Block

3

STRATEGIC MARKETING AND THE MARKETING MIX

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BLOCK 3: STRATEGIC MARKETING AND THE MARKETING MIX

The marketing mix is a set of strategic tools available to the firm, which when combined and used optimally to support and complement each other produces the desired marketing response from the target market. The third block to the course on Strategic Marketing Management deals with strategic marketing and the marketing mix. The block contains seven units.

In the highly competitive, modern marketing environment, technological environment and customer tastes and preferences are continuously changing and product life cycles are getting shorter. To face the challenging environment, innovation and new product development at an accelerated pace have become imperative for survival. The thirteenth unit, *Planning for New Product,* explores the concept of new product development and the factors that make it essential for companies to develop new products. The unit then discusses the risks involved and the reasons that are responsible for the success or failure of a new product. It then discusses how identifying the needs of the customers play an important role in product planning and how new product strategies are developed. The unit then examines the new product development stages and other issues in new product development such as technology transfer, organization structure and new product adoption.

Great brands are perceived as great products that serve customer needs. A strong brand that is customer centric views customer service as an opportunity to enhance its brand equity. The fourteenth unit, *Product Branding and Customer Service Strategies,* defines product and explains its components. It goes on to explain different product strategies, product decisions and product lifecycle. It talks about the different branding strategies and the responsibility of organizations to make product decisions. It also discusses quality management tools like Product Quality Management and Total Quality Management. Finally, the unit explores the components of customer service.

An effective pricing strategy helps a firm fix the optimal price that maximizes the revenue and profits of a company. The fifteenth unit, *Pricing Strategy,* studies the concept of pricing, its role and its significance. It then goes on to explain the various approaches to price setting, pricing strategies and pricing methods. The unit concludes with a discussion on how marketers study consumers and competitors to understand the likely effects of price on demand levels, demand patterns and how to use pricing as tactical weapon.

In the dynamic marketing world, Advertising and Sales Promotion are important promotion tools that enable a firm to design successful promotion strategies. Firms use a combination of advertising and sales promotion to inform, educate, create positive associations, build brand remind, stimulate, motivate and persuade customers to buy products. The sixteenth unit, *Advertising and Sales Promotion Strategies,* deliberates on the concept of promotion and advertising and goes on to explain various components of promotion and promotion mix and the budgeting approaches used to develop a promotion strategy. It then examines the objectives of advertising and advertising strategies. The unit finally discusses the scope of sales promotion and sales promotion activities.

Public Relations involves a variety of communication programs and marketing events created and designed to promote and protect the image of the company. Direct Marketing as a strategy bypasses intermediaries and helps marketers reach out to new customers directly and build long-term relationship with existing customers. The seventeenth unit, *Public Relations and Direct Marketing Strategies,* defines public relations; states and explains the public relations objectives, its strategies, public relations planning and various techniques of public relations. It then goes on to define direct marketing, its objectives and evaluation and control in direct marketing.

An effective 'Sales Force Strategy' helps a firm to increase the effectiveness and success rate of sales team. The eighteenth unit, *Sales Force Strategies,* elaborates on the role of the sales force, steps involved in the selling process and various sales channels available for a company to sell its products. It then explains the organizational structures that help in designing a sales organization and functions involved in managing the sales force. The unit concludes with a discussion on concept of personal selling.

An effective distribution strategy enables a firm to effectively deliver the products to the target customers. The nineteenth unit, *Distribution Strategy,* discusses the strategic issues related to distribution and various types of distribution channels. It then discusses various considerations to be taken care of while designing a distribution channel. It then discusses different levels of distribution intensity, conflicts arising in distribution channels and the control procedures that are implemented in managing the distribution channels. It then discusses the management of distribution channels. The unit concludes with a discussion on concept of international channels.

Unit 13

Planning for New Products

Structure

Don't find customers for your products, find products for your customers.

- Seth Godin

13.1 Introduction

As quoted by Seth Godin, the organizations must develop products for their customers and this can happen through innovation by investing in R&D. That's why most of the successful companies innovate by investing in R&D to develop new products. The New Product Development process requires investment and it is very risky.

The previous block dealt with competitor analysis, customer analysis, it discussed how markets are segmented, various targeting, positioning, relationship and generic strategies.

In this unit, we discuss new product development, the factors crucial for developing new products, the risks involved in it, the reasons for the success or failure of a new product, role of identifying the needs of the customers in product planning and the new product development process.

13.2 Objectives

By the end of this unit, you should be able to:

- Define new product development.
- Discuss the need for new product development.
- Describe the risks involved in new product development.
- State the reasons for the success and failure of new products.
- Identify the product planning as a customer satisfaction process.
- Define a new product strategy and discuss how to develop it.
- Discuss the stages involved in the new product development process.
- Evaluate other issues in new product development, such as technology transfer, organization structure and new product adoption.

13.3 New Product Development

The development of new products is crucial for the success of any company. Factors like low cost, differentiation, better quality, speed at which new products are introduced in the market, the ability to adapt to changes easily, etc., determine the success rate of new products. Knowledge about the various types of new products introduced in the market can be helpful for new product development.

Exhibit 13.1 illustrates the New Product Development of Indian regional language OTT (Over The Top) entertainment.

Exhibit 13.1: Indian Regional Language OTTs - New Products during Pandemic

The pandemic COVID-19 created a market for new entertainment products like OTT (Over The Top) across the world. In India the regional OTTs were developed during the pandemic in 2020.

Some of the New Regional OTTs that were launched during 2020 are:

1) ***Aha (Telugu):*** The platform went live in March 2020, it was backed by popular Telugu star Allu Arjun. As of 2021 January, it reported 1.8 crore users and 5 million downloads. It offers Telugu film exclusives, world digital premieres, web originals, talk shows and selected free movies.
2) ***Planet Marathi (Marathi):*** Launched in December 2020, it is from the Marathi film producer Akshay Bardapurkar. It offers films, theater, television shows, infotainment, educational content, karaoke songs, recipes, yoga and live-fitness videos and more.

Contd….

3) ***Koode (Malayalam):*** Launched in December 2020, it offers both original shows as well as popular programs from social media platforms.
4) ***CityShor.TV (Gujarati):*** Launched in October 2020, it is an initiative of CityShor.com. It offers Gujarati movies, short films and original web series and also curates popular gujarati content.
5) ***Talkies (Tulu, Konkani, Kannada):*** Launched in 2020, it offers movies streaming, dramas, TV shows, original web series and Yakshagana, in the languages of Karnataka: Tulu, Konkani, Kannada and Byari.

Source: i) https://yourstory.com/2021/01/hotstar-netflix-amazon-prime-video-regional- ott-platforms-2021/amp accessed on 25-1-22.

13.3.1 Types of New Product

New Product Definitions: A product is new to the company if an existing product is modified or an entirely new product is developed.

A product is new to the market if it is introduced for the first time or an existing product is introduced in a different manner.

'A new product is a product that is perceived as new by an individual. Often, this also means that it is new to the specific company which produces the product'.

There are two important aspects concerning buyers' perception of new products, which are as given below:

- *New or Different:* The product should only be perceived as new or different; it is not a necessary condition that it should not have been available in the market earlier.
- *Not New:* A new product may not be considered to be new in the market if the consumers are not able to perceive any newness in it.

New products can be classified into the following types on the basis of newness to the company and newness to the market:

Modification

In this, the external features of existing products in the market are modified and the products are again introduced in the market. The existing product lines and the total number of products of a firm will remain the same after modification. It is the process of restoring and renewing old models and making sure that up to date products are available in the market.

Differentiation

It involves introducing different versions of a basic product. New products with an improved design are added without withdrawing existing products.

The total number of products in each product line will increase after differentiation. It is a type of product expansion which can be used as a tactic, when the market for an existing product reaches the maturity state.

Diversification

Diversification involves the entry of a company into a new business and increase in the number of product lines and the total number of products. In this, the new products added should aim at serving different purposes than the existing products. Through diversification, the product mix of a company becomes broader.

Market Creation

When an organization introduces entirely new products into an entirely new market, it is called market creation. In order to create a new market, it is important for companies to discover what the unmet needs of the customers are. It offers scope for getting enormous returns at the beginning due to low competition, but is also very risky as it may or may not gain acceptance.

Market Expansion

In this approach, existing products are sold to existing markets in new and innovative ways. It is an attempt by the organization to increase the sales of its products in the existing market and gain more yield from the markets through new advertising campaigns, new packaging, and increased price promotions, etc.

Market Extension

It involves entering into new markets with existing products in order to gain new users for the products. It usually takes place when a particular market is saturated on account of an increase in competition and when it becomes necessary to find new customers in new markets. It is relatively risky and expensive and it can be achieved through *Repositioning'*.

Activity 13.1

D-signs Ltd., is a mid-cap company, specializing in the manufacture of T-shirts for men and women. It brings in new designs every month and repeats the most sought-after designs by the customers. The products of the company, which are based in Tirupur, have made their mark in the states of Tamil Nadu and Andhra Pradesh. The company does not operate any retail stores, but distributes its products through its regional distributors. Of late, the company has noticed a decline in its sales. Thus, the company has decided to introduce new products in the existing market. Identify the strategy adopted by the company. Also suggest other strategies that could help the company to arrest the decline in its sales.

Answer:

13.3.2 Approaches to New Product Development

Organizations generally give more importance to new products as they are considered a potential source of revenue. There are two approaches to new product development which are as discussed below:

Traditional Sequential Approach: This approach involves a group of functional specialists who complete a particular phase of the product development before transferring the process to the next group of specialists who complete the subsequent phase. The whole project goes sequentially in the order of concept development and testing, designing the product, product development, and so on.

Rugby Approach: A product development team works together as a single unit. The name rugby approach comes from the fact that just as the ball passes repeatedly through several hands in rugby, in the new product development process too, a team representing various functions works together by interacting among themselves.

The rugby approach for product development is of the following two types:

- *First type:* In this type, overlapping of one phase with another will take place only to a small extent. In other words, when one phase is just about to finish, the next phase starts.
- *Second type:* In this type, the extent of overlap of the various phases during the product development process will be more than in the first type.

13.3.3 Prerequisites for Effective New Product Development

To successfully introduce new products in the market rapidly and with the required flexibility in operations, organizations need to have certain specific characteristics, which are as mentioned below:

Top-management Control

The top management should provide adequate freedom to the product development team, but should not leave the team uncontrolled. There should be a proper mechanism to ensure that the small tensions that crop up in the team do not turn into major problems. At the same time, the management has to ensure that the creativity of the team is properly nurtured.

Entrepreneurial Product Development Teams

To make new product development a success, new initiatives and more risks need to be taken. A product development team has to satisfy certain conditions in order to become entrepreneurial in nature. The contribution of the top management should be in terms of making available the required money, guidance, motivation, etc.

Synchronized Efforts of Various Sub Groups

The general practice in new product development is that while the R&D department takes the maximum time, the production team takes the least time. But in order to launch new product/s on time, the teams involved should orchestrate their activities in the best possible interests of the organization. Rugby method is better than the sequential method in case of any bottlenecks in the project.

Adapting to Changes in Market Conditions

The team members should have the required skills to solve the various problems that may arise during the product development process. This also requires them to have clear knowledge about the changes in market conditions. Learning can take place at the individual level through reading, observation, etc., at the group level through team meetings and at the corporate level through an organization-wide program, etc.

Check Your Progress - 1

1. On what basis, new products are classified?
   a. Technology of competitors
   b. Newness to the company and newness to the market
   c. Risk involved in buying
   d. Success or failure of competitors' products
   e. Stage in which the product is in the product life cycle
2. What term is used to refer to the strategy of entering into new markets with existing products in order to gain new users for the products?
   a. Market creation
   b. Market extension
   c. Diversification
   d. Market expansion
   e. New product expansion

3. Which of these options best explains the concept of product differentiation?
   a. Marketing
   b. Product line expansion
   c. Technology transfer
   d. Product mix
   e. Marketing mix
4. Which of these options given below expands, gets broader, when a firm pursues a diversification strategy?
   a. Market share
   b. Market value
   c. Product mix
   d. Information technology
   e. Geographic area covered
5. What is the term used to refer to the strategy in which an organization introduces entirely new products into an entirely new market?
   a. Market extension
   b. Market expansion
   c. Diversification
   d. Market creation
   e. Niche marketing
6. What is product modification?
   a. The introduction of entirely new products into an entirely new market
   b. Reintroducing product with altered product features
   c. Entering into new markets with existing products in order to gain new users for the products.
   d. Providing basic product with different versions
   e. Increase the sales of existing products in the existing market, using new and innovative ways

13.4 Need for New Product Development

Companies cannot be content with just managing their existing products. They have to develop new products and that too, faster than ever before.

Some of the major factors that make it essential for companies to develop new products are as discussed below:

13.4.1 Reduction in the Span of Product Life Cycle

The life cycle of new products in the market is getting shorter and shorter. Rapid technological change, increased promotional measures, the readiness of consumers to experiment with new products, etc., are important factors that contribute to the decrease in the span of the product life cycle, which are as discussed below:

- *Rapid technological change:* Important aspect related to technological development is that those who enter the markets first with products utilizing new technology stand to benefit more than those who enter later.
- *Increased promotional measures:* Information about new products reaches consumers more quickly than it used to through advertisements and other promotional measures undertaken by the company that launches new products.
- *Readiness of consumers to experiment with new products:* Existing customers of the company, who are willing to experiment, may thus switch over to the new products of competing companies under the influence of such communication.

Example

As of August 2021[1], Amazon overtook Walmart to become the world's largest retailer outside of China through adapting to the latest technology, increased promotions regarding its various offers like Amazon Prime benefits and the readiness of customers to experiment with new products like preferring online purchase as compared to visiting a retail store.

Source; ICFAI Research Center

13.4.2 Opportunity to Increase Profit

The development and introduction of new products in a market can help the organization to make more profits, due to the absence of competition in the market in the initial phases. When the new product is introduced in the market, a premium can be charged and an increase in sales can help to earn more profits. But the market share and sales of the first entrant will generally decline with the entry of competitors.

