, machines and machinery, medicines etc. has spread the world over.

(b) Classification of Market onthe Basis of Time:

On the basis of time, market can be divided in very short-term, short-term, long term and very long-term market.

(i) **Very Short-term Market:** The market where shortly perishable goods are sold is called very short-term market. The market of milk, fish, meat, fruits and other perishable goods is called very short-term market. The price of short goods is determined according to the pressure of demand. When the demand for such goods is high, price rises and when demand declines, the price falls down. If the supply is low and the demand is high, the price rises higher. In such market supply cannot be increased.

(ii) **Short-term Market:** In the short-term market, supply of products can be increased using the maximum capacity of installed machines of the firm. The goods cannot be produced according to the demand for adjustment of supply by expanding or changing the existing machines and equipment. In short-term market, price of the goods is determined on the basis of interaction between demand and supply. But, as the supply cannot meet the demand, demand affects price determination in short-term market.

(iii) **Long-term Market:** In long-term market, adequate time can be found for supply of products according to demand. New machines and equipment can be installed for additional production to meet demand. As supply can be decreased or increased according to demand situation, price is determined by interaction between demand and supply in long-term market. Market of durable products is long-term market.

(iv) **Very Long-term Market or Secular Market:** In secular market, produces can get adequate time to use new technology in production process and bring new changes in products. They become able to produce and supply goods according to changed needs, interest, fashion etc. of customers. Market research becomes helpful in doing so.

(c) Classification of Market on the Basis of Volume of Business

On the basis of volume of business, type and size, market can be classified in wholesale market and retail market.

(i) **Wholesale Market:** If a large quantity of products is purchased from producers and sold to different retailers, this is called wholesale market. In wholesale market, the products are not sold directly to ultimate consumers. But, if consumers want to buy in large quantity, they can buy from wholesaler.

(ii) **Retail Market:** The market that sells small quantity of products directly to ultimate consumers is called retail market.

(d) Classification of Market onthe Basis of Nature of Product

On the basis of nature of product, market can be classified in two types as follows:

(i) **Commodity Market:** The market where consumer and industrial commodities like clothes, rice, machines, equipment, tea, soap, fruits, vegetables etc. are bought or sold is called commodity market. In some market only certain special commodities are bought and sold and in some other different consumer commodities are bought and sold.

(ii) **Financial Market:** The market and financial instruments is called financial market. In such market, money, shares, debentures, treasury bills, commercial papers, security exchanges, loan giving or taking etc are dealt. Dealing of short-term fund is called money market and dealing of long-term fund is called capital market.

(e) Classification of Market onthe Basis of Consumption

On the basis of consumption of products, market can be divided as follows:

(i) **Consumer Market:** The market of products, which the people buy for consumption is called consumer market. The customers buy consumer goods, luxury goods etc. for daily consumption or meeting their daily needs from such market.

(ii) **Industrial Market:** Generally, raw materials, machines and equipment, machine parts are dealt in industrial market. Domestic consumer goods are produced using them.

(f) Classification of Market onthe Basis of Competition

On the basis of competition, market can be classified into monopoly market, perfect market and imperfect market.

(i) **Monopoly Market:** If there is full control of producer over market, then such market is called monopoly market. In such market, the producer determines price of his products in his own will. In such market, only one producer or seller controls market. In practice, the producer or seller can supply products or achieve monopoly on price only in small or limited area, but in wide area it becomes impossible.

(ii) **Perfect Market:** The market where the number of buyers and sellers is large, homogeneous of products are bought and sold, same price of similar type products is determined from free interaction between demand and supply is called perfect market. Perfect competition takes between consumers and producers or buyers and sellers, but in practice perfect market can be rarely found.

(iii) **Imperfect market:**The market where there is no perfect competition between buyers and seller is called imperfect market. In this type of market, customers are affected by product discrimination. Post-sale services, packaging, price, nearness of market, credit facility, discount etc make product discrimination. Customers can buy same types of products from different sellers according to their desires and comfort. In practice, mostly products are bought and sold in imperfect market.

(g) Classification of Market onthe Basis of Seller's Position

On the basis of seller's position, market can be divided into primary market, secondary market and terminal market.

(i) **Primary Market:** In primary market, primary goods are bought and sold. Producers sell primary goods such as agricultural products, food grains, livestock, raw materials etc. to wholesalers or commission agents in such market.

(ii) **Secondary Market:** Primary goods are bought from producers and sold to retailers in secondary market. Generally, wholesalers buy secondary products and sell them to retailers.

(iii) **Terminal Market:** In this type of market, retailers sell products to final consumers.

(h) Classification of Market onthe Basis of Nature of Transaction

On the basis of nature of transaction, market can be classified into spot market and future market.

(i) **Spot Market:** The market where delivery or handling over of the good is made immediately after sales is called spot market. In such market, price of product is paid immediately at the spot and ownership of the product is transferred to buyer at the same time.

(ii) **Future Market:** In this type of market contract is signed for sale of products in future, but no delivery of product is made. In this market, buyer and seller sign a contract for buying and selling products at certain rate of price or on condition to determine the price in future.

1.4 Nature of Marketing

- **Managerial Function:** Marketing is all about successfully managing the product, place, price and promotion of business to generate revenue.

- **Human Activity:** It satisfies the never-ending needs and desires of human beings.
- **Economic Function:** The crucial second marketing objective is to earn a profit.
- **Both Art and Science:** Creating demand for the product among consumers is an art and understanding human behaviour, and psychology is a science.

- **Customer-Centric:** Marketing strategies are framed with the motive of customer acquisition.
- **Consumer-Oriented:** It practices market research and surveys to know about consumer's taste and expectations.
- **Goal-Oriented:** It aims at accomplishing the seller's profitability goals and buyer's purchasing goals.
- **Interactive Activity:** Marketing is all about exchanging ideas and information among buyers and sellers.
- **Dynamic Process:** Marketing practice keeps on changing from time to time to improve its effectiveness.
- **Creates Utility:** It establishes utility to the consumer through four different means; form (kind of product or service), time (whenever needed), place (availability) and possession (ownership).

1.5 Objectives of Marketing

- **Customer Satisfaction:** The primary motive of a company is to satisfy the needs of customers.
- **Ensure Profitability:** Every business is run for profit, and so goes for marketing.
- **Building Organizational Goodwill:** It portrays the product and the company's positive image in front of the customers.

- **Create Demand:** It works for generating the demand for products and services among the customers.
- **Increase Sales Volume:** It is a rigorous process of increasing the sale of product or service to generate revenue.
- **Enhance Product Quality:** Marketing initiates customer feedback and reviews to implement them for product enhancement.
- **Create Time and Place Utility:** It makes sure that the product or service is available to the consumer whenever and wherever they need it.

1.6 Functions of Marketing

Marketing is not just selling off goods and services to the customers; it means a lot more than that. It starts with the study of the potential market, to product development, to market share capturing, to maintain cordial relations with the customers.

(a) **Market Research:** A complete research on competitors, consumer expectations and demand are done before launching a product into the market.

(b) **Market Planning:** A proper plan is designed based on the target customers, market share to be captured and the level of production possible.

(c) **Product Design and Development:** Based on the research data, the product or service design is created.

(d) **Buying and Assembling:** Buying of raw material and assembling of parts is done to create a product or service.

(e) **Product Standardisation:** The product is graded as per its quality and the quality of its raw materials.

(f) **Packaging and Labelling:** To make the product more attractive and self-informative, it is packed and labelled listing out the ingredients used, product use, manufacturing details, expiry date, etc.

(g) **Branding:** A fascinating brand name is given to the product to differentiate it from the other similar products in the market.

(h) **Pricing of the Product:** The product is priced moderately keeping in mind the value it creates for the customer and cost of production.

(i) **Promotion of the Product:** Next step is to make people aware of the product or service through advertisements.

(j) **Warehousing and Storage:** The goods are generally produced in bulks and therefore needs to be stored in warehouses before being sold in the market in small quantities.

(k) **Selling and Distribution:** To reach out to the consumers spread over a vast geographical area, selling and distribution channels are to be selected wisely.