13.4.3 Gain Competitive Advantage

The development of new products helps a firm to obtain a competitive advantage because of various reasons, which are as discussed below:

- It helps a firm to ensure that new products are made available in the market before its existing products become outdated.

[1] https://logistician.org/supply-chain/e-commerce/amazon-overtakes-walmart-to-become-the-worlds-largest-retailer.html accessed on 27-01-22

- It also helps the company to provide products in keeping with the changes in the tastes and preferences of customers.
- New products also help the company to enter those promising segments of the market which have not been entered before.
- This helps a firm to minimize its dependence on one particular segment alone.
- Those firms which have surplus production capacity can develop new products to make use of this capacity.
- New product development is also essential to ensure the continual profits and growth of a firm.

Check Your Progress - 2

7. Which one of the following factors is considered essential for companies to develop new products?
   a. Reduction in profits
   b. Reduction in the Span of Product Life Cycle
   c. Losing competitive advantage
   d. Developing weaknesses
   e. Missing opportunities

13.5 Risks in New Product Development

New product development involves a considerable amount of risk. There are various reasons for this, which are as discussed below:

- Technology keeps changing at a rapid pace and as a consequence, new products need to be launched quickly.
- The existing products in the markets become obsolete when new products are introduced. This causes an unreasonable reduction in the span of the product life cycle.
- Many new products generally fail to fulfill the expectations of the consumers, which creates dissatisfaction among consumers.

The following are the risk factors in the new product development process:

- *Launching in a Hurry:* Managers may be very keen to introduce the product in the market at the earliest and in this attempt, they may fail to focus adequately on the needs of the customers, which is very risky.
- *Launching Under Unfavorable Market Research Findings:* When the top management is keen on launching certain products in the market, the new products are launched in the market even if the market research findings are not favorable for it, which poses risk.

- *Miscalculating the Size of the Market:* If the size of the market is not large enough to justify the investments made for new product development, it will be difficult for the firm to recover its costs.
- *Improper Positioning and Pricing:* Improper positioning and pricing are other risks involved in new product introduction. Pricing of the product is closely related to its positioning in the market. The new product should neither be priced too high nor too low.
- *Suppliers:* Suppliers also form another major risk element in the case of new products. If the organization is dependent on a single supplier for the supply of raw materials, then it is very risky.
- *Other Risk Factors:* Some other risk factors associated with new product development are:
  - i) Attributes of the product,
  - ii) Quality of the product,
  - iii) Price of the new product in comparison with the price of the competitors' products,
  - iv) Substitute products available in the market,
  - v) Quantity of the new product to be developed and made available to the consumers,
  - vi) Accessibility to raw materials,
  - vii) Type of distribution channels to be used and so on.

Example

Apple's new product AR/VR launch was delayed till 2023[2]. Also it could not manufacture 100% of its production targets for its existing phone models due to supply chain shortages of chips. In fall 2022, it is planning to launch the iPhone 14 and new iPad pro models. Its new products were affected due to the supply chain delays.

Source; ICFAI Research Center

Check Your Progress - 3

8. Which one of the following factors is not a risk factor in developing new products?
   a. Miscalculating the Size of the Market
   b. Launching in a Hurry
   c. Suppliers
   d. Product Life Cycle
   e. Improper Positioning

[2] https://indianexpress.com/article/technology/tech-news-technology/apple-preparing-to-launch-its-widest-array-of-new-products-this-fall-7738751/

13.6 Reasons for Success of New Products

The introduction of new products in the market is an important activity for any firm. It is important for firms to ensure that they take all the necessary steps in the product development process itself to ensure the success of new products introduced in the market. Each firm has to identify ideas that are likely to succeed and to take measures to convert those ideas into products.

The important factors for the success of new products are as given below:

13.6.1 New Product Idea Screening

Proper attention to be given, starting from the idea generation stage. The screening of a new product idea should be done based on the competency of the organization to produce and successfully market a new product. New product ideas, which can provide exceptional advantages like cost benefits, meeting the needs of customers better than the competitors products should be chosen.

13.6.2 Choosing Proper Markets

The organization has to choose those products which can be served in familiar markets, as it will be easier to introduce the new product in that market. The success of a new product also depends on choosing those growing markets where there is a huge demand for the product which is intended to be produced.

13.6.3 Other Factors

There are three other important factors which determine the success of a new product offered by any kind of firm – a unique and better-quality product with differential advantage in the eyes of consumers, adequate knowledge on the part of the firm about the market and the capability of the firm, which are as discussed below:

Unique and Better-Quality Product

A new product has a better chance of succeeding if it has unique features and if its quality is superior to other competing products in the market. However, uniqueness or superior quality of the product alone cannot guarantee its success. It should be new in the eyes of the customer.

Adequate Knowledge about the Market

The marketer should conduct a detailed market study to have a better understanding of the following aspects for success of the new products:

- Needs, purchasing behavior and knowledge of product preferences of customers.
- Who takes the purchase decisions?

- What price will they be willing to pay etc.?
- Analyzing the capabilities of the intended user.
- Knowledge about various competitors and competing products available in the market and pricing strategies adopted by the competitors.
- Conducting a test market study.
- Dedicated team of sales personnel, before the launch of a new product.
- Proper distribution channel for the product.

Capability of the Firm

For the success of a new product, the capabilities of the firm like design skills, engineering skills, the technology available for production, quality that can be attained, and production process adopted can play a crucial role. These capabilities of the firm will help in conducting various activities like technical evaluation of the new product, developing the product, testing the product model and starting the actual production process, hence they invest heavily on R&D.

Exhibit 13.2 illustrates the success story of new products launched by HUL.

Exhibit 13.2: Successful New Products of HUL

HUL is an innovative multinational company which launched several new products and formats such as fabric sanitizer, fruit and vegetable wash, anti-bacterial dish wash etc.

The following are some of the brands HUL acquired and made them as new products:

- In April 2020, it acquired GlaxoSmithKline Consumer Healthcare Limited which produces Horlicks and Boost.
- It entered the health food drink market in India.
- It rebranded Fair & Lovely to Glow & Lovely in June 2020 followed by BLM (Black Lives Matter) movement in the US.
- In November 2020, it launched Glow & Lovely BB cream range of cosmetics.
- It also launched the Ayurvedic line of cosmetics under Glow & Lovely.
- For its New Product Glow & Lovely, it released an ad campaign “glow ko na roko” (don’t stop the glow).
- Earlier also it acquired many brands like Ponds, Lipton, Brooke Bond etc. and launched them as new products.

Source: https://www.hul.co.in/news/press-releases/2021/winning-in-the-new-decade/ Accessed on 27-1-22

<u>**Check Your Progress - 4**</u>

9. Which one of the following factors is not a success factor in developing new products?
   a. Capability of the Firm
   b. New Product Idea Screening
   c. Choosing Proper Markets
   d. Lack of Market Knowledge
   e. Inferior Quality Products

13.7 Reasons for Failure of New Products

Thousands of new products are introduced in the market every year, but only a few of them succeed. Finding out the reasons for the failure of new products and analyzing them is important to minimize the instances of new product failures.

Some of the major reasons for the failure of new products in the market are:

- Insufficient market study.
- Flaws in the product.
- High product development costs.
- Flaws in the timing of the product launch.
- Cut-throat competition in the market.
- Inadequate advertising efforts.
- Lack of experienced and adequate sales teams, faulty distribution channels, etc.

Example

BMW had to discontinue its new sports car i8. In 2020[3], around 28,000 units were sold and it discontinued the car model in the same year as it could not make good sales.

Source; ICFAI Research Center

The following guidelines could help to minimize failure of new products, as given below:

13.7.1 Determine the Market Readiness of the Product

Before introducing the product in the market, a study should be conducted on whether the potential consumers are ready to accept such a product or not.

[3] https://listverse.com/2021/04/19/top-10-failed-products-from-famous-companies/

Many good products with advanced features have failed in the market as they were introduced at the wrong time.

13.7.2 Rely Less on Test Marketing Results

Depending on test marketing results alone for taking decisions on product launch is not advisable. The test marketing results should not be used as the sole determining factor in taking decisions on new product launches.

The organizations have to rely less on test marketing results due to the following reasons:

- The test marketing results may vary from what happens when the product is actually introduced in the market.
- There may be some favorable factors during the test marketing of the product.
- When the same product is introduced in big markets, these favorable factors may not exist there and the product may end up as a failure.
- There may be some unfavorable factors for the product during test marketing, which are not present in big markets. In this case, even if the test marketing results are unfavorable, the product has chances of being successful.

13.7.3 Ensure Right Packaging

Along with attractive packaging, the firm has to ensure that the package should have the following properties:

- It cannot be easily closed or opened.
- It should not cause inconvenience to the users.
- It should provide protection to the product, if not then the repurchase of the product will be severely affected and it can even cause the failure of the product in the market.
- In the case of international brands, the packaging strategies may have to suit local tastes.

13.7.4 Access to Number of Suppliers

It may be economical to source raw materials from one supplier alone. But it should be ensured that the company has alternate sources of supply in place for its requirement of raw materials that go into the production of the new product. In the event of any disruption of work on the supplier’s side, or if the relationship with the supplier is strained due to some reason, the alternative sources of supply can be utilized.

Check Your Progress - 5

10. Which one of the following factors is not a reason for failure of new products?
    a. Flaws in the product
    b. Cut-throat competition
    c. Right packaging
    d. Insufficient market study
    e. Faulty distribution channels

13.8 Product Planning as a Customer Satisfaction Process

Identifying the needs of the customers plays an important role in product planning. Not only in the case of modified or diversified products, but also in the case of new products that are introduced in the market for the first time, customer needs should be given due importance.

The following are the guidelines for achieving customer satisfaction through product planning, as discussed below:

- The mission and objectives of the organization provide the necessary guidelines.
- Knowledge about customer needs can help the firm to obtain a competitive advantage. The firm has to study various market segments, the existing competition in the market, the changing tastes and preferences of customers, etc. In product planning, analyzing various opportunities to serve customers is important.
- There may be a difference between the actual satisfaction that the consumers experience from the products and their expectations about the products. The gap between the two helps to find the opportunities for developing new products, make necessary modifications to existing products, modify the production process, etc.
- The satisfaction of customers with existing products is identified from the characteristics that are considered by consumers to be important for a product and comparing it with the products existing in the market, in order to find out the gap between the two.

13.9 New Product Strategies

New product strategies can be defined as 'the designing of new products to satisfy well-defined strategic roles agreed upon by the management'. These strategies play a crucial role in the success of a company. A company's financial and strategic objectives that are sought to be accomplished from a new product will be defined in a new product strategy.

Example

Tesla's[4] new product strategies are concentrated around sustainability and their new products are revolutionary till date as of 2022. It provides a complementary product (the solar panel) that works together with its products and allows an individual to be energy positive. This strategy allows the company to earn more profit from the same customers.

Source; ICFAI Research Center

Some requirements for developing New Product Strategies are as given below:

- A new product strategy tries to answer the questions regarding the internal capability of a firm to develop the new product and also regarding the chances of its success in the marketplace.
- While satisfying the needs of the customers plays an important role in the success of a new product, this kind of focus on the external environment alone is not enough.
- The internal capability of the firm to produce new products should also be considered.
- All those new product ideas which cannot be implemented by the firm should be screened out in the initial stages of the new product development process.
- The compatibility of the new product with the existing products in the market should also be considered.

13.9.1 Developing a New Product Strategy

Developing a new product strategy is not an easy task as it has to be ensured that it is in line with the overall corporate strategies. In order to develop the product strategy, there is a need for a comprehensive analysis of corporate strategies to ensure that corporate objectives are met. It has mainly two stages: Identifying the strategic role of the new product and financial screening.

Stage I - Identifying the strategic role of the new product: Identifying the strategic role of the new product rests upon four important steps which are as given below:

- *Corporate Objectives:* Studying the corporate objectives of the organization will help to find out the purpose of the organization behind developing new products.
- *Scanning the Market:* It involves scanning the market in order to find out the opportunities available for new product development.

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[4] https://blog.avada.io/resources/tesla-marketing-strategies.html

- *Studying the Competitors:* It involves studying the competitors to identify their strengths and weaknesses.
- *Internal Assessment:* In this step, an internal assessment is done in the organization of the rate of success or failure of the new products introduced by the organization.

Stage II - Financial Screening: It has to be performed for the new product. The strategic function that the new product has to perform is to be set on the basis of various performance criteria like profit, sales revenue and return on investment of the new product. If more than one new product is to be developed, the role of each of the new products in the overall corporate objective has to be separately identified.

13.10 The New Product Development Process

A product goes through several stages in its development process. These stages of development usually include:

- Idea generation
- Idea screening
- Concept development and testing
- Market analysis
- Product development
- Test marketing
- Commercialization

Example

During November 2019, Tesla launched their first light-duty truck named as Cybertruck. In 2020[5], it received around 1.2 million pre-orders. Due to the design of the Cybertruck, it received a mixed reception from the public. It was available for purchase from the end of 2021.

Source; ICFAI Research Center

13.10.1 Idea Generation

Ideas for a new product are usually obtained from customers, competitors' products, the R&D department, employees and so on. Ideas generated from customers will be based on their requirements and hence those ideas will have greater scope of success. Employees can also be a good source of new product ideas and the firm should make an employee responsible for taking care of new product ideas.

13.10.2 Idea Screening

Idea screening helps to eliminate those ideas which are not found suitable. Screening of ideas is typically done to review whether the new product will

[5] https://www.archyworldys.com/tesla-cybertruck-could-be-elon-musks-first-failure-and-thats-why/

generate a profit for the organization, the changes to be made for acceptance of the product by the target market, and the capability of the firm to produce the product.

13.10.3 Concept Development and Testing

Concept Development: Product concept, which is a sketch of what the new product will be like, once the idea has been developed, is tested to get an understanding of how the customers respond to the new product idea, whether they really need the product, whether they will buy the product when it is introduced in the market, etc. This stage is more important in the case of developing an entirely new product than in the case of making modifications to existing products.

Concept Testing: Concept testing is aimed at identifying the specific needs of the customers in various market segments. The information obtained can be used to position the product suitably in the market. Field surveys, focus groups, personal interviews, etc. are used for concept testing.

13.10.4 Market Analysis

Market analysis is done to find out if the project for the new product development is worth proceeding with, in terms of marketability and the financial point of view. It is crucial in the development process of a new product since it is at this stage that it is identified whether the company should proceed with the project or not.

Some important considerations in the market analysis are as given below:

- The investments to be made in the project, expected profitability, etc., are studied.
- The expected demand for the product is identified and the various factors in the market that may affect the demand for the product are analyzed.
- The marketing organization is to be set up for the product and the distribution channels are to be adopted.
- Demand forecast is very crucial in market analysis. The absence of data on previous sales makes the demand forecast a difficult task.

13.10.5 Product Development

Once the market analysis of the product shows positive results, the product is ready for production. The organization will allocate funds for starting the production process and the production facility will be established. The marketing department will be set up and distribution channels will be organized for the new product.

13.10.6 Test Marketing

Test marketing is done in selected markets, once the product has been developed. The test marketing results will help to identify the market acceptance of the product. Large-scale production of the product will begin only after the test marketing results have been obtained. If the test marketing results are not found favorable, the organization may choose to drop the product even at this stage.

13.10.7 Commercialization

The final stage in new product development is commercialization. In this stage, the company decides to invest in the new product on a large scale. The product is launched along with various promotional activities. To ensure the availability of the new products in the market, existing distribution channels can be used or new channels can be established.

Check Your Progress - 6

11. Which one of the following is not a new product development stage?
    a. Idea Generation
    b. Product Development
    c. Risk Analysis
    d. Concept Development
    e. Test Marketing

13.11 Other Issues in New Product Development

Developing a new product and introducing it in the market is not an easy task and it involves certain issues. These issues are discussed here.

13.11.1 Technology Transfer

Developing a new product is a costly and time -consuming process. As an alternative to this, many companies resort to making use of licensed technology. Licensing of technology involves getting the permission from the developer of a new technology to develop commercially viable products for the market.

Example

Tesla promises responsible technology transfer and creating great wealth for many through its sustainable and innovative products. It started producing electric cars in a revolutionary way. In 2022[6], it is developing a humanoid robot called 'Tesla Bot' and this is its most important product for its present and future.

Source; ICFAI Research Center

[6] https://www.cnbc.com/2022/01/27/musk-tesla-robot-top-priority-for-new-product-development-this-year.html

Advantages of technology transfer: The following are the important advantages:

- Technology transfer helps a company to significantly reduce the cost of developing a new product.
- The product developed on the basis of transferred technology has more chances of success as it has been found to be successful in some other markets.
- The various phases in the traditional product development process get eliminated when technology transfer is adopted and as a result products can be introduced in the market in a shorter time period.

Disadvantages of technology transfer: The following are the important disadvantages:

- The focus that firms give on research in order to introduce new products may dwindle when they start getting technology from outside sources.
- This, in turn, can cause them to depend on other firms for technology, which may not be advantageous to them in the long run.
- A disadvantage of awarding licenses to other firms is that at a later stage, those who award/receive licenses may become competitors in the market.

13.11.2 Organizational Structure for New Product Development

Timely and periodic introduction of new products is important for the success of any organization in the long run. This makes it necessary for organizations to provide the required facility for it at various levels of the organizational hierarchy. The responsibility for developing new products should be fixed on appropriate persons and there should be a system for evaluation and control of the new product development process.

13.11.3 New Product Adoption

Adoption is, simply speaking, the acceptance of a new idea or product. The new product adoption process is the process which a consumer might go through when he/she decides to purchase a new product introduced in the market. Every new product is launched for the purpose of consumer adoption.

Important Attributes for New Product Adoption: Product innovation needs to possess certain basic attributes for it to spread quickly to the target market. These attributes influence the rate and the time the innovation will take to be adopted by the consumers. The important attributes are as given below:

- Relative advantage (perceived benefit which a consumer gets from a new product),
- Compatibility (consistency with the existing values, past experiences and behavioral pattern),

- Complexity (degree to which the end consumers find an innovation difficult to understand and use),
- Trialability (extent to which the consumers can experiment with the product) and
- Observability (ease with which an innovation's features and benefits can be observed by other prospective buyers).

Customer Segmentation (on the basis of New Product Adoption): Consumers can be grouped on the basis of how early they adopt a new product introduced in the market. While some consumers are quick to adopt a new product, others may take a long time in making their purchase decision. Adoption of new products can be plotted on a graph in the form of a bell shaped curve.

On the basis of the rate of adoption of new products, customers can be classified as the following:

- *Innovators:* These are the customers who adopt a new product first.
- *Early adopters:* These are the customers who adopt new products very early, upon receiving positive feedback from the innovators.
- *Early majority:* These are careful customers who want to avoid risk and hence buy new products upon receiving positive feedback from the early adopters.
- *Late majority*: These are the consumers who adopt a new product only when it has become very common in the market.
- *Laggards:* These are the consumers who do not like to change their habits and hence adopt a new product only when it is absolutely necessary.

Activity 13.2

ABC Drinks Ltd., is a beverage company in India. Of late, the company is facing competition from established as well as new players in the beverage market. Thus, the management decided to launch a new line of beverages. Before introducing the product into the market, the company planned to launch its products in some selected markets in order to gain the market acceptance of the product. Identify the stage of the new product development. Also discuss other stages involved in the process of new product development.

Answer:

Check Your Progress - 7

12. Which of the following is not a customer segment on the basis of new product adoption?
    a. Innovators.
    b. Early adopters.
    c. Late adopters.
    d. Early majority.
    e. Late majority.

13.12 Summary

- Advances in the field of science and technology and the resulting changes in the lifestyle of people have led to the need for more and more new products in the market. To be successful in the highly competitive business environment, firms have to regularly introduce new products.
- Various types of new products are developed through product modification, diversification, differentiation, market creation, market expansion and market extension.
- Various factors that necessitate the development of new products include decrease in the life cycle of products introduced in the market, increase in the chance to earn more profit and need to reduce the dependence of the firm on one product alone.
- New product development is associated with various risk factors like fast paced technological changes which necessitate a reduction in the span of the product life cycle, high customer expectations, the strong grip that competitors have in the market, wrong estimation of the market size, faulty product pricing, etc.
- Product planning is an important aspect of new product development and it is to be done taking into consideration various market segments, existing competition in the market, changing tastes and preferences of customers, etc.
- New product strategies are required for the designing of new products to satisfy well-defined strategic roles agreed upon by the management. These strategies try to accomplish a company’s financial and strategic objectives.
- The analysis of the external environment of the company to find ways to meet customer needs and the capability of the firm to meet those needs of the customer are the two important aspects in the development of new product strategies.

- Various stages in the development of a new product include idea generation, idea screening, concept development and testing, market analysis, product development, test marketing and commercialization.
- Some of the major issues associated with new product development in an organization include the formation of an organizational structure conducive to new product development, deciding upon the technology transfer issues, studying the rate of innovation adoption by customers in order to suit the promotional activities of the new product, etc.

13.13 Glossary

Differentiation: Differentiation involves providing different versions of a basic product. In product differentiation, the already existing products in the market are not withdrawn, but new products with an improved design, taste, etc., are added.

Diversification: Diversification involves the entry of a company into new businesses. It involves an increase in the number of product lines and the total number of products aiming at serving different purposes than the existing products.

Market Creation: When an organization introduces entirely new products into an entirely new market, it is called market creation.

Market Expansion: Market expansion is an attempt by the organization to increase the sales of its products in the existing market. In this approach, existing products are sold to existing markets in new and innovative ways.

Market Extension: Market extension involves entering into new markets with existing products in order to gain new users for the products.

New Product: A new product is a product that is perceived as new by an individual. Often, this also means that it is new to the specific company which produces the product.

New Product Adoption: New product adoption process is the process which a consumer might go through when he/she decides to purchase a new product introduced in the market.

Product Concept: It is a sketch of what the new product will be like, once the idea has been developed.

13.14 Self-Assessment Test

1. Define new product development. Explain various ways of classifying new products. Discuss the risks involved in new product development.
2. List out the reasons for the success or failure of a new product? What role does customer satisfaction play in the process of new product planning?

3. Define new product strategies.
4. Explain the process of new product development.
5. Describe the other issues that need to be taken care of in the new product development process.

13.15 Suggested Readings / Reference Material

1. Crawford and DeBenedetto. Irwin, “New Products Management”, 12th edition, by McGraw-Hill, 2021.
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3. O. C. Ferrell, Michael Hartline, Bryan W. Hochstein, “Marketing Strategy”, 2021, Cengage South-Western.
4. Alexander Chernev, Philip Kotler, Musadiq A. Sahaf, “Strategic Marketing Management”, “Strategic Marketing: Making Decisions for Strategic Advantages”, PHI Learning, 2019.
5. Alexander Chernev, Philip Kotler, “Strategic Marketing Management”, Cerebellum Press, 2018.

13.16 Answers to Check Your Progress Questions

1. (b) Newness to the company and newness to the market

New products can be classified on the basis of newness to the company and newness to the market. A product is new to the company if an existing product is modified or an entirely new product is developed. A product is new to the market if it is introduced for the first time or an existing product is introduced in a different manner.

2. (b) Market extension

Market extension involves entering into new markets with existing products in order to gain new users for the products.

3. (b) Product line expansion

Product differentiation is a tactic used when the existing product reaches a maturity state, so with differentiation a new line of product is created; hence it forms to be a type of product line expansion.

4. (c) Product Mix

Diversification involves increase in the number of product lines which serve different purposes. The total number of products increases; hence the product mix of the company becomes broader.

5. **(d) Market creation**

   When an organization introduces entirely new products into an entirely new market, it is called market creation.

6. **(b) Involves reintroduction of a product in the market with altered product features**

   Product Modification involves introducing an existing product with altered features.

7. **(b) Reduction in the Span of Product Life Cycle**

   Decrease in the span of the product life cycle is one of the important factors for the success of new product development.

8. **(d) Product Life Cycle**

   Product life cycle is not a risk factor while developing new products, as a focus on PLC would help organizations to better manage the new products.

9. **(e) Inferior Quality Products**

   As the inferior quality products will lead to the failure of new products.

10. **(c) Right Packaging**

    Right packaging actually helps an organization to succeed and hence it is not a reason for the failure of a new product.

11. **(c) Risk Analysis**

    The stages of new product development are: Idea generation, Idea screening, Concept development and testing, Market analysis, Product development, Test marketing and Commercialization. Hence, risk analysis is not a stage of new product development process.

12. **(c) Late adopters**

    The various customer segments based on new product adoption are: Innovators, Early adopters, Early majority, Late majority and Laggards. Hence, Late adopters is not a customer segment based on new product adoption.

Unit 14

Product Branding and Customer Service Strategies

Structure

"A brand for a company is like a reputation for a person. You earn a reputation by trying to do hard things well."

\- Jeff Bezos

14.1 Introduction

As rightly quoted by Jeff Bezos, branding is building the image and reputation of a company. Branding, a long drawn process, which is done systematically through advertisements and other means of communication, creates a lasting impression in the minds of the customers and contributes to the long-term success of the company.

The previous unit discussed the concept of new product development. In this unit, we shall discuss product branding & customer service strategies, different product strategies, different types of product decisions, quality management tools like Product Quality Management, Total Quality Management.

14.2 Objectives

By the end of this unit, you should be able to:

- Define product and discuss its components and various product strategies
- Explain types of product decisions and the product life cycle.
- Define branding strategy and understand various types of branding strategies.
- Be aware of the responsibility of organizations in making product decisions.
- Explain the concepts of Product Quality Management and Total Quality Management.
- Describe the components of customer service.

14.3 Nature of Product

According to Theodore Levitt, the nature of product is as follows:

- "Products are almost always combinations of the tangible and the intangible… to the potential buyer, a product is a complex cluster of value satisfactions".
- "The generic thing is not itself the product; it is merely the minimum that is necessary at the outset to give its producer a chance to play the game".
- "It is the playing that gets the results, and in business this means getting and keeping customers. A customer attaches value to a product in proportion to its perceived ability to help solve his problems or meet his needs."

Components of Product Personality:

A product projects a certain image and has a distinct personality. The personality of a product can be considered as being made up of four components, as given below:

14.3.1 The Generic Product

The generic product is the basic thing that is required to enter a market. For any company, the generic product is the base upon which all its marketing activities are built. Even though a generic product of one manufacturer differs from that of another, the manufacturer can make profits when customers notice these differences and buy its products at a price higher than the cost of production.

14.3.2 The Expected Product

The expected product is made up of the minimum expectations that the customer has from a product. The expected product has all those features that the customers consider to be the minimum requirements in order to make a purchase. For a marketer to have profitable sales, he/she should meet the basic expectations of the customers. Different customers have different expectations.

Some of the important expectations of customers from products are as given below:

- Some may expect preferential treatment from the suppliers, while others may expect expert advice from the suppliers on product usage.
- They may also expect suggestions and ideas on the most efficient ways to use the product.

All these features are expected over and above the generic product, which forms part of the expected product.

14.3.3 The Augmented Product

They are usually provided in markets that are in a mature stage. Manufacturers may even have to exceed customer expectations by providing benefits that they may not have expected as differentiating the products and meeting the basic customer expectations will not suffice. An augmented product includes all value additions made by the manufacturer to a product.

Some of the issues with the augmented product are as given below:

- Even though product augmentation is done to attract customers, there is a limit to the additional features that can be provided in a product.
- Since each augmented feature increases the cost of the product, it is necessary to consider consumer willingness to pay extra for the additional feature.
- Some customers may prefer low priced products, rather than additional features for which they may have to pay more.