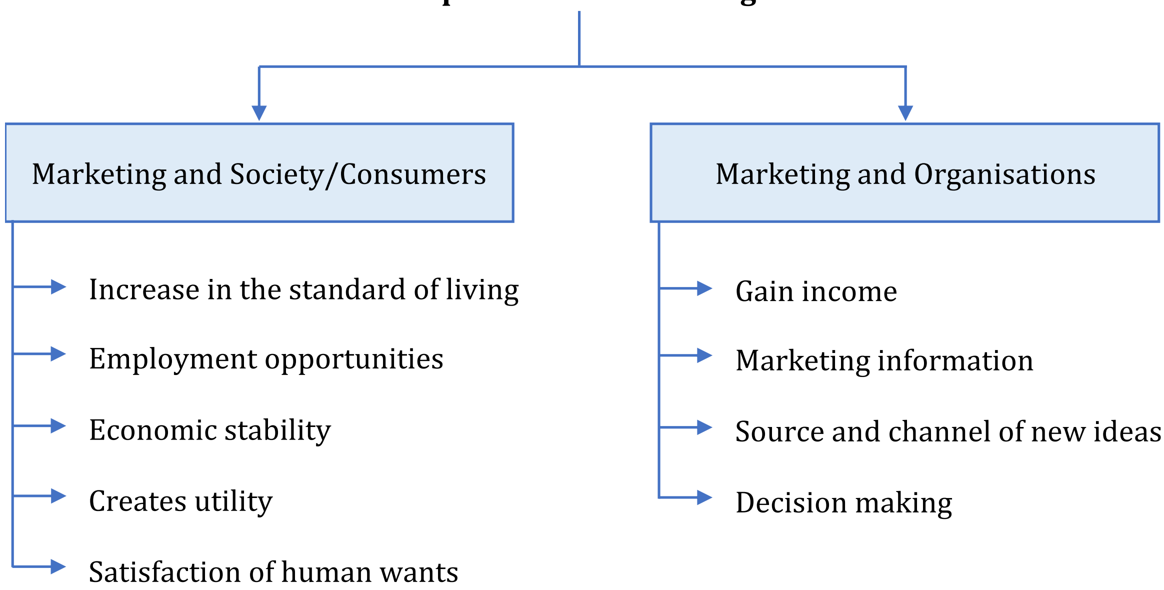
(l) **Transportation:** Transportation means are decided for transfer of the goods from the manufacturing units to the wholesalers, retailers and consumers.

(m) **Customer Support Service:** The marketing team remain in contact with the customers even after selling the product or service to know the customer's experience, and the satisfaction derived.

1.7 Importance of Marketing

The importance of marketing are as follows:

Importance of Marketing



(1) Marketing and Society/Consumers

(a) **Increase in the standard of living:** Modern society is divided into three classes (i) Rich Class; (ii) Middle Class; and (iii) Poor class. Standard of living of society is mainly depends on purchasing power of these classes. Better standard of living needs, fulfilment of various wants, which is possible with the help of marketing.

(b) **Employment opportunities:** Marketing is a prominent instrument of employment. This process includes various activities such as buying, selling warehousing, transportation, grading, finance, risk undertaking, etc., which provides employment to the number of persons.

(c) **Economic stability:** Marketing plays a vital role, in the economic stability of a country. Economic growth depends on economic stability. Economic stability depends on balance between production and consumption, i.e., demand and supply. To maintain balance in production and consumption marketing is necessary. Marketing maintains this balance and stabilizes the economy.

(d) **Creates utility:** Importance of marketing, marketing is an economic activity. It creates ownership, place and time utility in goods and services. Marketing creates demand. Various activities of marketing create utility. E.g., Exchange of goods offered, ownership, time utility and place utility is created due to warehousing and transportation. Thus, marketing provides value to the goods and services. It also provides goods at the right time at right place and at reasonable price.

(e) **Satisfaction of human wants:** Importance of marketing, marketing plays a significant role in the distribution of goods and services to the consumer satisfaction of their wants. It is the activity which transfers goods and service from the place of consumption to satisfy the needs of society. Thus, marketing has great importance in providing goods necessary to fulfil human needs.

(2) Marketing and Organizations

(a) **Gain income:** Importance of marketing, organizational profits depend on its income, while the future of organization depends on its profit. Importance of marketing, organizational profits based on its income, while the future of organization depends on its profit. Organizations can earn the profit through various activities. Marketing provides 'Market' to goods and services. The function of marketing develops, wants and fulfils the same. Organizations can spend on production and marketing through the income earned.

(b) **Marketing information:** Importance of marketing, modern economics is dynamic in nature. There are tremendous and rapid changes in likes, dislikes, price and demand. An entrepreneur has to take decisions according to changed environment. Entrepreneurs have to search new products, new customers, new market, new process of production and so on. Producer can collect all this information from various marketing sources and can introduce changes in their production, and can survive in the competition.

(c) **Source and channel of new ideas:** Importance of marketing, Marketing is a significant and complex aspect of the modern dynamic economy. Dynamic changes constantly occur in the field of marketing, which is very essential for providing sources and channels of new ideas and guiding policies.

(d) **Decision making:** Importance of marketing, Producers produce goods and services. He has to take major decision like what to produce? Where to produce? How much to produce? All these decisions directly affect the profit. These decisions are major and hence are difficult to take. Marketing helps producers to take the proper decisions, at the right time. Hence, "Success" of business and proper decisions is interdependent, which is possible due to marketing.

1.8 Market Segmentation

1.8.1 What Is Market Segmentation?

Market segmentation is a marketing term that refers to aggregating prospective buyers into groups or segments with common needs and who respond similarly to a marketing action. Market segmentation enables companies to target different categories of consumers who perceive the full value of certain products and services differently from one another.

1.8.2 Advantages of Market Segmentation

1) It enables the marketer to have better control over the market.
2) It is possible to satisfy the varying needs of the buyers.
3) It makes it possible for the seller to know the response and reaction in each segment.
4) It is also possible for the merchant to take suitable corrective action when he finds that the performance in any segment is not up to his satisfaction.
5) The marketer can adopt the right strategy at the right time. A marketer of shoes, for example, can focus attention on shoes for school going children in the beginning of the academic year.
6) The resources of the business can be utilised more effectively.

7) It also helps the marketer to select the most appropriate promotional tool for each segment.
8) It is also possible to compare the performance of two or more segments.
9) A segment requiring greater attention can be given more weightage.
10) The market segmentation concept enables the marketer to conquer the market more effectively than the total market approach does.

1.8.3 Criteria for Segmentation

(a) **Size of the segment:** The size of the segment should not be too small. if it is too small, it will not be worthwhile for the marketer to make efforts. ex: a publisher of college text books cannot bring out a book for a particular degree course wherein there are hardly 1000 students in a particular University area.

(b) **Measurement of behavioural patterns:** The segment should indicate the changes in the behavioural patterns of the buyers. ex. Most two-wheeler manufacturers these days, come out with a number of models. Each model is being updated in tune with the needs of the market. Hero Honda introduce the 'CBZ" model.

(c) **Accessibility:** Another important condition for segmentation is that it should be possible for the marketer to approach or reach each segment with the existing channels and media. ex. products brough out exclusively for women may be advertised in magazines intended for women. women era.

(d) **Representative nature:** Each segment must have its own identity. ex: 'Saravana Bhavan' group of hotels, Chennai, has its own 'Fast Food' units, and bakery. It also sells its own brand of ice creams, sweets and savouries.

(e) **Demand:** The need for creating a segment will arise only if such a segment exhibits demand by itself. ex: 'The Hindu" brings out the 'Sports Star' to satisfy the sports lovers.

(f) **Response:** It is important that each segment responds differently to the marketing strategies of the seller. ex: edible oil is sold in different quantities.

1.8.4 Factors Determining Market Segmentation

(a) **Resources available:** Market segmentation involves heavy financial commitment. unless the business has adequate financial resources at its disposal, it will not be able to undertake such a task.

(b) **Nature of the Product:** The nature of the product must be such that it offers scope for segmentation. products like biscuits, chocolates, soaps, etc., are heterogeneous in nature. That is product differentiation is possible in the case of these products. certain products like salt, sugar, kerosene etc., ae homogeneous in nature. there is no scope for product differentiation.

(c) **Nature of the market:** The market should be of a diverse nature. that is the tastes and preferences of the buyers must vary. If all the buyers react in the same manner to the marketing strategies, there will not be any scope of segmentation.

(d) **Competitors' strategy:** if the competitors have segmented their market, it becomes essential to fall in line with them. it is not possible for a business to survive with a strategy of undifferentiated market, if all the competitors have resorted to a strategy of market differentiation.

(e) **Consideration of the product life cycle:** The decision on segmentation will be very much influenced by the particular stage in which the product exists in its life cycle. if the product is only in its introduction stage, the marketer may not think of segmenting its market.

1.8.5 Basis of Segmentation

(a) **Undifferentiated Market:** This option is used when the nature of the product is such that it does not allow any scope for segmentation. In such a case, the marketer will adopt the total market approach. This happens in the case of such products as sugar, kerosene, salt etc. where product differentiation is difficult.

(b) **Differentiated Market:** When it is possible to bring out variations in the product, the marketer may go in for segmentation. the products that offer scope for differentiation are; Soap, Tooth paste, Face powder, Face cream, shampoo

(c) **Concentrated Market:** In this case, the marketer does not cater to the entire market. He focuses his attention on a particular segment only. for example: the manufacturer of 'Ford Ikon' cares targets only the elite group, i.e., their cars are meant only for the VIPs.