14.3.4 The Potential Product

'A potential product is one that includes everything that can be done with a product to attract and retain customers'. Providing enhanced technology and design features, modifying the characteristics of the product to delight customers. Such other changes made to the product and additional benefits provided to the customers to attract and retain them makes the potential product.

The two limiting factors for providing additional benefits to the customers are as given below:

Unavailability of Budget: Usually, the budget for a product is fixed on the basis of features that need to be provided to make the product competitive in the market. An important aspect of a potential product is that it varies with the type of customers. An augmented product for a customer may become an expected product for another.

Lack of Innovation: Firms regularly conduct market research to identify changes in customer requirements, to enhance the quality of their products and services. They generate new ideas, methods, and technologies to improve the performance of the product in terms of reliability, durability, etc. Lack of adequate financial resources will lead to lack of innovation in providing potential products.

Example

The core benefit of Coca-Cola[7] is to quench a thirst. The generic product is a burnt vanilla smelling, black, carbonated, and sweetened fizzy drink. The expected product is that the customer's Coca-Cola is cold. If this isn't the case then expectations won't be met and the drink will not taste its best in the mind of the customer.

Coca-Cola's augmented product is that it offers Diet-Coke. How does Coca-Cola exceed customers' expectations with this product? By offering all the great taste of Coca-Cola, but with zero calories.

One way in which Coca-Cola delights customers is by running competitions. The prizes in these competitions are often things that, "money can't buy", such as celebrity experiences. To continue to delight customers over time the competition prizes change frequently.

Source: ICFAI Research Center

Check Your Progress - 1

1. The personality of a product can be considered as being made up of four components. Which of the following is not a component?
   a. The generic product
   b. The expected product
   c. The renovated product
   d. The potential product
   e. Augmented product
2. Which of these options refers to a product which has all the features that the customers consider to be the minimum requirements to make a purchase?
   a. The generic product
   b. The augmented product
   c. The expected product
   d. Core product
   e. Renovated product
3. Which of these product types refers to a product that has value additions made to provide customers with more than they expected?
   a. The perfect product
   b. The potential product
   c. The generic product
   d. The augmented product
   e. Customized product

[7] https://expertprogrammanagement.com/2017/10/five-product-levels/

4. Which of the product types given below refers to a product that incorporates all value additions to attract and retain customers?
   a. Augmented product
   b. Potential product
   c. Expected product
   d. Generic product
   e. Enhanced product
5. Which product type has characteristic features such as enhanced technology, design features, modified characteristics, etc., to delight customers and provide additional benefits?
   a. The potential product
   b. The generic product
   c. The augmented product
   d. The expected product
   e. Improved product

14.4 Developing Product Strategies

Developing and implementing product strategies are one of the most challenging tasks that marketers face today.

The success of a product strategy depends on the following factors:

- *Economic Environment:* The economic environment should be stable and promotional activities should work out as planned.
- *Distribution Efficiency:* Distribution efficiency is also very important for implementing product strategies successfully.
- *Proper Structure:* Without a proper structure, product strategy decisions may have various drawbacks.
- *Appropriate Level of Management:* If the product strategy is defined in a structured way rather than as random activities, the required attention can be provided for decision making at the right time and by the appropriate level of management.
- *Timely Decision Making:* A company may fail to take decisions at an appropriate time, or decisions may be taken without all the available alternatives or implications of the decision being considered.
- *Clear Strategic Vision:* Product strategy decisions should be based on the clear strategic vision of the organization, which decides where the company is going and what has to be done to get there.

The five important product strategies that marketers generally adopt are as given below:

14.4.1 Product Differentiation

Product differentiation is one of the most common product strategies. Through this strategy, a product is projected as being different from the competitors' products. This is done to make the firm's product more desirable to consumers than the products of the competitors.

Salient Features of Product Differentiation:

- It helps the manufacturer to charge a higher price for its products than the competitors due to the differentiation factor.
- In order to achieve differentiation in the product, marketing strategists provide additional functional features in products, which are important to the customers and are not provided by the competitors and market them to the customers.
- Product differentiation can be based on various factors like product packaging, advertising, the channels used for advertising, retail outlets used for sales, etc.
- The physical characteristics of the product also form the basis for differentiation.

14.4.2 Product Positioning

Positioning is an important product strategy that marketers adopt. Positioning is a communication tool that helps to get a product noticed in a marketplace that is cluttered with a number of products.

Some definitions of Positioning are as given below:

- According to Al Ries and Jack Trout "Positioning is not what you do to a product. Positioning is what you do to the mind of the prospect. That is, you position the product in the mind of the prospect". (They popularized the word 'positioning' through their book Positioning: The Battle for your Mind in 1981).
- Ries and Trout also quoted that, "The basic approach of positioning is not to create something new and different, but to maintain what is already up there in the mind, to re-tie the connections that already exist".

14.4.3 Product Line Expansion and Contraction

Product Line Expansion: Product line expansion involves adding more products to a company's product line. In some cases, both product line expansion and contraction can take place simultaneously as new products are added to a product line even as non-performing products are dropped from it.

Product Line Contraction: Product line contraction involves excluding one or more products from the product line. Products are usually dropped from the product line when they reach the end of their life cycle. A constant decline in the sales of a product over a period of time is a major reason for the product to be dropped from the product line.

14.4.4 Trading Up and Trading Down

Trading Up: Trading up is a type of product strategy in which the products added to a product line are priced significantly higher than all the existing products in the product line. Manufacturers use trading up in order to gain inroads into the higher end of the market.

Trading up and trading down are considered risky as the marketer tries to enter those segments of the market in which he/she has no prior knowledge. Moreover, such marketers have to face new competitors whom they may not have come across previously.

Trading Down: In trading down, products added to the product line are priced significantly lower than all other products in the product line. By trading down, the lower end of the market is aimed at. There can also be channel management problems as the existing distributors may not be sufficient or capable of covering the high end or low end of the market which is targeted as a result of trading up or trading down.

14.4.5 Product Brand Strategy

A brand is ‘a name, term, design, symbol, or any other feature that identifies one seller’s goods or services as distinct from those of other sellers’. It represents both the tangible and intangible benefits provided by a product.

Important branding decisions a firm has to consider are as given below:

- A firm should take several branding decisions like brand name decisions, brand symbol decisions and brand equity related decisions, etc.
- A firm should decide whether it should go in for multi-brand products (separate brands for each type of product) or a multi-product brand (a brand which covers all types of products of a firm).
- Whether for a particular product, it should go in for a single brand or multiple brands.
- Yet another brand decision to be made is regarding brand extension, i.e. introducing a new product category.

Exhibit 14.1 illustrates various product strategies of Oral Care Companies for its toothpaste range as a counter to the competition from Patanjali.

Exhibit 14.1: Product Strategies of Oral Care Companies to Fight Patanjali

The Indian oral care market is worth approximately ₹15,000 crore. It consists of product segments like toothpaste, toothbrush, toothpowder, mouthwash and denture care.

Toothpaste Segment: The toothpaste market is the largest segment with 70% of the market, which is around INR 10,000-12,000 crore. Colgate Palmolive India Limited (CPIL) is the market leader in this category. HUL used to be in the second position but Dabur, with its growth of natural/herbal products, had gained second position. Patanjali, which is a new entrant, had disrupted the market and gained huge market share (9.2%) as of March 2020.

Toothbrush Segment: It is the second-largest market in the oral care market in India, which is worth ₹. 4,000 crore. CPIL is the market leader in this segment as well with a market share of 48%. In the overall oral care market, the category ranks second with around 23% share.

Product Strategies (like Aggressive Product Launches and Strong Category Development Strategies) to counter attack Patanjali:

CPIL: Colgate-Palmolive India Ltd., being the market leader, did not only launch products but also new categories, like oil pulling and mouth spray under the 'Vedshakti' portfolio during December 2020. It also launched new products like Colgate Special Toothpaste for diabetics, Colgate Visible White etc. It followed Aggressive Product Launches and Strong Category Development Strategies.

Dabur: It had been growing better in the Ayurvedic-herbal and natural toothpaste segment than the market leader CPIL. Also it has grabbed the position of HUL into second place with 16.4% and HUL being 16.1% as of March 2020. It followed Strong Category Development Strategies.

HUL: It is also struggling in the market due to competition from Patanjali and Dabur due to their natural products. It was just defending its market.

Procter & Gamble Hygiene and Health Care Limited (PGHH): In the toothbrush market, this company is in second place after CPIL with 25% market share as of March 2020. It followed Strong Category Development Strategies.

Sources: https://economictimes.indiatimes.com/markets/companies/how-oral- care companies-are-trying-to-fight-patanjali/printprimiumarticle/89196093.cms Accessed on 1-2-22.

https://www.business-standard.com/article/companies/colgate-extends-naturals-portfolio-launches-vedshakti-oil-pulling-120123001005_1.html Accessed on 1-2-22.

Activity 14.1

HG Ltd., is a leading potato chip company in India. It offers chips indifferent flavors. To increase its sales, the company planned to add variants of tomato, lime and cheese to its existing brand of products. Identify the product strategy adopted by the company. Also discuss other product strategies adopted by companies.

Answer:

<u>Check Your Progress – 2</u>

6. Which of the following is not a relevant factor for the success of a product strategy?
   a. Presence of stable economic environment
   b. Promotional activities should work out as planned
   c. Distribution efficiency
   d. Financial Strategy
   e. A suitable product that meets the need of target customers
7. What product strategy makes a firm’s product more desirable to consumers than the products of the competitors?
   a. Trading up
   b. Product differentiation
   c. Product brand strategy
   d. Trading down
   e. Market positioning strategy
8. Which of the following best explains the concept of ‘Trading Up’?
   a. Pricing a product lower than all other existing products
   b. Increasing the price of all existing products on account of increase in cost of production.
   c. Pricing a product higher than the price of all other existing products
   d. Excluding one or more products from the company’s product line
   e. Using new communication tool that help to get a product noticed in the marketplace

14.5 Managing Existing Products

All the marketing strategies of an organization revolve around the product in the long run as the sale of products is the basic means for earning revenue. Various factors like changes in the tastes and preferences of customers, technological changes, new products introduced by competitors, etc. cause changes in the marketplace. Marketers have to watch these changes and incorporate changes in their products accordingly.

14.5.1 Product Decisions

'Any conscious change in the company's product offering as viewed by the buyer is defined as a product decision'. A company will have to dynamically adapt its products to the changes taking place in the market. Such product decisions could range from simple changes like altering the color of the package to complex decisions like diversification.

Product decisions can be of three types as given below:

Changes in Product Type

The important decisions that a company has to make is regarding product mix and product line, which are as given below:

Product Mix: The American Marketing Association has defined it as *'the composite of products offered for sale by a firm or business unit'*. Among product mix and product line decisions, product mix decisions are at the highest level. Some of the important issues related to product mix decisions are the types of products to be offered, types of customers to be served, adding a new product line etc.

Some of the important product mix decisions are as given below:

- *Number of products and models to be offered:* The number of products to be offered, the number of models to be offered for each product in the product line and so on.
- *Depth of product mix:* It refers to the total number of products that a company has in each of its product lines. Decisions regarding product lines in turn influence the depth of the company's product mix.
- *Width of product mix:* The total number of product lines offered by the company.

Example
The total number of product lines offered by Samsung in India as on 2022[8] February are Mobiles, TV&AV, Home Appliances, Computing and Displays. Hence its product width is 5, as it has five product lines.

Source: ICFAI Research Center

[8] https://www.samsung.com/in/

Product Line: The American Marketing Association has defined it as 'a group of products that are closely related because they satisfy a class of need, are used together, are sold to the same customer groups, are marketed through the same type of outlet or fall within a given price range.'

Some of the important product line decisions are as given below:

- *Diversification:* This process is known as diversification and can take the form of related and unrelated products.
    - *Related Diversification:* In related diversification, there will be synergies between the core business of the organization and the new business on the basis of common distribution channel, advertising, assets, skills and so on.
    - *Unrelated Diversification:* In this, the organization will venture into new businesses that are not related to its core business.
- *Divestment or Divestiture:* It is the process of removal of the entire product line from the product mix of a company on account of reasons like non-performance. It can take several forms like discontinuing the support given to the product line in terms of resources, continuing with the manufacture of the product but outsourcing the marketing activities to some other companies, selling the product line to another company, etc.

Changes in Tangible Product

There are many ways in which the physical attributes of a product can be changed. New features could be added to a product, the existing physical attributes could be modified or eliminated completely and so on. The changes in tangible products usually involve changes in the following three physical attributes of the products as given below:

Quality: The quality of a product has two dimensions – reliability and durability. Both these dimensions can be altered by making changes in the materials used for production or by changing the production process. The quality of a product is upgraded usually to gain an advantage over competitors' products in the market.

Decisions for maintaining quality of products are as given below:

- The level of quality to be provided for each product in comparison with competing products.
- Modifications that need to be made to enhance the quality of the products and the product line, etc.
- The quality enhancement of products should be linked with demand, as any attempt to increase quality will usually result in increased costs.
- Improvement in quality also results in increasing the life of the product.

Operational aspects: The operational aspects of a product include adding or modifying the features of a product to make it more attractive to customers. Through enhancing operational aspects, the product can be made use of for additional applications. This will provide a competitive advantage to the company.

Some important operational aspects are as given below:

- *Design Policy:* A company's design policy determines which operational features are selected for being provided in a product.
- *Planned Obsolescence:* Many firms consciously decide to produce a product in such a manner that it will become old-fashioned and/or non-functional within a certain time period, which is a kind of Planned Obsolescence. It also takes the form of withdrawing service or previous models or making repair costs comparable with the cost of purchasing new models.
- *Product Features and Promotions:* The firm should be able to answer the following questions:
  1) "Whether to provide the kind of features provided in competing products?"
  2) "Which aspect of the product should be promoted through advertisements?"

Style: The style of a product relates to the esthetic appeal it has. Changes made in the style of a product can make the product appear to have more quality or operational aspects.

Important Aspects of Style: Some important aspects of managing style are as given below:

- *Outdated Old Products:* When the style of a product is changed, old products existing in the market will look outdated and will usually be withdrawn.
- *Replacement Purchases:* The customers who use products of old design may replace them with new models. Thus, through introducing stylish products, companies can get more replacement purchases.
- *Planned Obsolescence Policy:* Many companies will have policies of induced or planned obsolescence.
- *Risk Factor:* A risk factor associated with introducing products in a new style is that those customers who liked the old style may not like to experiment with the new one.

Changes in Augmented/Intangible Products

The tangible or physical attributes of a product alone cannot make the product profitable in the market in the long run. This is the reason why more attention has been given to the augmented or intangible aspects of a product.

Some aspects of changes in augmented/intangible products are as given below:

- An augmented product relates to the benefits that a customer derives from a product.
- It is not the physical product that differentiates a company's product from that of a competitor.
- Product augmentation does not take place in the factory during the production process.
- It takes place when the product comes out of the factory and takes the form of better packaging, better after sales services, delivery of the product in time, etc., all of which are appreciated by the customer.

14.5.2 Product Life Cycle and Marketing Strategy

The concept of Product Life Cycle, which was introduced in 1965 by Theodore Levitt (Levitt), is widely used for taking many product decisions in organizations.

The PLC model is based on three important phenomena, which are as given below:

The first phenomenon: It is that the products have a restricted life. They are born at a particular point of time, they may or may not grow well and after a certain stage, their sales will start declining. Eventually, the products will disappear from the market.

The second phenomenon: It is that the profit obtained from products will follow a particular pattern throughout the life cycle. In the market development stage, there may not be any profit, but in the growth stage, profit will gradually start picking up. Profits will reach a stable stage and then start declining in the maturity stage of the product. In the decline stage, the product will stop making profits.

The third phenomenon: It is that the marketing, production and financial strategies for a product change in accordance with the stage in the life cycle of the product.

According to Levitt, successful products pass through the following four stages:

Market Development

Market development is the stage where a new product is introduced in the market. This stage is characterized by various risks on account of the uncertainties regarding the product.

Salient features of market development are as given below:

- *Demand Creation:* Demand has to be created for the product in this stage. The time required for creating demand depends on factors like the product's novelty, ease of use, match with consumer needs, existence of substitute products, etc.

- *New Product Development:* The three important aspects of new product development are as given below:
  1) *New Products are Expensive:* Even though development and introduction of new products in the market is important for a company to gain profits, new product development is a costly and time-consuming affair and success is not always ensured.
  2) *Failure of New Products:* Most of the new products introduced in the market do not follow the four stages in a typical product life cycle; instead, they fail in the marketplace soon after their launch. The failure of new products in the market may serve to curb some companies from introducing new products.
  3) *Market Follower Strategy:* They may prefer to wait for other companies offering similar products to enter the market first. If the new product introduced by a company clicks, competitors may also follow by launching similar products.

Market Growth

If the new product in the market is successful in the market development stage, sales will start to slowly rise. After a reasonable time period, if there is a remarkable increase in the sales of the product, it shows that the product has reached the growth stage.

Some important aspects of this stage are as given below:

- *Competition:* When a new product in the market achieves growth in sales, more and more competitors will enter the market. At this stage, the first entrant has to work hard to retain the existing customers rather than plan to gain new ones, as some competitors may enter with similar products and others may enter with improved versions.
- *New and Unique Strategies:* Thus, the market growth stage demands new strategies that are different from those adopted in the market development stage. The strategies followed by the companies in the growth stage to attract customers are usually based on the strategies of the competitors.

Market Maturity

In the maturity stage, sales growth will settle down as most of the customers may have purchased the product and there will only be replacement purchases.

Some important aspects of this stage are as given below:

- *New Strategies:* The market maturity stage requires new strategies and the ability to compete in a more effective manner.
- *Distribution:* Efforts have to be made to hold on to the existing channels of distribution.

- *Additional Pressure on the First Entrant:* This additional pressure is to come out with differentiated products through improved packaging, advertising, etc.
- *Span:* The span of the maturity stage varies with the type of the product.

Market Decline

The decline stage begins when a product begins to lose its appeal in the market and sales start declining. At this stage, unutilized production capacity will be a major problem for many companies as they are not able to sell what they produce.

The important strategic decisions to be taken on the basis of the product life cycle model are as given below:

- *Foreseeing the Onset of Decline Stage:* If the firm can foresee, it could try to survive in the market for a longer period through better management and through aggressive tactics like mergers or acquisitions in its efforts to get the competitors out of the market.
- *Promotional Strategies:* Firms have to adopt all possible promotional measures to attract the customer to try out such new products. Marketers have to find ways to communicate to the customers on how the product can be of value to them. This usually is a slow and expensive process and can determine the fate of the product.
- *Pricing Strategies:* In the market development stage, pricing decisions are generally very important.

  1) The marketer can choose to skim the market by charging a higher price for the product.

  2) Another strategy is to price the products so low that it will discourage potential competitors from entering the market.
- *Estimated Length of the Product's Life Cycle:* The estimated length of the product's life cycle is an important factor which determines the pricing decision in the market development stage. Conversely, the pricing decision taken also affects the response of the market to the product and also the extent of its life in the market.
- *Profit Optimization:* The profit curve follows almost a similar pattern as the sales curve, except for the differences in timing.

  Some issues in profit/optimization are as given below:

  a) At the onset of the maturity stage, revenue will be high as a result of the increase in sales volume.

  b) But the total profits may be low due to price reductions. Thus, even at a stage where sales are increasing, the total profit generated by the product decreases.

c) The sales volume will peak and will start declining in the maturity stage and consequently, profits will decrease at a faster rate.

d) In order to maximize the profits in the long run, it is necessary that firms plan their marketing strategies accordingly.

Check Your Progress - 3

9. The marketers of a company have to constantly keep an eye on changes in the market place and assess their likely impact on the products in the market. Which of the following is not a key factor that causes disruptive changes in the marketplace?
   a. Changes in the tastes and preferences of customers
   b. Technological changes
   c. New products introduced by competitors
   d. Changes in government policies and regulations
   e. Increase in the cost of production

10. The changes in the tangible products usually involve changes in the physical attributes of the products. Which of the following is not an attribute?
    a. Quality
    b. Operational aspect
    c. Style
    d. Product life cycle
    e. Physical features

14.6 Branding Strategy

In technical terms, every time a marketer creates a new name, symbol, or logo for a new product or service, he or she has created a brand.

Some advantages of branding are as given below:

- It helps to differentiate the goods or services offered by a producer from the goods or services offered by the competitors.
- It also helps to provide legal protection against competitors copying the features of the products.
- It also helps to segment the market based on the benefits sought by the customer.

Important Branding Strategies: Firms can adopt various strategies to manage their brands. Many firms start with a single product and a single brand name. When more products are introduced, they have to take the decision on whether to extend the existing brand name to the new products. The four important branding strategies are as discussed below.

14.6.1 Product Line Branding

In product line branding, the entire product line of a company will be given one specific brand name.

The advantages of this strategy are as given below:

- It is easy as well as economical to promote the entire product line, as against having to promote the products in the product line with individual brand names.
- It helps to create a strong brand image for the products.
- Product distribution will be easier when this strategy is adopted.
- Expanding the product line is also easy in the case of this strategy.
- Advertising and other promotional costs can be reduced significantly, as each new launch in the product line has the same brand name.

14.6.2 Corporate Branding

In the corporate branding strategy, the name of the company is associated with the product. The company name will usually feature in all the advertisements and promotional activities of the product. It may cause the dilution of brand equity if a number of unrelated products are brought under the same corporate brand name thus, entering into markets which are not related to the existing ones can be difficult.

The advantages of corporate branding strategy are as given below:

- It provides the advantage of economies of scale in marketing.
- The total marketing budget for all the products can be lower as advertisements for one product will also benefit the other products which carry the common corporate brand name.
- It also helps in brand extensions and in creating brand equity.
- It is useful in communicating effectively with shareholders and employees.
- Usually, corporate branding provides a firm with higher equity. This is because a firm adopting this strategy can build its overall reputation.

14.6.3 Mixed Branding

In the mixed branding strategy, companies make use of the corporate name for some products and a separate brand name for other products. Another form of mixed branding is the use of the corporate name along with a separate brand name in promotional activities.

The advantages of mixed branding strategy are as given below:

- The product will be able to leverage on the corporate brand name as well as the benefits of having an individual brand name which best describes the product.
- In the case of acquisitions, the mixed branding strategy can sometimes be advantageous as the brand will usually get a rich brand legacy along with the acquired company and it can be used to strengthen its product lines.
- If a firm markets a product targeted at different segments, the use of multiple branding strategies like mixed branding can be most effective.

14.6.4 House of Brands

A company which uses a house of brands branding strategy will not use the corporate name in its promotional activities. Each product will come with a separate brand name and the name of the firm will not be used. A particular brand name will be extended to only one product. Each new product of the company will get a new brand name.

Example

As of February 2022[9], Procter & Gamble is an American multinational company that uses House of Brands strategy for all its sub-brands like Tide, Pampers, Gillette, Head & Shoulders, Oral-B, Vicks, Old Spice etc.

Source; ICFAI Research Center

The advantages of house of brands strategy are as given below:

- It helps consumers to easily understand the differences between products.
- It helps a company to develop clear brand positioning and the personality of each product is expressed through the benefits that it provides to customers.
- If a firm markets a product targeted at different segments, the use of multiple branding strategies like the house of brands can be most effective.
- Products can be customized to meet the needs of different market segments.
- It can also help to check cannibalization, in cases where a company has several products catering to the same market segment.
- A firm which adopts this strategy will have to build each of its individual brands separately.

Activity 14.2

Agarwal and Co. is a company that manufactures various products like automobiles, computers, and FMCG products including skin care, oral care, and hair care products under the same brand name. Identify the branding

[9] https://in.pg.com/

strategy adopted by the company. Also discuss other branding strategies adopted by companies. **Answer:**

Check Your Progress - 4

11. Identify which of the following is not a branding strategy.
    a. Product line branding strategy
    b. Corporate branding strategy
    c. Mixed branding strategy
    d. House of brands strategy
    e. Product differentiation strategy

14.7 Responsibility for Making Product Decisions

The responsibility for making product decisions extends to various levels of the organization.

The following are the people in the firm who take different responsibilities for making product decisions:

- *CEO:* Product decisions are usually the responsibility of a team of top-level executives or the chief executive officer (CEO) of the organization. Important decisions to be taken at this level include allocation of funds, research and development (R&D) initiatives and brand acquisitions.

Example

Satya Nadella, CEO of Microsoft Corporation, stood in top 2nd position in the CEOWORLD magazine's global ranking of the world's best chief executives across all industries for 2022[10]. CEOWORLD measured more than 1,200 CEOs across 96 countries. Satya Nadella took many important decisions related to the company's product decisions, allocation of funds, R&D etc. and made Microsoft achieve superior world class business performance.

Source: ICFAI Research Center

- *Executives:* Other executives involved in product decisions include a group manager, who may be assigned the responsibility of managing a group of

[10] https://ceoworld.biz/2022/01/25/the-worlds-most-influential-ceos-and-business-executives-of-2022/

products of an organization and a product manager, who is responsible for only one product.

- *Product Managers:* It is the function of product managers to plan, manage, and coordinate the strategy for a specific brand or a product, throughout its life cycle. They usually have the responsibility of increasing the sales of an already existing product in the market. This involves all the product related activities like analyzing the market situation and developing product strategies.

14.8 Product Quality Management

Consumers are increasingly demanding quality products that last longer and require minimum maintenance costs. Improving product quality is an important challenge that companies that compete in the global market face. It requires attention to all aspects of a product from its design process to its sales.

Some important aspects of product quality management are as given below:

- *Productivity:* Efforts to increase quality may result in increased productivity and similarly, efforts to increase productivity may result in better quality.
- *Evaluation:* The quality required for a product is usually determined by evaluating it against the quality of competitors' products in the market.
- *Quality Standard:* Once the quality standard required for a product has been established, steps are taken to ensure that the standards are met.
- *Customers' Point of View:* From the customers' point of view, the quality of a product may mean the ability to satisfy their needs rather than the technical standards of the product.
- *Customer Orientation:* The quality of a product should therefore be defined based on its ability to meet the requirements of the customers. Thus, it is necessary to make sure that the customer orientation of a product is not lost in the efforts to maintain quality.

Example

Amazon is the world's largest Online Retailer. It is world's 2nd ranked company by Fortune 500 rankings, in 2021[11]. The growth and development of Amazon is primarily due to great understanding towards its customers. It consistently changes the processes and features towards addressing consumer concerns. Some examples like introducing Amazon Locker - a network of self-pickup boxes for working people who are not available at home during package delivery. Amazon could maintain both quality and customer orientation in its offerings.

Source: ICFAI Research Center

[11] https://fortune.com/company/amazon-com/fortune500/

14.9 Total Quality Management & Other Process Management Tools

Though Total Quality Management (TQM) originated in the 1950s, it became popular only in the 1980s. Many large companies in the world like Motorola, Toyota, Ford, etc. have implemented TQM.

Some of the important definitions and concepts of TQM are as given below:

- TQM as a Management Philosophy: TQM can be defined as 'a management philosophy that seeks to integrate all the organizational functions (marketing, finance, design, engineering, production, customer service, etc.) to focus on meeting customer needs and organizational objectives'.
- TQM as a Continuous Improvement: All the activities in the organization, from strategic planning by the top level management to the work of employees on the shop floor, require continuous improvement. Through this, the outcome of various operations in an organization can be continuously improved.
- TQM for Meeting Customer's Requirements: In TQM, an organization is considered as a collection of processes and the major objective is to carry out all the processes in the right manner so that in the end, the requirements of the customers are met. It is the foundation for various activities in the organization, like cost reduction, employee empowerment, conforming to the needs of customers, etc.
- *Concept of Defective Systems and Processes:* According to this concept, the defective systems and processes are responsible for most of the mistakes that employees commit in the organizations. In TQM, the emphasis is on detecting the mistakes that have already occurred and on improving the processes to prevent recurrence of such mistakes.