1.8.6 Methods of Market Segmentation

Market segmentation is an increasingly important part of a strong marketing strategy and can make all the difference for companies in competitive market landscapes, such as e-commerce.

1.8.7 Types of Market Segmentation

(a) Demographic
(b) Psychographic
(c) Geographic
(d) Behavioural
(e) Socio-Economic segmentation:
(f) Product segmentation
(g) Benefit Segmentation
(h) Volume Segmentation.
(i) Marketing Factor Segmentation.

(a) Demographic segmentation:

Demographic segmentation might be the first thing people think of when they hear 'market segmentation'. This is perhaps the most straightforward way of defining customer groups, but it remains powerful. Demographic segmentation looks at identifiable non-character traits such as:

- Age
- Gender
- Level of education
- Religion
- Ethnicity
- Income

(b) Psychographic segmentation:

Psychographic segmentation is focused on your customers' personalities and interests. Here we might look at customers and define them by their:

- Personality traits
- Hobbies
- Life goals
- Values
- Beliefs
- Lifestyles

(c) Geographic segmentation:

By comparison, geographic segmentation is often one of the easiest to identify, grouping customers with regards to their physical location. This can be defined in any number of ways:

- Country
- Region
- City
- Postal code

(d) Behavioural segmentation:

Behavioural segmentation is possibly the most useful of all for e-commerce businesses. As with psychographic segmentation, it requires a little data to be truly effective – but much of this can be gathered via your website itself. Here we group customers with regards to their:

- Spending habits
- Browsing habits
- Interactions with the brand
- Loyalty to brand
- Previous product ratings

(e) Socio Economic Segmentation:

The main criterion here is the ability of the buyer to pay for the goods. the manufacturers of most customer goods strive to satisfy different classes of buyers. They bring out goods for the lower income group, middle income group and also for the higher income group. For ex., people belonging to the lower income category may buy a black and white television set. people in the middle-income category can afford to buy a colour television set. people in the higher income category may prefer the ultimate in colour TVs - a big screen model or a home theatre.

(f) Product segmentation:

When segmentation is done based on product characteristics, it will be called product segmentation. In a departmental store or super market, different kinds of goods are offered for sale. There are a number of segments in such a store each offering a particular type of goods. For ex., product segmentation in a departmental store: provisions, dairy products, snacks, cosmetics, Toys, Garments, Medicines, Vessels.

(g) Benefits segmentation:

Segmentation of the market can also be done based on the benefits sought by the buyers out of a particular product. All the buyers do not look for the same benefit in a product. The benefits sought by the buyers buying a motorcycle, for example: Every motorcycle company tries to satisfy the above needs of the buyers by introducing different models of motorcycles incorporating one or more of these features.

(h) Volume Segmentation:

Here, segmentation of market is done based on the volume of purchase made by the buyers. Buyers may be classified as bulk or large quantity buyers, medium buyers and small or single unit buyers based on the quantity of goods they buy.Bulk buyers always get more concessions than medium buyers. small or single unit buyers may have to pay the maximum retail price.

(i) Marketing Factor segmentation:

The behavioural patterns of buyers change with a change in the marketing activities of a business. The marketing activities, that bring about change in the responses of buyers. A change in the product packing may attract some buyers. A discount or free gift offer may prompt many buyers to buy. marketers do capitalise on such activities to enhance sales.

1.9 Online Marketing

1.9.1 Definition

Online marketing is a method that uses the internet to promote or transmit a message about a company's product and services to the potential buyers or target audience.

1.9.2 Meaning

Online Marketing is the process of creating, delivering & communicating the value of a product or service and making it relevant to customers so that they are compelled to consider buying a product or a service when they encounter your brand online.

1.9.3 Advantages of Online Marketing

- A company can grow faster and reach the target audience through a broader range of marketing elements.
- It has a competitive advantage over traditional means of marketing.
- It is easy to trace the number of unique visitors, average session duration, click on an ad, and so forth.
- Contextual placement is one of the important features of online marketing wherein the marketers can buy ads on the websites which akin to their own products and services.
- Marketers can also place the ads on the basis of the keywords typed by the customers on Google and other search engines like Bing and Yahoo, to reach the target audience.

1.9.4 Disadvantages of Online Marketing

- Fake clicks on the ads done by software-powered websites.
- Hacking of the website is possible, which results in the loss of control over the messages.
- Lack of tangibility

1.9.5 Importance of Online Marketing

(a) **More Customers:** The chances of a consumer learning that your business exists and becoming a customer, without some kind of online medium—whether that's a website, review site, social media platform, or search engine—are slim to none. In other words, online platforms are now inextricable from the customer journey, no matter the business.

(b) **Better Visibility:** Online marketing tactics like search engine optimization (SEO) enable your business to be more easily found on the channels your customers are using most. People are more likely to investigate the options that appear first in search results. So, as you gain visibility online, it's more likely that they will check out, interact with, and purchase from you.

(c) **Improved Local Presence:** When consumers perform a Google search for a product or service, Google uses their IP address to detect their location so it can provide local results. Proper online marketing tactics will signal to Google where you are and Google can then expose your business to more people in your area—the people most able and most likely to become customers.

(d) **Increased Authority:** Online marketing is important not just because it helps you to get found online, but also because it can change the way your business is perceived by potential customers. For example, ranking high in search engine results pages, along with respected industry authorities, instantly boosts your business' credibility. In other words, this is one of the first steps toward becoming a respected local or industry authority and a go-to provider.

(e) **Higher Quality Website Traffic:** Various marketing practices including local SEO, social media marketing, and paid advertising involve what's called targeting. Targeting refers to narrowing the focus of your efforts to attract only the people who'll be most interested in what your company does or offers. If you have a website, such targeted efforts will draw high-quality traffic to that site. There you'll likely see more engagement and more sales than you would if your efforts were broad and not tailored to any particular audience.

(f) **In-Person Visitors:** The same goes for in-store visits. When you zero in on those most likely to become your customers and speak directly to them, you'll also notice an increase in visits to your physical location and, ultimately, sales.

(g) **Long-Lasting Relationships:** Marketing boosts sales, which keeps your small business afloat. However, online marketing also does something more, which has a greater long-term impact. It enables you to build relationships. Building relationships with customers earns you repeat business. Your customers will be loyal to your brand. As a result, they will be happy to refer your business to others, which, as you probably guessed, leads to more sales and loyal customers. It’s a never-ending cycle of goodness, which many businesses are now seeing for themselves

1.9.6 Characteristics of Online Marketing

1) Online Marketing is a process consisting of inter-related steps: Setting corporate and business unit strategy, framing the market opportunity, formulating the marketing strategy, designing the customer’s expectations, developing the marketing programme and evaluating the results of the same.
2) Online marketing makes use of the web and related digital technologies. These technologies consist of the internet media and digital media such as wireless, cable, satellite.
3) The global online marketing aims at maintaining an everlasting relationship with customers.
4) Exchange concept is the core of online marketing. The effectiveness of online marketing programme depends upon the overall impact of exchange. Marketing firms must be sensitive to the cross-channel effects of online and offline marketing programmes.
5) Online marketing aims at securing the goals of both the seller and the buyer. Only when the interests of both the parties are well served, exchange becomes complete.

1.9.7 Challenges to the Online Buying

1) The online channel offers a great platform for retailers to demonstrate leadership and capitalize on them. Retailers still have reservations about posting negative customer reviews for the products on the website.
2) Customers still use **‘Word of mouth publicity’** as primary vehicle while buying.

3) Shop. org /BCG study has identified some major hurdles that retailers should overcome. These include limitations, scaling international operations, engineering comprehensive convenience, developing low-cost distribution and resolving perceived channel conflicts.
4) Product physicality and the influence of others are some important considerations. Fashion related products which are connected with boosting the self-image concept necessitate the possibility of trying the product and observing the reactions of others.
5) The elements of atmospherics also pose a challenge. Potential customers might omit certain goods. They may not recognize the want for them unless they are influenced by certain stimuli like odour, lighting, colour, music etc.
6) The most important hurdle is the efficient management of logistics. Here, the role of courier service is very important. For example, jaldi.com has tied up with Gatti to take care of their delivery logistics.

1.9.8 Online Marketing Channels:

(a) **Creating an electronic storefront:** Several companies have set up a home page on the internet. These home pages serve as electronic storefronts. They offer a wide variety of information to users about the company and its products or services.

(b) **Forums:** Newsgroups and bulletin hoards: A company may participate in forums. Forums are the discussion groups located on commercial online services. They may operate a conference room for real-time chatting or a library. A forum's home page will show icons for conference rooms, libraries, news flashes etc. Internet users can participate in news groups without subscribing to them. Bulletin board systems are specialized online services that focus a specific topic or group

(c) **Advertisements online:** Companies can place advertisements on commercial online service.

(d) **Using e-mail:** Prospects and customers may be encouraged to send queries, suggestions and complaints through its e-mail address. The company may collect the names of prospects and customers and send information to their e-mail address.