The following are some of the issues in TQM implementation:

- *Thorough Assessment:* The starting point of implementation of TQM in an organization is a thorough assessment of the organization's existing condition with the help of assessment tools like management audit.
- *Important Prerequisites:* Some of the important prerequisites for successful implementation of TQM are the presence of a strong administration, sufficient funds, managerial skills, high employee morale, a felt need for change, etc.
- *Implementation:* The implementation of TQM is not an easy task. It is a long and all-inclusive process which requires commitment from the management and the constant support of the employees. If the situation in the organization is not conducive to the successful implementation of TQM, the implementation process will have to be postponed till the conditions are favorable.

Other Process Management Tools:

In addition to TQM, there are various other process management tools like Six Sigma and ISO standards, which are as discussed below:

Six Sigma: Six Sigma was invented by Motorola Inc., in 1986 for measuring defects and thereby improving quality. Later, it became very popular when GE started successfully implementing it. Both Six Sigma and TQM make use of statistical methods to improve processes. But TQM stresses employee involvement throughout the organization.

Example
As of 2022[12] February, Mumbai based Dabbawalas is a 125 year old industry operated by illiterate rural people who have been maintaining world-class Six Sigma standards for many decades. Around 5,000 dabbawalas use bicycles and local trains for transporting meals to 2,00,000 people per day.

Source: ICFAI research Center

Six Sigma Expert Training Levels: Six Sigma approach is to train experts known as green belts and black belts to solve important problems who in turn teach others in the organization, which are as given below:

- *Six Sigma Black Belt:* A Six Sigma black belt is a specialist who is accomplished in the application of rigorous statistical tools and methodologies to improve the business processes. A black belt typically completes five to seven projects per year.
- *Six Sigma Green Belt:* A green belt is a person who is qualified in the methodology and tools needed to work successfully on a process improvement team. A green belt usually works as a member of a team which is led by a person with a Six Sigma black belt. Project teams are led by green belts, who are not employed full time in the Six Sigma program.
- *Master Black Belts:* In addition, there are master black belts who represent the highest level of technical proficiency. They provide technical leadership to the Six Sigma program. Some of the characteristics of Master Black Belt Trained experts are as given below:
  - These are individuals who have a few years of experience as a black belt, who have executed several projects with documented and sustainable results and have mentored other black belt candidates.
  - There will usually be about one master black belt for every ten black belts, or about one master black belt per 1,000 employees.

[12] *https://mumbaidabbawala.in/*

The International Organization for Standardization (ISO): It was started in 1947, is the world's largest developer of Standards. The implementation of International Standards helps organizations to develop their products and services as per specifications that will be accepted worldwide, and to compete in various markets around the world.

Some of the important features of ISO are as given below:

- ISO has published 19,500 International Standards from the time of its inception.
- The International Standards published by ISO make the development, manufacture and distribution of goods and services easier by providing guidelines for standardization.
- By following these guidelines, businesses can develop products that have wider acceptance.
- Most ISO standards are specific to a particular product, material, process, etc.

Groups of ISO Standards: There are two groups of standards named ISO 9000 and ISO 14000 which have become famous worldwide as they are generic standards which can be applied to any organization, any product, or any service worldwide.

- *ISO 9000:* ISO 9000 deals with quality management which helps the organizations to satisfy their customers by providing better products.
- *ISO 14000:* ISO 14000 is primarily concerned with environmental management, which helps the organizations to lessen the harmful effects caused to the environment by their activities.

Check Your Progress - 5

12. Identify which are the expert training levels of Six Sigma from the following.
    a. Six Sigma White Belt
    b. Six Sigma Red Belt
    c. Six Sigma Green Belt
    d. Six Sigma Yellow Belt
    e. Six Sigma Pink Belt

14.10 Customer Service Strategy

Customer service covers both the product component and the non-product component of customer satisfaction, which are as discussed below:

Product Component: The product component of customer satisfaction includes the price, performance of the product, ability of the product to meet the needs of the customers, etc.

Non-product Component: The non-product component includes aspects like product delivery on time, after sales services, product ordering costs, delivery costs, disposal costs, etc. Very often, the non-product component of customer service is not given due importance. It is, in fact, a critical factor in product strategy.

Example
World-renowned furniture brand IKEA keeps reinventing itself. As of 2022[13], it had over 76 years of loyal customers and patronage. Not just to keep up with customer expectations but also to define them with an integrated customer experience. It is rated top in terms of product components like price and performance of the product and also the non-product components like delivery on time, delivery cost etc.

Source: ICFAI Research Center

Some of the important features of customer service strategy are:

- *Package of Benefits:* When a person buys a product, he/she receives a package of benefits. The benefits usually include the usefulness of the product, maintenance services or training to use the product, the brand name or the reputation of the company which helps them to promote the product to other customers, etc.
- *Machines:* If the transaction takes place online or through automated mechanisms like vending machines, the personal aspect in the sale of the product is absent. Machines are equipped to handle the general problems faced by the customers. Machines cannot handle all the customer service problems, as the nature of the customers and the nature of the problems are very different.
- *Service Requirements of Individual Customers:* The service requirements of individual customers differ. These requirements also differ with the stage in the order cycle that a customer is in, the relationship he/she has with the salesperson, etc. Good customer service helps to retain customers.

14.10.1 Branding Strategy and Customer Service

In many large companies, customer service gets neglected in an attempt to manage the brand. In other words, they fail to recognize that brands exist for customers and as a result, it is the customers who should get priority over brand decisions.

Some important aspects of branding strategy and customer service are:

- Providing more importance to the customers over brands can be advantageous to the organizations in many respects.
- The cost involved in creating new customers for a company is much more than the cost associated with retaining the existing customers.

[13] https://freshdesk.com/general/best-customer-service-companies-blog/

- In order to increase the profits of a company, it is necessary to understand that satisfying the needs of the customers is important.
- It is the successful customer management that determines the long-term success of a company.

Check Your Progress - 6

13. Identify which of the following is not a part of the package of benefits of the customer service strategy.
    a. Usefulness of the product
    b. Maintenance services
    c. Simmed pricing
    d. Brand name
    e. Training to use the product

14.11 Summary

- A product can be considered as a combination of various tangible and intangible factors. Each product has a personality which consists of four factors – the generic product, the expected product, the augmented product, and the potential product. Marketers have to develop and implement various product strategies so as to achieve success in the market.
- Product differentiation is one product strategy through which a product is projected as being different from competing products in the market.
- Product positioning is done to help customers perceive a product differently from those of competitors.
- Product line expansion involves adding more products to a company's product line while product line contraction involves withdrawing products from an existing product line. In trading up, products which are priced much higher than other products in the product line are added to the product line. In trading down, products which are priced much lower than existing products are added to a product line.
- Another important product strategy is brand strategy. Important product brand decisions to be taken include whether to go in for a single brand, multiple brands, brand extension, etc.
- The product life cycle model proposed by Theodore Levitt is very useful in making many product decisions. According to the product model, successful products pass through four stages during their lifetimes – the market development stage, market growth stage, market maturity stage and market decline stage.
- Branding helps consumers to differentiate products offered by various competitors. Branding helps organizations to retain their customers and also to obtain legal protection against competitors who try to copy the features of their products.

- In order to compete successfully in global markets, products are expected to have high quality. Various concepts have evolved in quality like TQM, Six Sigma, ISO Standards, etc., which helps organizations to enhance the quality of the products they manufacture and thereby satisfy the needs of customers.
- Customer service is very important for consumer satisfaction and it has both a product component and a non-product component.

14.12 Glossary

Brand: A brand is a name, term, design, symbol, or any other feature that identifies one seller's goods or service as distinct from those of other sellers.

Positioning: Positioning is a communication tool that helps to get a product noticed in a marketplace that is cluttered with a number of products.

Product Decision: Any conscious change in the company's product offering as viewed by the buyer is defined as a product decision.

Product Line: Product line is a group of products that are closely related because they satisfy a class of need, are used together, are sold to the same customer groups, are marketed through the same type of outlet or fall within a given price range.

Product Mix: Product mix is the composite of products offered for sale by a firm or business unit.

Six Sigma: The condition to gain Six Sigma quality is that a process must not generate more than 3.4 defects per million chances. The basic idea behind the process is that if it is possible to find out the number of defects that occur in a process, it is also possible to find different ways to get rid of these defects.

Total Quality Management (TQM): TQM can be defined as a management philosophy that seeks to integrate all the organizational functions (marketing, finance, design, engineering, production, customer service, etc.) to focus on meeting customer needs and organizational objectives.

14.13 Self-Assessment Test

1. Define product and explain its components.
2. Describe the different product strategies.
3. Explain various types of product decisions taken by companies.
4. Describe the product lifecycle.
5. Define branding strategy and explain various types of branding strategies.
6. Explain the responsibility of organizations in making product decisions.
7. Explain the concepts of Product Quality Management and Total Quality Management.
8. Describe the components of customer service.

14.14 Suggested Readings/Reference Material

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14.15 Answers to Check Your Progress Questions

1. (c) The renovated product

The four components of a product personality are – The generic product, the expected product, the augmented product and the potential product.

2. (c) The expected product

The product which has all the features that the customers consider to be the minimum requirements to make a purchase is called the expected product.

3. (d) The augmented product

The result of value additions made by the manufacturer to a product so as to provide customers with more than they expected is the augmented product.

4. (b) Potential product

A potential product is one that includes everything that can be done to a product to attract and retain customers.

5. (a) The potential product

Enhanced technology and design features, modified characteristics of a product to delight customers and additional benefits are the characteristics of the potential product.

6. (d) Financial Strategy

The success of a product strategy depends on various factors such as: Suitable product that fits the needs of the customers, stable economic environment, well planned and implemented promotional activities and distribution efficiency. Financial strategy or how funds are raised is not relevant in this context.

7. (b) Product differentiation

The product strategy which makes a firm's product more desirable to consumers than the products of the competitors is product differentiation.

8. (c) Pricing up products more than all other products in existing product line.

Trading up involves pricing up products as compared to existing products in the product line. This strategy is used when the business is booming and consumers are willing to pay a higher price for improved features

9. (d) Increase in the cost of production

Changes in the tastes and preferences of customers, technological changes, and new products introduced by competitors, etc., can cause disruptive changes in the marketplace. Increase in the cost of production may reduce the profit margins of a company and may not bring about any disruptive change in the immediate future.

10. (d) Product life cycle

The changes in the tangible products usually involve changes in the physical attributes of the products, which are quality, operational aspect, and style. Product life cycle is not an attribute.

11. (d) Product Differentiation Strategy

There are four branding strategies which are: Product line branding strategy, Corporate branding strategy, Mixed branding strategy, House of brands strategy. Hence Product Differentiation Strategy is not a part of it.

12. (c) Six Sigma Green Belt

The main expert training levels of Six Sigma are: Six Sigma Black Belt, Six Sigma Green Belt and Master Black Belt. Hence the answer is Six Sigma Green Belt.

13. (c) Skimmed Pricing

Package of benefits of customer service strategy are: the usefulness of the product, maintenance services or training to use the product, the brand name or the reputation of the company which helps them to promote the product to other customers, etc. Hence the answer is Skimmed Pricing.

Unit 15

Pricing Strategy

Structure

"Pricing is actually pretty simple...Customers will not pay literally a penny more than the true value of the product."

- Ron Johnson

15.1 Introduction

As quoted rightly by Ron Johnson, customers pay only for the true value of the product. A good pricing strategy helps a business identify the optimal pricing point that will maximize profits. Price, which is a key element of the marketing mix and pricing strategy of a firm, impacts other elements of the marketing mix like product, place and promotion.

The previous unit discussed the product and its components, different product strategies, different types of product decisions, the product life cycle, different branding strategies, the responsibility of organizations to make product decisions, quality management tools like Product Quality Management, Total Quality Management and other process management tools like Six Sigma and ISO and the components of customer service.

In this unit, we shall discuss the concept of pricing, various methods of pricing, various approaches to price setting, different pricing strategies, methods of pricing and conclude with a discussion on how marketers study consumers and competitors to understand the likely effects of price on demand levels and demand patterns and how pricing can be used as a tactical weapon.

15.2 Objectives

After reading this unit, you should be able to:

- Describe the role and significance of price.
- Discuss various approaches to price setting.
- List and explain the different pricing strategies.
- Elaborate on various methods of pricing.
- Discuss how marketers study consumers and competitors to understand the likely effects of price on demand levels and demand patterns.
- Discuss how pricing can be used as a tactical weapon to achieve the objective of increasing the customer base and minimize losses arising due to price wars.

15.3 Role and Significance of Price

According to Nagle and Holden, *'If effective product development, promotion, and distribution sow the seeds of business success, effective pricing is the harvest'.* Pricing is an important component of the marketing strategy of an organization. It is also a key element of the promotional mix which provides revenue to an organization.

The importance of Pricing is as given below:

- *Pricing decisions:* They are the most difficult and important decisions for marketing managers. These decisions cannot be taken using the trial and error method and often they have to be taken within a short time. They influence the profitability and future growth of an organization to a considerable extent.
- *Revenue:* The revenue of an organization is determined on the basis of price and volume of sales. Price also has a significant effect on the volume of sales.
- *Competition:* The presence of competitors complicates pricing decisions. This is because the pricing strategies adopted by an organization play a significant role in its ability to compete effectively in the market.

Example

Maruti Suzuki continues to lead the market with a 43.65 percent market share in the Financial Year 2021-22[14]. The affordable pricing strategy helped it to lead the market for many years and gave tough competition to its competitors in the Indian market.