UNIT – 2

PRODUCT

2.1 Product Planning and Development

2.1.1 Product

A product may be defined as 'anything that is tangible, useful and can be purchased for a price'. The goal of every merchant is to make profits by offering goods and services that satisfy the needs of the society. A product, that does not satisfy the needs of the buyers, cannot be sold in the market even if the marketer puts in maximum promotional efforts.

2.1.2 Product Planning

Product planning is the process of determining that line of products which can secure maximum net realization from the intended markets. It is an "act of marking out and supervising the search, screening, development, and commercialization of new products; the modification of existing lines; and the discontinuance of marginal or unprofitable items". - Carl H. Titgen.

2.1.3 Objectives of Product Planning

Main Objectives:

(a) **To meet the customer needs:**Successful marketing lies in identifying and meeting customer needs. Product planning is a technique which enables identification and meeting of customer needs through working with the customers and securing their feedback. This makes possible delivering customer satisfaction.

(b) **To increase the sales:**Product planning enables a company to manufacture appropriate products which satisfy customer expectations and thereby increase sales.

(c) **To optimally utilize resources:** Every company has limited resources in terms of money, material and human resources. Product planning enables the company to make the best use of such limited resources by channelizing them towards the most appropriate products.

(d) **To analyse the company's strengths and weaknesses:**Product planning analyses the strengths and weaknesses of the company in the light of the market requirements. This enables the company to consolidate on its strengths and overcome its weaknesses.

(e) **Survival of the firm:** Product planning enables a company to survive in a highly competitive market through its components such as product innovation, renovation and elimination.

(f) **Commercial success:**Product planning enables a company to achieve commercial success by coordinating the activities of all the specialists in the company who contribute to the product's performance in the marketplace. This is done through product development teams, marketing executives, quality managers and sales representatives.

(g) **Achieving the goals of marketing management:**Product management and marketing management share similar objectives, which are to maximize revenue and profit by meeting customer needs. Product managers work closely with marketing managers, using research from the marketplace to plan and prioritize product development programs, and briefing marketing teams on the benefits of new products so that they can develop effective customer communications.

(h) **To plan effectively:**A key objective for product management is planning and developing the specifications for a range of products or a product portfolio that meets the long-term strategic plan. The strategic plan may require development of new products to meet the needs of new market sectors or improvements and extensions to the current product range to increase share in the existing sectors.

2.2 Product Planning Process

Some of the major process of product planning are as follows: 1. Exploration 2. Screening 3. Detailed Business Analysis 4. Development 5. Test Marketing 6. Commercialization.

(1) Exploration:

Product planning begins with the generation and formulation, of ideas or concepts for new products. The product ideas may come from sales persons who are in constant touch with the needs and desires of consumers.

Middlemen, research and development department, trade and technical journals, consumers, trade associations, chambers of commerce, government agencies, research laboratories and executives can be other fruitful sources of product ideas.

New ideas may also emerge from individual innovators, suggestion schemes, marketing research, cost studies, service organisations, etc. At this stage, the products of competitors, institutes and allied products should also be considered.

(2) Screening:

This stage involves a preliminary comparison and evaluation of product ideas to select the most promising idea which warrants further consideration. A large number of ideas may be available. It is necessary to eliminate the ideas which have no potential. Careful screening helps to avoid wastage of time and resources in impracticable or uneconomical ideas.

A clear understanding of company objectives and facilities is essential for successful screening. This will help to reject the ideas which are inconsistent with the strategy and resources of the enterprise.

In recent years, leading companies have developed specific criteria for screening. Such criteria consist of:

(a) profitability requirements over a period of time;

(b) annual value of production;

(c) unit profit margin;

(d) new capital required;

(e) use of existing distribution network, etc.

(3) Detailed Business Analysis:

Those ideas and concepts which survive the screening stage are put to rigorous economic evaluation. The technical and economic factors involved in the ideas are analysed in sufficient detail to judge the commercial viability and technical feasibility. A statement of expected costs, sales and profits over a period of time is prepared. Business analysis may also involve some preliminary testing and analytical studies which is known as concept testing.

Business analysis is made to answer the following questions:

(a) Is the product idea technically feasible?

(b) Is there an adequate market demand?

(c) Is it necessary to obtain patent right?

(d) What is the raw material position?

(e) Will machinery be imported?

(f) Are the production facilities suitable?

(g) How much will it cost to produce and sell?

(4) Development:

At this stage, a design or specification of the product is prepared. The product idea is given a practical shape in the form of a working model or prototype. The idea on paper is converted into a physical product. The prototype is tested in the laboratory to ensure that it meets all technical specifications.

(5) Test Marketing:

A sample of the product is then tested in a selected market to find but the reactions or responses of consumers. The working model or prototype is produced in a limited quantity and it is tested in the market before starting full scale production.

On the basis of the feedback from consumers, necessary improvements (redesigning) arc made in the product. Test marketing is a vital phase of product development as it helps to “tie up the loose ends” before launching the product in the market.

(6) Commercialization:

In this final stage, the product is actually introduced in the market on a full scale. The pricing, channels and promotional methods are finalised. The product is fully integrated into the company’s normal operations and it no longer remains a new product.

2.3 Essential Elements of Product Planning

(a) **Research before Production:** Before taking a decision to produce a new item, market research should be carried out extensively. The company must know beforehand what should be produced and for whom. It should decide the characteristics of the product that can meet the requirements of the people.

(b) **Possibility of Production Method:** What production method would be followed and is practicable to develop a product exactly the way the customer wants? This possibility should also be examined before taking a decision of producing a new product.

(c) **Modification in Existing Lines:** The existing production lines should also be diagnosed whether they can be improved to meet the new requirements of the consumer or a new product is to be developed. If it is possible to modify the existing line, then, to what extent.

(d) **Elimination of the Product:**Product planning involves the decision regarding the elimination of the unprofitable product lines so that the resources may be used to some other product profitably.

(e) **Improvement in the Product:**Product planning includes decision regarding the improvement of the existing product in terms of quality, packing etc., taking in view the competitors' strategies in the market.

(f) **Price Determination:**Determining the price of the product is the main element of the planning. Would the prices be fixed on the basis of the prices fixed by the competitors for their products or on the basis of its cost of production or on the basis of the forces of its demand and supply in the market?

(g) **Commercialization of Product:**Product planning includes products commercialization and sale of the product which can earn a good profit to the company on the one hand and may satisfy the needs of the consumers on the other hand. It also involves attractive introduction of the product in the market.

(h) **Coordination:**Product planning also attempts to coordinate the various products and their efforts so that the company can maintain or rather improve its competitive position. It can be done by taking timely decisions for marketing conditions from time to time.

2.4 Characteristics of Product Planning:

(a) **Product Investigation:**Before preparing the product for marketing, marketing research is carried out to know the desired need of the consumers so that product's size, colour, design, features, package, price etc. are according to their requirements and only then the product satisfying all these choices is to be produced.

(b) **Change in Commodity According to Demand:**If the existing product needs certain modifications according to the demand, then collection of necessary facts and making changes in the product accordingly are also part of product planning.

(c) **To Know the Practical Aspect of the Product:**After knowing the product features desired by the consumers, it is important to know whether it is practicable to develop a product exactly what the consumers want.

(d) **Discontinuance of Product:**Product Planning involves the decision regarding the elimination of the unprofitable product or product lines so that the resources may be used to some other product profitably.

2.5 Components of Product Planning Process:

(a) Product innovation

(b) Product diversification

(c) Product standardization

(d) Product customization

(e) Product elimination

(a) Production Innovation:

In a general way innovation is to find out something new, try new methods of doing the same thing or being creative. In marketing also innovation means the same, but in marketing the meaning of innovation is slightly extended. In Latin the word innovates or innovation means to change.

(b) Product Diversification:

Diversification also means expansion of the business by adding new products to the existing product mix. Therefore, only an existing company can diversify.

"Diversification is a policy or management philosophy of operating a company so that its business and profits come from a number of sources usually from diverse products that differ in market or production characteristics". – Bailey L.G

There are different types of diversification:

(i) Horizontal Diversification:

This means adding new products to the existing product mix of a company and the new products are unrelated to the existing products. The intention of such a diversification is to take the benefit of selling the new products also to the existing customers with whom the company has a good relationship.

Example – A Company successfully selling ready-to-wear garments may start manufacturing and selling designer jewellery to the same customers. The company intends to sell the jewellery easily as it already has a good relationship with its existing customers.

(ii) Vertical Diversification:

This means a company adding a new line of business which is either an upstream activity or a downstream activity to its existing business in the production cycle. It may take the form of backward diversification.

Example – A milk processing dairy starting an ice-cream making unit is forward diversification. This is because; previously the milk dairy would sell its milk to ice-cream making units. After the diversification it can use the milk to make ice-cream in its own unit.