Source: ICFAI Research Center

15.4 Approaches to Price Setting

Marketing managers need to consider a variety of factors in deciding the price for a new or modified product. There are six important approaches to price setting, which are:

[14] https://www.carandbike.com/news/maruti-suzuki-sees-lowest-market-share-in-8-years-rival-tata-reports-stands-at-13-years-high-2868524

15.4.1 Cost of Production

Cost is the money spent to produce and market a product or service. While arriving at pricing decisions, cost is an important factor and the details regarding the cost of a product can be easily obtained through internal sources.

The important aspects of this approach are as given below:

- *Selling Price:* By adding a reasonable profit to the cost, the selling price can be arrived at. It can also be ensured that the products are not sold at a price which is below the cost incurred in their production.
- *Types of Costs to be considered:* While taking pricing decisions, allocating the costs to various products is very important. It is often difficult to determine the total cost of a product as there are different types of costs as given below:
    - *Direct Costs:* These can be easily linked to specific products.
    - *Indirect Costs:* These cannot be easily traced back to the specific products.
    - *Overhead Costs:* Overhead costs cannot be easily traced back to the specific products.
    - *Fixed and variable costs:* The organizational objectives help in determining the extent to which fixed and variable costs are to be considered in arriving at pricing decisions. For an organization which aims at increasing sales and not maximizing profit, fixed costs play a major role in the pricing decisions of the firm. (Refer to Table 15.1 for definitions of various types of costs).

Table 15.1: Types of Costs

Type of Costs	Definition
Direct Costs	Costs incurred by and solely for a particular product, department, program, sales territory, or customer account. These may be fixed costs or variable costs. They are also known as traceable costs or attributable costs.
Indirect Costs	Any cost that is incurred for common objectives and therefore cannot be directly charged to any single cost objective.
Fixed Costs	The costs incurred by a firm tend to remain at the same level (fixed) no matter how many units of a product are produced and marketed.
Variable Costs	Those costs that vary directly with the number of units produced and marketed.

Contd….

Overhead Costs	The operating expenses of a business, including the costs of office space, utilities, interior decoration and taxes.

Source: Yogesh Maheshwari, "Managerial Economics", PHI Learning, New Delhi, 2017.

Some of the drawbacks of this approach are as given below:

- *No Influence on Pricing Decisions*: For an organization which has the immediate objective of maximizing profits, fixed costs may not influence pricing decisions in the short term. Pricing decisions which take into consideration only production costs, ignore the perceived value of the product by the customer.
- *No Account of Demand:* This method also takes no account of the demand for the product in the market. In fact, the demand for a product is influenced by its perceived quality, services provided to the customers and so on.
- *Cannot Determine Willingness of the Consumers to Buy:* The willingness of the consumers to buy a product may not be determined by the cost incurred by the company in producing it. Most often, customers may not have any idea of the cost incurred by the firm in producing the product.
- *Missing Chance of Making Profit:* Firms adopting cost based pricing strategies may be missing out on the chance of making profit and charging a price lower than what the consumers are willing to pay for the product.

15.4.2 Product Life Cycle

A product passes through various stages in its lifecycle, namely the introductory stage, growth stage, maturity stage and decline stage. Each stage in the life cycle of a product requires a different pricing strategy. The important factors which may influence the price of the product like cost, demand, legal considerations, etc. should be taken into account in the pre-launch period itself.

The pricing strategies for different Product Life Cycle Stages are as given below:

- *Introductory Stage:* In this stage the pricing objective for the product determines whether the product should be priced to skim or penetrate the market.
- *Growth Stage:* In this stage of a product, price can be used as a weapon to fight competition.
- *Maturity Stage:* In this stage the pricing strategy should ensure that the market share of the product is retained. Different distribution channels which provide scope for selling the product at a higher price should be identified.
- *Decline Stage:* In this stage price can be increased to maximize profits even if it leads to a decline in the market share.

Exhibit 15.1 illustrates various product life cycle stages of BlackBerry Mobile Phones and the pricing strategies it used at various stages.

Exhibit 15.1: BlackBerry Mobile Phones - End of Legacy Devices

Pricing Strategies for Product Life Cycle Stages of BlackBerry Legacy Devices

Introduction Stage: The BlackBerry was launched in 1999 with its innovative model BlackBerry 850 with complete Qwerty Keyboard and Internet. As it did not have many competitors, its pricing was high and it used market skimming pricing.

Growth Stage: In 2007, it reached 10 million customers and presence in 120 countries. Its price was still high as it is unique from its competitors. Its competitors, Apple and Samsung, emerged during this time period.

Maturity Stage: From 2007 to 2011, it reached a peak in sales and then remained constant. Competition became stiff and pricing also got affected and it had to offer its phones at low prices. As it wanted to penetrate in the market, it used penetration pricing.

Decline: From 2013 to 2022, its legacy phones and devices started to decline and by 2022 January 4 the decline stage was completed as it stopped even offering the legacy services for BlackBerry 7.1 OS and earlier, BlackBerry 10 software, BlackBerry PlayBook OS 2.1 and earlier versions. But its Android based phones did not get affected and its other software businesses do not include this.

Sources: i) https://brandequity.economictimes.indiatimes.com/news/business- of-brands/blackberry-selling-legacy-patents-for-600-mn/89289219 Accessed on 3.2.22.
ii) https://marketinginourlives.blogspot.com/2016/12/blackberry-perfect-example-of-product.html Accessed on 3.2.22.

iii) https://www.blackberry.com/us/en/support/devices/end-of-life Accessed on 3.2.22.

15.4.3 Government Regulations in Pricing

The governments in many countries have implemented regulations to prevent companies from adopting pricing strategies that are against the interests of consumers or which may affect the local industries.

Some of the important aspects of government regulations in pricing are as given below:

- *Preventing Monopoly:* The nature of regulation varies across countries, but it is generally aimed at preventing the monopoly of a large company and at protecting small companies.
- *Preventing 'Price Dumping':* 'Price Dumping' means *the strategies adopted by multinational firms where products from one country are sold in other countries at a price lower than the price prevailing in the market.* Government regulations also seek to prevent price dumping.

- *Anti-Dumping Laws for Prevention of Cheap Foreign Goods:* Many countries have anti-dumping laws that prevent cheap foreign goods being dumped into their country to protect the interests of the local manufacturers.
- *Price Collusion:* It is also considered anti-competitive in many countries. This involves joining hands with the competitors in the market in order to gain more control over the market and to reduce price competition.

Activity 15.1

E-Mobiles Ltd., is a newly established mobile phone manufacturing company in India. The company manufactures phones with all the latest features and various applications that are useful to the consumers. Of late, many mobile phone companies are offering innovative features and applications on their phones. Thus, the company launched a new mobile phone that included all the features of a smartphone and software that would enable the consumers to download any application on their mobile phone. The company priced this phone at an introductory price of ₹ 35,000. Though the sales were not astounding, some consumers got attracted to the phone and bought the phone. The company found that other mobile phone companies offered this software and priced their phone at ₹ 30,000. In order to retain its market share, E-Mobiles reduced the price of its phone to ₹ 25,000. The company used pricing as a weapon to combat competition from other companies. Identify the stage of the product life cycle. Also discuss the company's position in other stages of the product life cycle.

Answer:

15.4.4 Nature of Competition

Various competitive forces in the market also influence the pricing strategy of an organization.

- *Competing Products:* The demand for a product at a particular price is determined by the price of competing products available in the market.
- *Competitors Reaction to Price Changes:* Unbridled competition in the market can lead to price wars in which the prices of the products may be reduced to unprofitable levels. In other cases, competitors may opt not to respond to any price changes by a rival.

- *New Entrants Pricing Strategies:* The new entrants have to carefully fix the price of their product in the light of the competition and the quality of the product. Based on the quality of the product offered, the new entrants can decide on the price of the product above or below the price fixed by others in the market.
- *Market Leader Pricing Strategies:* The market leader dictates the price of a particular product in the market. Market followers selling that product need to adjust their prices according to the price offered by the market leader. To compensate for reduced prices in one market they may charge a higher price in other markets where they have market leadership.
- *Positioning and Differentiation:* When firms are competing with each other on the price front, price may not always be the only differentiating feature. A competitor may fix his price higher because the product is positioned higher on the basis of the differentiating features of the product itself.
- *Cost Advantage:* Only an organization which has a definite cost advantage over its competitors is likely to initiate a price war, since its cost advantage makes it more likely that it will be the survivor in the market.

15.4.5 Nature of Consumers

The consumer demand for a product is significantly influenced by its price. Price elasticity of demand is the sensitivity of demand to changes in price. When the price increases, demand will come down and when the price decreases, demand will increase. If the product is unique in nature, its price sensitivity will be less. In other words, its demand will not decrease in proportion with the increase in price.

There are some special cases which exhibit different behaviors as given below:

- *Giffen Goods:* In the case of [15]Giffen goods, peoples' preference for buying a product increases with an increase in its price.
- *Luxury Goods:* In the case of luxury goods like expensive wine, perfumes, etc., an increase in price will not affect consumption significantly.
- *Substitute Products:* If substitute products are available in the market and consumers are aware of it, price sensitivity for the product will be high. When the price of one product goes up, the demand for substitute products will increase.
- *Reference Price:* The reference price is the price that the consumers are assumed to form in their minds as a result of their experience. It is usually considered as a range of price which the consumer assumes to be appropriate for a particular product. Consumers may be indifferent to price changes within a particular range of the reference price.

[15] A Giffen good is typically an inferior product that does not have easily available substitutes, as a result of which the income effect dominates the substitution effect.

➢ *Latitude of Price Acceptance:* Customers may not react to any price change within the reference price range, i.e. there is a region of price insensitivity around the reference price. Any price above the reference price may be perceived to be a loss for the customer and any price below the reference price will be considered as a gain. This phenomenon which is exhibited by the consumers is known as latitude of price acceptance.

  Factors influencing the latitude of price acceptance: The latitude of price acceptance is dependent on factors like the reference price level and the level of consumers knowledge about the prevailing price, as given below:

  - *Higher Price:* For a product with a higher price, the width of latitude of price acceptance is higher.
  - *Knowledge of Consumers:* If the consumers are more knowledgeable about prices, the width of latitude of price acceptance will be narrower.
  - *E-commerce Products:* In the case of products purchased through e-commerce websites, customers are able to compare prices and thus have knowledge of prices charged by different online retailers.
  - *Retailer Offering at Lower Price:* Customers always tend to purchase from the retailer charging the lowest price, unless the higher price is justified by some value added service or other benefits.

15.4.6 Pricing Objectives

Pricing objectives may differ substantially from one organization to another. Many firms aim at profit maximization as their overall organizational objective, but generally, they have more than one objective. One objective is singled out as the primary objective and there may be more than one secondary objective.

Pricing objectives can be broadly classified into the following four types: (Refer to Table 15.2).

Volume Oriented Pricing Objective: An organization, which adopts this type, will generally go in for low prices which will help to increase its sales volume and gain market share.

Cost Oriented Pricing Objective: The organization tries to obtain economies of scale by increasing its sales volume, so that production costs are brought down. Hence, prices have to be low.

Profit Oriented Pricing Objective: A firm tries to strike a balance between achieving a high level of profit per unit of a product and optimizing the sales volume. Since the objective here is to maximize profit, prices can neither be too high nor too low.

Competition Oriented Pricing Objective: It aims at achieving price leadership in a product segment, so that competitors find it difficult to compete on price. This requires the price to be as low as possible.

Thus, it is the overall objectives of the organization which provide the guidelines for pricing decisions.

Table 15.2: Pricing Objectives

Cost Oriented	Profit Oriented	Volume Oriented	Competition Oriented
• Obtain economies of scale • Take advantage of experience • Recover investment costs	• Maximize profit • Maximize market skimming	• Market growth • Market maintenance • Market penetration • Increasing sales • Maintaining sales • Increasing usage of the product	• Price leadership • Prevent the entry of competitors • Market stabilization • Meet competition more effectively

Adapted from Blois, Keith, ElsGijsbrechts and Katia Campo "Pricing" Oxford Textbook of Marketing 2000.

Check Your Progress - 1

1. Pricing is an important component of which of these functions?
   a. Marketing strategy of an organization only
   b. Marketing mix only
   c. Marketing mix and marketing strategy of an organization
   d. Production management
   e. Administration and Book Keeping of an organization
2. Which of the options given below best describes overhead costs?
   a. Are also known as traceable costs or attributable costs.
   b. Cannot be directly charged to any single cost objective.
   c. Costs incurred by a firm that tend to remain at the same level.
   d. Costs that vary directly with the number of units produced and marketed.
   e. The operating expenses of a business, including the costs of office space, utilities, interior decoration and taxes.

3. Which of the following pricing strategies is best suited for the Maturity stage?
   a. Price can be increased to maximize profits even if it leads to a decline in market share.
   b. Pricing should ensure that the market share of the product is retained.
   c. Price can be used as a weapon to fight competition.
   d. Price to skim or penetrate the market.
   e. Price is seldom used as a tactical weapon in the maturity stage.
4. Governments impose pricing regulations for various reasons. Which of these is not a valid reason for governments to impose pricing regulations?
   a. When the pricing policy of a company may be against the interest of the consumers.
   b. When the pricing policy of a company is likely to affect local industries.
   c. Prevent monopoly of a large company and protect small companies.
   d. Prevent price dumping.
   e. When the company uses its cost advantage to charge a lower price to capture market share.
5. Which of these theories explains the sensitivity of demand to changes in price?
   a. Product elasticity of demand
   b. Price elasticity of demand
   c. Sales elasticity of demand
   d. Cross elasticity of demand
   e. Law of demand.
6. Which of the following is not among the classification of pricing objectives?
   a. Volume oriented pricing
   b. Cost oriented pricing
   c. Loss oriented pricing
   d. Competition oriented pricing
   e. Demand based pricing

15.5 Pricing Strategy

The pricing strategy of an organization depends upon the organizational objectives and environmental characteristics like the target market which the organization intends to serve.