(iii) Concentric Diversification:

This means a company adding new products with the aim of fully utilizing the potential of the existing technologies and marketing system. Example – A bakery starts producing pastries or dough products.

(iv) Conglomerate Diversification:

This means a company diversifies into new products or services that have no technological or commercial synergies with current products but that may appeal to new groups of customers. The conglomerate diversification has very little relationship with the company's current business.

(c) Product Standardization:

This means establishment of certain standards based on a few inherent attitudes of the goods such as nutritional content, size, shape, colour, composition, quality, taste, performance etc. A standard itself is a measure of the above attributes. The products are compared and conformed to the standards.

"A standard is a measure that is generally accepted as having a fixed value. The measure is in units of intrinsic qualities or characteristics of a product or service". – Duddy and Revzan

(d) Product Customization:

Customization means manufacturing products in accordance with the individual tastes and preferences of different customers and at the same time maintain large scale production. This technique involves maintaining the basic design of the product uniformly but, simultaneously infusing certain changes which enable the products to become suitable to different people.

"Customization is producing goods and services to meet individual customer's needs with near mass production efficiency". – Tseng & Jiao

(e) Product Elimination:

Any product no matter how well it is received by the market, how successful it is commercially, will face a downturn in the long run and become obsolete. A company generally improvises such a product, repositions it an offer it to the market. Beyond a certain point of time, even such strategies do not work and people will stop buying such a product.

Reasons for poor performance of a product are various such as the following:

- (i) Declining profitability
- (ii) Declining sales volume or market share which would be impossible to build up
- (iii) Emergence of new and superior technology
- (iv) The product entering the decline stage of its life cycle.
- (v) Mismatch with the company's present strength or declared mission.

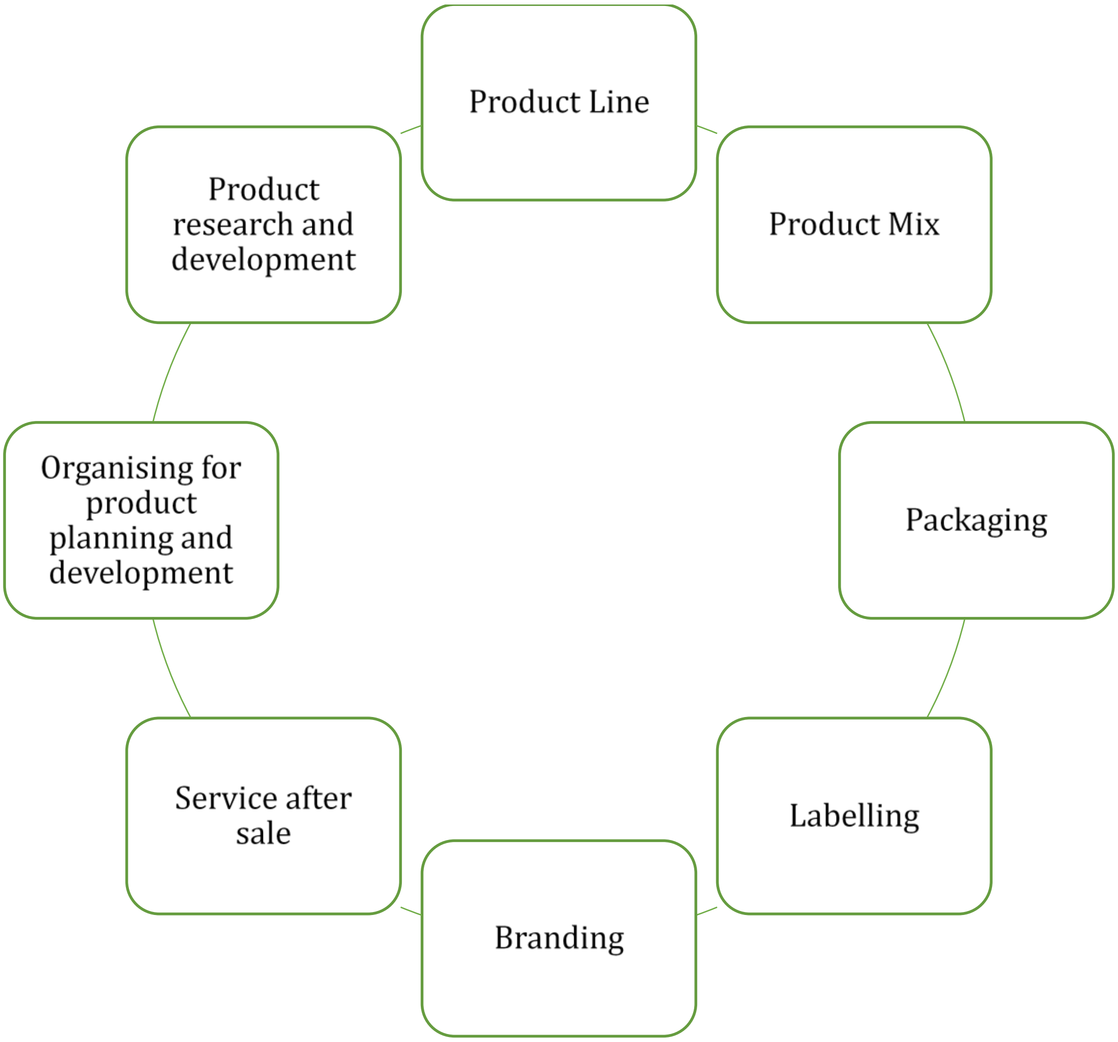
- **Idea Generation:**The first step of product development is Idea Generation. The basic need for the business is to grow by identify-ing new products required which are to be developed considering consumer needs and demands. It is done through research from market sources like consumer's attitudes, changing trends, and competitor policies. Various methods are available for idea gen-eration like – Brain Storming, Delphi Method, or Focus Group.
- **Idea Screening:**The second step is Idea Screening. This stage is concerned with selecting the best and most feasible idea among the ideas generated at the first step. As the resources are limited, it is not possible to convert all the ideas into products. Most promis-ing ideas are shortlisted for the next stage.
- **Concept Development:**At this step, the selected idea is moved into development process. For the selected idea, different product concepts are developed. Out of several product concepts the most suitable concept is selected and introduced to a focus group of customers to understand their reaction.

  Example – InAuto Expos, cars of different concepts are presented. Though these models are not the actual product, they are just to describe the concept say electric, hybrid, sport, fuel efficient, envi-ronment friendly, etc. Today, with 3D printing, concept develop-ment can be seen not on paper or on computer simulation, but the concept can be seen in the physical form. (3D printing itself is an innovation in its own!!)
- **Business Analysis:**During this step, the market strategies are de-veloped to evaluate market size, product demand, growth poten-tial, and profit estimation for initial years. Further, it includes proper promotion of product, selection of distribution channel, budgetary requirements, etc. Business analysis includes-estimation of sales, frequency of purchases, nature of business, production and distri-bution related costs and expenses, and estimation of profit.
- **Product Development:**The concept, further, moves to production of finalised product. From operational point of view, decisions have to be taken whether the product is technically and commercially feasible to produce. Here the research and development depart-ment plays a key role in developing a physical product for com-mercial production.

- **Test Marketing:**Now the product is ready to be launched in the market with a brand name, packaging, and pricing. Before full scale launching, the product is exposed to a carefully chosen sample of the population, called test market. If the product is found accept-able in the test market, the product is ready to be launched in the desired target market.
- **Marketing:**During this phase the product is produced in bulk on a continuous basis and launched across the target market with a proper marketing strategy and plan. This is the stage from which the product diffusion phase begins.

2.6 Factors for Product Planning:

The factors for product planning are as follow:



1. Product Line:

Philip Kotler has defined a product line as, "a group of products within a product class that are closely related, either because they function in a similar manner, are sold to the same customer groups, are marketed through the same types of outlets or fall within a given price range”. For example- a range of detergents, toilet soaps, cosmetics, washing machines, television, cars, etc.

2. Product Mix:

It is the entire range of products offered by the company for sale. This may be either related products or totally different products.

An example for totally related products can be explained with Maruti Udyog Ltd. It has a range of cars, Maruti 800, Gypsy, Maruti Esteem, Maruti van etc.

The product mix of a company can be described as having a certain width, depth and consistency. The width of the product mix refers to how many different product lines are found within the company.

For example- BPL Ltd. produces computers, televisions, refrigerators, telephone answering machines, washing machines, etc. Other examples are Tata, Bajaj, Godrej, etc.

The depth of the product mix refers to the average number of items offered by the company within each product line.

For example- Samsung has different types of televisions, Godrej has eleven varieties of toilet soaps, eight types of toiletries, two types of shaving soaps and liquid detergents.

The consistency of the product mix refers to how closely related the various product lines are in end use, production requirements, distribution channels, or in some other way.

For example- India Today has a number of magazines, namely India Today, Business Today, Computers Today, etc. All these products are closely related, because these products have similar production requirements, distributions channels, marketing techniques, etc.

3.Packaging:

A package is a wrapper or container in which a product is enclosed, encased or sealed. Packaging can be defined as “an act of designing and producing the package for a product”. Now packaging is done according to consumer convenience.

For example- in a super market, goods are packed in different sizes and packages that are easy to open and carry. Another example is Karnataka Soaps Ltd., which markets six toilet soaps in an attractive plastic box which is further encased in a gift box. Similarly Cadbury's chocolates are also available in gift packs.

4. Labelling:

Labelling is the right of consumers in the free market economy, to be informed with accurate and up-to-date information about the content and necessary guidance regarding the use of the product. A significant move in this direction was made by the Union Health Ministry, by amending the Prevention of Food Adulteration (PFA) rules, making it mandatory for all packed food products to carry the special logo, indicating whether it contains any non – vegetarian ingredient.

5. Branding:

Branding is the practice of giving a specified name to a product or group of products from one seller. The brand names of Mercedes Benz, Opel, Maruti, etc., are examples of branding, which help distinguish their product in the market and create individuality. A well promoted brand name has an earned reputation in the market. Examples are Pepsi, Coke, KFC, Mac Donald's, etc.

6. Service after Sale:

Marketing focuses on the idea of satisfying the needs of the customer, as the customer is considered king in marketing terminology. Marketing approach is a customer-oriented approach and in this context, service after sales is very important. The entry of multinationals in the Indian market, has made companies start giving importance to after sales service.

For example- Daewoo Motors has a 24 – hour help line. Kenstar mixer grinder is providing 12 years of free servicing, Aqua Guard is giving yearly service, etc.

7. Organising for Product and Development:

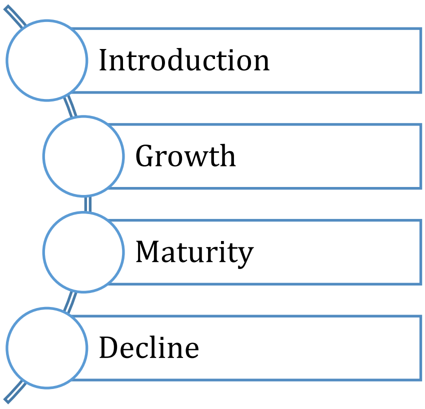
Product planning involves decisions regarding the products or services which the firm is to produce and sell. It involves estimating and analysing potential markets, estimating the sales volume, searching and screening new products, budgeting costs, modification of existing products, and scraping of marginal and unprofitable products.

8. Product Research and Improvement:

The success of product planning and development depends on product research and improvement. In other words, product analysis and research are the study of consumer preference, habits and dealer preferences, habits relating to a given product, the market potentiality for a new product, etc. This analysis will help the firm re – design, improve or modify the product mix, as per the expectations and requirements of customers.

2.7 Product Life Cycle:

Products, like living beings, have a definite life span. The life cycle of human beings is characterised by certain stages like childhood, adolescence, adulthood and old age. The life cycle of a product consists of the following stages:



1. Introduction

The introduction stage is about developing a market for the product and building product awareness. Marketing costs are high at this stage, as it is necessary to reach out to potential customers. This is also the stage where intellectual property rights protection is obtained. Product pricing may be high to recover costs associated with the development stage of the product life cycle, and funding for this stage is typically through investors or lenders.

2.Growth

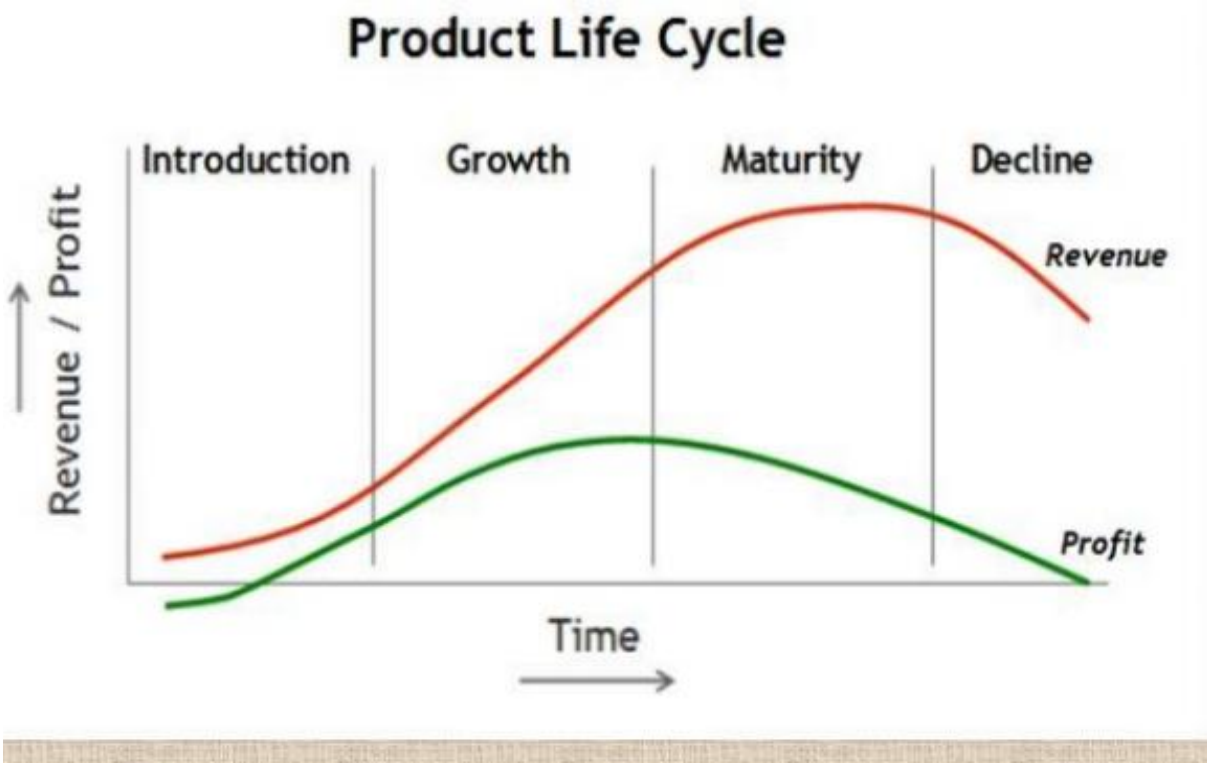
In the growth stage, the product has been accepted by customers, and companies are striving to increase market share. For innovative products there is limited competition at this stage, so pricing can remain at a higher level. Both product demand and profits are increasing, and marketing is aimed at a broad audience. Funding for this stage is generally still through lenders, or through increasing sales revenue.

3.Maturity

At the mature stage, sales will level off. Competition increases, so product features may need to be enhanced to maintain market share. While unit sales are at their highest at this stage, prices tend to decline to stay competitive. Production costs also tend to decline at this stage because of more efficiency in the manufacturing process. Companies usually do not need additional funding at this stage.

4. Decline

The decline stage of the product life cycle is associated with decreasing revenue due to market saturation, high competition, and changing customer needs. Companies at this stage have several options: They can choose to discontinue the product, sell the manufacturing rights to another business that can better compete or maintain the product by adding new features, finding new uses for the product, or tap into new markets through exporting. This is the stage where packaging will often announce "new and improved."



2.8 Brand:

A brand is an identifying symbol, mark, logo, name, word, and/or sentence that companies use to distinguish their product from others. A combination of one or more of those elements can be utilized to create a brand identity. Legal protection given to a brand name is called a trademark.

EX. ‘Khaitan’ fan

2.8.1 Brand Name:

The American Marketing Association defines ‘Brand Name’ as ‘ a part of brand consisting of a word, letter, group of words or letters comprising a name which is intended to identify the goods or servics of a seller or a group of sellers and to differentiate them from those of competitors’.

A Brand name, thus consist of letters or words, which can be pronounced. ex: Liril soap

2.8.2 Brand Mark:

A brand mark is that part of a brand, which appears in the form of a symbol, or design and is recognised only by sight. It is not pronounced like a brand name.

Example: ‘Maharaja’ symbol of Air-India.

2.8.3 Trade Name:

Trade name is the name of the business itself.

Ex: ‘Hindustan Lever’, ‘Godrej’ etc.

In certain cases, the brand name and the trade name may be theone and the same.

Ex: ‘Godrej’ is a trade name and also a brand name for most of its products. i.e. Godrej locks, Godrej refrigerators and so on.

‘Hindustan Lever’ is a trade name. But the products of Hindustan Lever are marketed in different brand name- Liril soap, Lux soap, surf detergent powder etc.

2.8.4 Trade Mark

A registered and legalised brand name or brand mark is what is known as a trade mark.

2.9 Branding:

It is the process by which a brand name or brand mark is selected for a product.

(a) Blanket Brand or Family Brand: A manufacturer may market all his products by a single brand name known as Blanket or family brand.

Ex: All products of 'Aavin' - milk, ghee, butter, flavoured milk, ice-cream etc., are marketed in the name of Aavin.

(b) Multiple or Individual Brands:It is a case where all the products of a business are marketed in different names.

Ex: All products of 'Hindustan Lever' are marketed in different names- Liril soap, Lux soap, Surf detergent powder, Close -up toothpaste, etc.

2.10 Functions of Branding:

(a) It helps to identify a product.
(b) It helps to identify the manufacturer also.
(c) It helps to distinguish between competing products in the market.
(d) It enables the buyers to buy quality goods.
(e) It gives legal protection to the manufacturer.
(f) It helps to eliminate fake or duplicate products.
(g) It helps in packing, labelling, advertisement and in all sales promotional activities.
(h) It is only the brand that helps to create buyer loyalty for goods.

2.11 Advantages of Brand Name:

(i) To the manufacturers:

(a) It gives them legal protection.
(b) It is easy for them to market their products.
(c) It differentiates their products from the competitors' products.
(d) It helps to secure goodwill for their business.
(e) It reduces promotional efforts once the brand becomes popular.

(ii) To the dealers and distributors:

(a) Selling a branded product requires minimum efforts.
(b) The dealer or distributor can easily find out the fast-moving brands.

(c) He can stock the most popular brands of products and avoid buying the unpopular ones.

(d) The risk involved in selling branded goods is much less.

(iii) To the buyer:

(a) The buyer can buy with confidence.

(b) It is not necessary to get the opinions of friends and relatives before buying as the brand itself speaks of the product quality. Thus, buying efforts are considerably reduced.

(c) The buyer is also aware that he pays the right price for the product. Branded goods do not allow any scope for the retailers to manipulate the price.

(d) The buyer can buy a branded product from any shop.

(e) It is only the brand name that facilitates shopping in a departmental store where there is self-service.

2.12 Characteristics of a Good Brand Name:

(1) It should be just appropriate for the product.

Ex: 'All Out' for a mosquito repellent.

(2) It should be easy to remember.

(3) It should be suggestive.

Ex: Fair and Lovely' face cream

(4) It should be easy to pronounce. The market does not consist only of intellectual buyers. There are also illiterates who should find the name easy.

2.13 Brand Loyalty:

'Brand loyalty' is the degree of preference shown by a buyer for a particular brand of product. A buyer with a high level of brand loyalty for a popular will repeatedly buy it. There are various determinants of brand loyalty like quality of the product, price, reputation of the manufacturer and so on. A buyer who is loyal to a particular brand will not easily shift to some other brand of product. it is not uncommon to find people using a particular brand of soap, toothpaste or face powder.

2.14 Product Packing:

The wrapping material around a consumer item that serves to contain, identify, describe, protect, display, promote and otherwise make the product marketable and keep it clean.

2.15 Types of Packaging:

(1) **Primary Packaging:** Packaging may be primary packaging that is required to hold the product like the toothpaste tube that carries the toothpaste.

(2) **Secondary Packaging:** Secondary packaging is the outer wrapper that performs the function of sales promotion by displaying the brand name, features, price, and quantity. Like the outer wrapper of the toothpaste tube.

(3) **Transport Packaging:** Transport packaging is the carton or crates that facilitates transportation and avoids damages in transit.

The types of packaging depend upon the nature of the product. Products like soft drinks, beverages are available in bottles and tetra packed containers, which is the primary package and does not have any secondary packaging. Marketers are designing and creating innovative packages that are unique, attractive and distinct so that it can be easily identifiable from its competitor.

2.16 Characteristics of Packaging:

- Packaging is a science.
- Main objective of packaging is to deliver the product safely at the different stages and to provide the consumers facilities of their usage and assurance for their conservation.
- Packing is that group of planning activities which relates to packing material (containers and wrappers), their manufacture, designing and packing.
- Activities of labelling and branding are automatically included under packaging.
- Packing is a part of packaging.
- It generates consumer choice.
- It introduces the customer with the product.
- To make the consumer introduced with the product.
- It enhances the image of the product.

2.17 Objectives of Product Packaging

(a) **Physical protection:** The objects enclosed in the package may require protection from, among other things, mechanical shock, vibration, electrostatic discharge, compression, temperature.

(b) **Barrier protection:** A barrier from oxygen, water vapour, dust, etc., is often required.

(c) **Containment or agglomeration:** Small objects are typically grouped together in one package for reasons of efficiency. For example, a single box of 1000 pencils require less physical handling than 1000 single pencils.

(d) **Information transmission –** Packages and labels communicate how to use, transport, recycle, or dispose of the package, or product.

(e) **For Marketing purpose:** The packaging and labels can be used by marketers to encourage potential buyers to purchase the product. Package graphic design and physical design have been important and constantly evolving phenomenon for several decades

(f) **Security:** Packaging can play an important role in reducing the security risks of shipment.

(g) **For Convenience:** Packages can have features that add convenience in distribution, handling, stacking, display, sale, opening, reclosing, use, dispensing, reuse, recycling, and ease of disposal.

(h) **Portion control:** Single serving or single dosage packaging has a precise amount of contents to control usage.

2.18 Common Messages on the Package:

1. Flammable liquid
2. Explosives
3. This way up
4. Fragile material
5. Keep away from water.

2.19 Materials used for packaging:

The main packaging materials generally used by the marketers are:

– Paper/fibreboard Plastic
– Glass Steel
– Aluminum Wood packaging, and
– Packaging made from other materials (for example hessian, jute, cork, ceramics and so on).

2.20 Importance of Packaging:

(a) **Rising Standards of Health and Sanitation:**Rising standards of living in the country have resulted in more use of packed goods and this also reduces the chances of adulteration.

(b) **Self Service Outlets:**At present, packaging has occupied a place of silent salesmanship especially at self service outlets.

(c) **Innovational Opportunity:**Various innovative packing ideas especially in the field of medicines, soft drinks, milk etc. has increased the scope of marketing of these products. Now, pasteurized milk come in packs which can be stored for few days even.

(d) **Product Differentiation:**Packaging helps in product differentiation. The colour, size, material etc. of package help the customer to assess the quality of the product. For example, potato wafers of local brand & branded companies give different impact on the minds of the customers, all because of difference in their packing.

2.21 Functions of Packaging:

Following are the main functions performed by packaging:

(a) **Product Identification:**Packaging ensures easy identification of a product. For example, Taj Mahal Tea can be easily identified from a distance due to its blue colour box.

(b) **Product Protection:**The most important function of packaging is to ensure protection of a product from spoilage, leakage, breakage etc. It also ensures effective protection during storage and transportation of a product.

(c) **Facilitating Use of the Product:**Packaging helps the customers to easily handle and use the product. For example, tubes of tooth pastes, bottles of cold drinks etc.

(d) **Product Promotion:**Packaging acts as an important promotional tool. The attractive colour scheme or photograph used in packing helps in attracting the attention of the people and inducing them to purchase the product. Therefore, it plays the role of silent salesman.

2.22 Advantages of Packaging:

1. Advantages of Packaging to Manufacturers:

The important advantages of packaging to manufacturers are:

(a) Packaging is an important selling tool. It is often regarded as a 'silent salesman'.

(b) It is helpful to the manufacturer to keep the product safe.

(c) It minimises the possibility of adulteration of goods by middlemen.

(d) It facilitates convenient storage.

(e) It facilitates distribution.

(f) It is helpful in advertising and sales promotion.

2. Advantages of Packaging to Middlemen:

(a) It is helpful in storage.

(b) It is helpful in handling.

(c) It is helpful in presenting the products before the consumers.

(d) It is helpful in providing necessary information about the product to the consumers.

(e) It is helpful in providing necessary information about the uses of the product.

(f) It is helpful in handling the products.

(g) Packaging economises the space occupied by the products, and thereby, the cost of storage in the shop.

(h) Packaging contributes to good display of goods in the shop.

3. Advantages of Packaging to Consumers:

(a) Goods in packages are more hygienic than others.

(b) Some of the containers used for packaging can be re-used by consumers for other purposes.

(c) Packaging inspires confidence in the minds of the consumers about the quantity or weight of the goods.

(d) Packaging gives confidence to the consumers about the quality of the goods.

(e) Packaging protects the goods from damage, leakage, breakage, spoilage, deterioration in quality, etc

UNIT – 3

PRICING

3.1 What is meant by Pricing?

Price is something which is charged for goods and services. It is the amount of money which the seller receives and buyer pays on the event of selling and buying of product and services. It is one of the elements of marketing mix which brings revenue for the marketer.

Pricing is the most important decision-making process, because this is the factor which brings revenue and profits to the concern. Mistake in pricing decision may adversely affect the firm, its growth, profits and future.

3.2 Advantages

(a) Rela-tion between cost and profit determination is perfectly justified,

(b) Cost-related information available while product pricing is done on this basis is scientific,

(c) Customer demand and preference for the product are considered which again is also a realistic approach, and

(d) Competition in the market is likely to show a declining tendency. It is helpful to society as a whole.

3.3 Disadvantages

(a) Cost of the product, truly speaking, does not play any significant role since price is fixed by demand.

(b) Product pricing is not consumer-oriented.

3.4 Importance of Pricing

(a) **Sources of Revenue:** The consideration for goods and services is an important source of revenue to the business concern.

(b) **Determinant of profitability:** The way and the level where the price is fixed by the firm effect the amount of revenue and hence profitability. A little mistake in pricing a product can turn profit making unit in loss making.

(c) **Market share:** Pricing decision can increase or shrink market share of any company. Almost all of the companies attempt to increase their market share by using different pricing strategies.

(d) **Competitive tool:**Generally, all firms manipulate product prices to meet competition in the market.

(e) **Price regulates demand:** Law of demand states that higher the price lower the demand or vice-versa. AT the time of recession, price reduction plays an important role.

(f) **Price is an important decision input:** While taking decision relating to making or buy, selection of product mix, product addition or deletion, price works as an decision input variable.

(g) **Product Positioning:** Price is acting as a base to position its product and services in the market. Price helps the organization to create a perceived image of the company in the mind of customers. That affects brand, image or position of the company in the market place.

(h) **Tool of public welfare:** Government uses price as tool of public welfare. To bring equality, the government might follow the policy of price discrimination. In price discrimination, government chares different prices of the same product or services from different customers.

3.5 Objectives of Pricing:

Pricing objectives helps the firm to earn profit at all times and retain the market share of the product. The following are the objectives of pricing.

(1) **Profit maximization:** Profit is the reward for the economic activity. Pricing policy of the firm should be able to acquire competitive edge for the firm so that it could earn more profit.

(2) **Survival in competitive market:** In a cut throat competitive world, survival of firm has become important objectives for the short term. Marketing firms try to obtain this objective through their pricing policies and strategies.

(3) **Target return on investment:** Getting reasonable rate of return on investment is another objective of pricing. Pricing policies are manipulated to secure target return on investment.

(4) **Price Stability:** Frequent fluctuations in the general price level create an environment of fear and uncertainty. With the proper implication of price mechanism price stability can be achieved. The firm should watch the interest of the customers and follow ethical marketing practices to maintain price stability.

(5) **Maximization and stabilization of market share:**Growth in the market and maintaining the growth rate is another objective of pricing. Market share is influenced by the price of the product and services of the firm.

(6) **Meeting competition:** Firms can easily defeat its competitors by adopting appropriate pricing policy.

(7) **Product quality:** Every firm aim to offer quality of product in the market and positioned in the mind of the customers.

(8) **Social Justice:** Social justice can also be achieved through pricing.Some customers are economically weak and having poor purchasing power.So, it becomes the social responsibility of the business to watch the interest of the society. Social justice can be achieved through pricing.

3.6 Factors Influencing Pricing

Basically, the prices of products and services are determined by the interplay of five factors, viz., demand and supply conditions, production and associated costs, competition, buyer's bargaining power and the perceived value. The factors affecting pricing decisions are classified into Internal Factors and External Factors.

(i) Internal Factors

1. Marketing Objectives and Pricing Objectives:

Objectives namely – profit objectives (return on sales investment and maximisation of profits), sales objectives (increasing sales volume and increasing market share) and maintenance objectives (price stabilisation and matching the competition) are considered while fixing price of a product. Pricing objectives must not be in conflict with the marketing objectives of the firm.

2. Marketing Mix Strategy

Price of a product or service is highly influenced by other elements of marketing mix. The channels of Distribution, location of warehousing and the transportation involved also influence the price determination. Direct to the customer may enable the manufacturer to charge a lower price, but selling through many intermediaries mean the final price is to be very high to compensate the efforts of intermediaries. Promotion efforts reflect into final price.

3. Costs

Cost of a product is the single most important factor to influence the final price.

4. Organizational considerations:

All the marketers are to make profit. Profit is a function of costs, demand, and revenue. Hence their relationship must be understood by pricing managers.

(ii) External Factors

1. Nature of the market and demand

To understand demand, the supplier or marketer prepares demand curves for the product at different prices and after understanding the price and quantity relationship, the marketer must determine the price elasticity of demand to understand price sensitivity of customers.

2. Competition

There might be pure competition (Many buyers and Sellers Who Have Little Effect on the Price), Monopolistic Competition (Many Buyers and Sellers Who Trade over a Range of Prices), Oligopolistic Competition (Few Sellers Who Are Sensitive to Each

Other's Pricing/ Marketing Strategies), or Pure Monopoly (Single Seller) and in each situation price determination will be different.

3. Other Environmental Factors (economy, resellers, & government):

Economic Conditions, Reseller Needs, Government Actions, Social Concerns do play an important role in price fixation. Inflation in economy is an important factor in pricing. During recessionary conditions, the price level also drops, to maintain the same level of turnover. Resellers needs are important in price determination. Government's concerns about pricing are reflected in laws and regulations. Government regulations include price controls, import duties, quotas and taxes. The volatility in international markets also affects the prices at home.

4. Product Line Differentiation:

For vertically differentiated product lines, companies are able to charge higher prices. Companies often add a high price product into the line to increase the demand for a product with middle-level price. For products in a horizontally differentiated product line tend to be uniform.

5. Willingness to Pay

Willingness to pay is important not only for pricing but equally important for new product development, value audits and competitive strategy.

6. Positioning Strategy

Positioning strategy involves the choice of target market and the creation of a differential advantage. Price is a powerful positioning tool for many people as an indicator of quality, especially in products like drinks, perfume, and services.

7. New Product Launch Strategy

While launching new products, price should be carefully aligned with promotional strategy. High price and high promotion are called a rapid skimming strategy. One High price (skimming) and low price (penetration) may be appropriate in different situations.

- **Penetration Pricing:**Penetration pricing is a pricing strategy where the price of the product is initially kept lower than the competitors' products to gain most of the market share and to trigger word of mouth marketing. Even though this strategy leads to losses initially, it results in many customers shifting to the brand because of the low prices. Once these customers become loyal and the brand achieves a strong market penetration, marketers increase the prices to a point where they get optimum profits without much loss of customers.
- Skimming pricing: Price Skimming is a strategy of setting a relatively high introductory price of the product when the product is new and unique and the market has fewer competitors. The idea is to maximise the profits on early adopters before competitors enter the market and make the product more price sensitive. The strategy got its name from successive skimming of layers of cream or the customer segments as the prices are lowered over time. The initial high price not only helps the business to recover its development.
- **Psychological Pricing:**Psychological pricing refers to the psychological pricing strategies marketers use to make customers buy the products, triggered by emotions rather than logic. Such strategies come in the form of:
    - **Charm Pricing:** This involves reducing the price by a minimal amount (say 1 cent) which makes the customer perceive the price to be less.
    - **Prestige Pricing:** This involves rounding off and setting a higher price for premium and exclusive products as rounded figures are easily processed and are preferred in such cases.
    - **BOGOF:** Buy one, get one free offer trigger the greed among the customers as they get two products for the price of one. This strategy is often used to clear up the stock or increase the volume of sales.
    - **Price Anchoring:** Anchor is the first (higher or lower) price communicated to the customer to make their mind revolve around that price and buy the product the retailer wants.
- **Bundle Pricing:**Bundle pricing involves selling packages or set of goods or services at lower prices than they would have actually cost if sold separately. This is an effective strategy to bundle unsold products or products with less

demand with the high selling products to clear up the shelf space and to increase the profits.

- **Predatory Pricing:**Predatory pricing, or below the cost pricing, is an aggressive pricing strategy of setting the prices low to a point where the offering is not even profitable, just in an attempt to eliminate the competition and get the most market share.

  An ongoing price war among the competitors may lead to one adopting a predatory pricing strategy to make the competitor exit the arena.
- **Cost plus or mark-up pricing:**Under this method first of cost of production is calculated. After calculating total cost of production, a fixed percentage of profit is added in the cost to find out the price of a product or services.
- **Marginal cost of pricing:**This method considers only the variable cost for pricing the product. Marginal cost is the cost of producing one extra unit.
- **Break even pricing:** Breakeven point is the point is the point where the total cost is equal to total sales. It is a point of no profit no loss. This is also known as cost, volume and profit analysis.
- **Segmenting pricing:**Under this method, the firm prices its products across different market segments depending upon the elasticity of demand in each market or other market factors. Segment pricing may be customer segment pricing or product segment pricing.

  Under Customer segment pricing, a company charges different prices of the same product from different segment of the customers. On the other hand, in product segment pricing the company attempts to charge different prices from the same customers of different version of the same product.

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