Definition: Gerard A. Tellis (Tellis) defines pricing strategy *as 'a reasoned choice from a set of alternative prices (or price schedules) that aim at profit maximization within a planning period in response to a specific scenario'.* Tellis has proposed a matrix which provides a classification of various pricing strategies.

Assumptions: There are three assumptions behind this classification of pricing strategies, as given below:

- Some customers in the market do not have any idea as to which product is sold at which place and so have to search for it. A few customers are assumed to purchase a product without obtaining full information about it.
- Some customers may not require the product urgently and so may not be willing to purchase the product at as high a price as others in the same market.
- Customers have to incur various transaction costs, like transportation cost, switching costs, etc., in their purchase decisions.

Classification of Pricing Strategies:

The classification of pricing strategies is made on the basis of two dimensions:

- ➢ The pricing objectives of the firm.
- ➢ The characteristics of the customers.

On the basis of these two dimensions, pricing strategies can be classified into three groups – differential pricing strategies, competitive pricing strategies and product line pricing strategies, which are as discussed below:

15.5.1 Differential Pricing Strategies

In differential pricing strategies, a brand is priced differently to different customers under similar circumstances, taking into account the heterogeneity of customer characteristics.

There are three types of differential pricing strategies – second market discounting, periodic discounting and random discounting.

Second Market Discounting

Second market discounting is a form of price differentiation in which different prices are fixed for the same products in different market segments. The segments can be formed on the basis of geographical location, consumer characteristics, etc. For this type of differential pricing to be possible, there have to be some transaction costs or barriers which prevent customers from purchasing from the segments which offer the product at a lower price.

Some important forms of second market discounting are as given below:

- ➢ *Dumping:* Goods are sold at a higher price in the home country and at a lower price in the export markets which are more sensitive to price.

Example

As on January 2022,[16] China and Indonesia are dumping steel in India massively. Due to this, the capacity utilization of the MSMEs have dwindled to anywhere between 60% and 50%. This adversely affected MSME businesses and many have closed their businesses as the stainless-steel from China and Indonesia is highly subsidized in India.

Source: ICFAI Research Center

- *Patent Period Expiry:* Pharmaceutical companies, which launch generic drugs in the market, adopt this pricing strategy once the patent period expires. In this situation, the company can introduce an unbranded generic drug in the market at a lower price and continue with the sale of highly priced branded drugs.
- *Membership Status:* Another form of second market discounting is offering lower prices to customers on the basis of their membership status.

Periodic Discounting

In periodic discounting strategies, prices are different at different times. Customers may be willing to pay a higher price for certain products during certain time periods and expect lower prices during other periods. This aspect is taken into consideration in periodic discounting strategy. Customers also anticipate such periodic changes in price as they become a norm over a period of time.

Forms of Periodic Discounting: Some important forms of it are as given below:

- *Off-season Sales:* Off-season air fare, off-season price discounts on fashion accessories, off-peak hour telephone charges, etc. all form part of periodic discounting strategies.
- *Price Skimming:* It is another kind of periodic discounting strategy. In this strategy, products are charged a higher price when the product is introduced in the market. Later, prices are slowly reduced in order to penetrate the market.

Random Discounting

Many consumers may not be aware of price discounts offered for certain products at certain times and may buy products at a higher price. In this strategy, prices are generally kept at high levels except for discounts offered at random intervals.

Heterogeneous Nature of Consumers: Random discounting strategy makes use of this heterogeneous nature of consumers. Consumers who are not aware of the

[16] https://economictimes.indiatimes.com/small-biz/sme-sector/budget-as-chinese-stainless-steel-imports-surge-indian-msmes-feel-the-heat/articleshow/89010238.cms accessed on 2-3-22.

price discount are not given the discount. Those who are aware that price discounts may be offered for the product are willing to wait for the discount offer before purchasing the product.

Some of the advantages are as given below:

- The firm can sell the product both to the customers who look for lower prices and to those who are willing to pay higher prices.
- The sales at higher prices give higher profits, while the sales at lower prices help to maintain market share.
- This strategy helps increase the customer base of the firm.

15.5.2 Competitive Pricing Strategies

Competitive pricing strategies are based on the competitive position of a firm in the market. There are four types of competitive pricing strategies – penetration pricing, experience curve pricing, price signaling and geographic pricing.

Penetration Pricing

In a penetration pricing strategy, a new product is introduced into the market at a lower price. When the price is low, customers who are more price sensitive will buy the product. This strategy is usually applied by marketers who want to enter a new market or who want to increase their market share.

Example

Amazon is known for its best utilization of penetration pricing strategy. It provides one month free subscription to new customers and penetrates more in the market. Amazon Prime is in second position in the US market with 19% market share in the last quarter of 2021[17], Netflix being in top position with 25% market share.

Source: ICFAI Research Center

Some of the advantages of penetration pricing are:

- The presence of many price sensitive customers in the market helps in the effective application of a penetration pricing strategy.
- Similarly, if there is a threat of entry of competitors in the market, a penetration pricing strategy can be used.

Prerequisites: Some of its prerequisites are as given below:

- Before applying this pricing strategy, marketers have to ensure that they have the required production and distribution capacity to meet the increased demand that may occur as a result.

[17] https://www.gizchina.com/2022/01/26/netflix-is-the-king-of-us-market-but-hbo-max-is-reaching-the-high-ground/ accessed on 4-2-22.

- A penetration pricing strategy is effective only if the average selling price is more than the average unit cost of production.

Some of its disadvantages are:

- A major disadvantage of the penetration pricing strategy is that competitors may also reduce prices making the strategy ineffective.
- The image of the company and the product may also take a beating on account of the price cuts.
- The customer who is price sensitive will keep switching to cheaper brands where he gets more value for the same money or same value for lesser money.

Experience Curve Pricing

The experience curve depicts the decrease in the average total cost with an increase in the cumulative volume of production. This pricing strategy is effective when the consumers are price sensitive.

Some of the important advantages of experience curve pricing are as given below:

- *Economies of Scale:* Economies of scale are generated when an increase in production volume decreases the cost per unit.
- *Efficient Manufacturing:* With the increase in the cumulative volume of production, the manufacturing process becomes more efficient on account of increased experience. This means that the same output level can be produced at a decreasing cost in due course.
- *Aggressively Pricing of Products:* The experience curve pricing strategy involves pricing products aggressively, i.e. at a lower rate, with the aim of preventing competitors from entering the market.
- *Remarkable Experience Effects:* A firm which gains the benefits of economies of experience will have a low average cost and this makes price reductions easier. Experience pricing strategies can be successful only when the firm experiences remarkable experience effects, i.e., a lower average total cost with an increase in the cumulative volume of production.
- *Gain Dominant Market Share Early:* The firm should be able to obtain a dominant market share very early in the product life cycle to gain full advantage of the experience curve.
- *Lower Prices & Increased Market Share*: The benefits of lower cost can be transferred to customers in the form of lower prices. Competitors will not be able to match the lower costs and lower prices quickly. The market share of the company will increase on account of lower prices and its leadership position in the market will become irrefutable.

Price Signaling

Price signaling involves offering products of low quality to customers at a higher price. Customers may assume that the products are of superior quality, on account of the higher prices.

Extremely Price Ignorant Consumers: Price signaling is usually done in markets in which consumers are extremely ignorant about prices. In such situations, prices are increased through advertisements which claim the superiority of some immaterial aspect of the low quality product, with the aim of increasing the price.

Some of the prerequisites of price signaling are as given below:

- A prerequisite for this strategy to succeed is that consumers should be unable to get information about the quality of such products offered in the market.
- The consumers should be willing to buy a high priced product on the assumption that it is of good quality.
- Another requirement for the success of price signaling strategy is the presence of a positive correlation between quality and price so that the customers who infer quality of the product from its price find it reasonable to purchase the product.

Geographic Pricing

Geographic pricing is usually adopted by firms which sell products in geographically different markets between which transportation costs are significant. The price in each market will be determined on the basis of the transportation cost.

There are three types of geographic pricing which are as given below:

- *Free on Board (FOB):* In FOB, customers are charged for the transportation costs.
- *Uniform Delivery Pricing:* In uniform delivery pricing, the firm bears the transportation cost to all the markets and the same price is charged for the product in all the markets.
- *Zone Pricing:* Zone pricing is a combination of FOB and uniform delivery pricing strategy. In this, the total market of a firm is divided into various zones. Between zones, the price is different on the basis of transportation costs. But, within each zone, the price is the same irrespective of the transportation cost to different points in the zone.

15.5.3 Product Line Pricing Strategies

Firms which have a variety of products generally adopt product line pricing strategies. These strategies are adopted depending upon their ability to meet customer demands and maximize profits.

There are three different types of product line pricing strategies which are as discussed below:

Price Bundling

Price bundling involves selling two or more complementary products in a product line together at a special price. Price bundling takes three different forms as given below:

- *Pure Bundling:* In this, the products offered have to be purchased together for the consumer to get a price discount. The products are not made available separately in the market at normal prices.
- *Mixed Bundling:* In this, the products offered as part of the bundling can be purchased together at a discounted price and separately at the normal price.
- *Amplified Mixed Bundling:* In this, the buyer is given an option to choose from a set of products and purchase them at a discount.

Premium Pricing

In premium pricing, products of high quality are sold at very high prices. High prices charged for products compensate for the loss in the volume of sales on account of high prices.

Some of the important features of premium pricing are as given below:

- Premium pricing is commonly adopted in the hospitality industry, automobile industry, etc.
- People generally purchase products which are priced at a premium as they believe that higher price indicates better quality.
- It also acts as an indicator of the status and self-esteem of the buyer.
- Another reason for the purchase of premium products could be the high risk associated with the product not functioning well.

Image Pricing

In image pricing, a company introduces a product which is almost identical to an existing product in the market, but at a higher price.

Some of the important features of image pricing are as given below:

- Through image pricing, the company aims at projecting an image of higher quality for the product.
- The profit obtained from the sale of higher priced versions is generally used to subsidize the sale of lower priced versions.
- In image pricing, there is no real difference in terms of quality, between the brands offered at higher and lower prices.

- The difference between the brands is only in terms of the price and the projected image.
- Image pricing is generally adopted for products like cosmetics, clothing, soaps, etc.

Retailers Pricing Strategies: Retailers adopt different pricing strategies from those discussed above. The two types of pricing strategies commonly used by the retailers are as given below:

- *Every Day Low Pricing (EDLP):* Retailers who adopt EDLP pricing charge low prices for the merchandise on a continuous basis.
- *High Low Pricing (Hi-Lo):* In Hi-Lo pricing strategy, products are priced high on a regular basis, but selected goods are sold at high discounts. The rationale behind Hi-Lo pricing strategy is to attract customers to the store by offering a few products at high discounts and once they are in the store, persuade them to buy other items which are not offered at discount.

Check Your Progress – 2

7. Which one of the following is not a Competitive Pricing Strategy?
   a. Penetration Pricing Strategy
   b. Experience Curve Pricing Strategy
   c. Premium Pricing Strategy
   d. Price Signaling Strategy
   e. Geographic Pricing Strategy

Activity 15.2

SAS India Fashions is a huge textile retail showroom, based in Mumbai, which caters to the needs of men, women and kids. During festive seasons the retailer adopted a discounting strategy where discounts were offered to consumers. The company did not advertise that it offers discounts. The consumers who were aware of the discounting strategy could avail discounts while other consumers paid high prices for the same products. Identify the pricing strategy adopted by the company. Also discuss other differential and competitive pricing strategies.

Answer:

15.6 Methods of Pricing

A systematic approach is required to decide the pricing method an organization should adopt. This entails a proper understanding of the nature of the competition, the nature of the customers, the market situation and so on.

The following questions can be basic guidelines in deciding the pricing method as given below:

- Whether through the overall corporate strategy, the firm is gaining market share?
- Whether through the overall corporate strategy, the firm is making profit?
- Whether through the overall corporate strategy, the firm is maintaining a particular rate of growth?

Some of the important methods of pricing are as discussed below:

15.6.1 Cost Plus Pricing

In cost plus pricing, the price is fixed on the basis of production cost, which includes both the fixed cost and variable cost along with some profit margin.

Example

If it is estimated that the variable cost per unit is ₹ 1,000 and fixed cost per unit for the expected sales volume is ₹ 2,000, the total cost per unit will amount to ₹ 3,000. If it is decided to have a profit margin of 25 percent, ₹ 750 (25 percent of 3,000) is added to the total cost and the product can be sold at a price of ₹ 3,750.

Source: ICFAI Research Center

The advantage of this method is that, if the cost is calculated accurately, the product can be sold at a definite level of profit.

15.6.2 Target Return Pricing

In target return pricing, the price is fixed so as to achieve a target return on investment.

In the example mentioned above, if the total investment made is ₹ 1,00,000, a profit of ₹ 1,00,000 should be made in the first year in order to regain the investment made. If it is assumed that 100 units can be sold in the first year, the company will have to price the product in such a way as to get a profit of 1,00,000 from 100 units.

In other words, profit of ₹ 1,000 (i.e. 1,00,000/100) should be made from each unit of the product sold. In such a situation, the price of the product can be fixed at 4,000 per unit (total cost ₹ 3,000 plus profit ₹ 1,000).

15.6.3 Early Cash Recovery (ECR) Pricing

This method is adopted by companies which aim at recovering maximum returns for a product from the market, at the earliest, when a product is in the final phase of its product life cycle. If a competitor is planning to come out with a better version of the product at a lower price, pricing decisions that can reduce the risk of the company and maximize short term profits can be taken.

15.6.4 Value Based Pricing

Value based pricing involves pricing a product on the basis of value it provides to the consumer. The company tries to find out how much the product is worth to the customer. This is the basis for fixing the price. The major advantage of value based pricing is that the price will be neither higher nor lower than what customers are willing to pay.

Check Your Progress – 3

8. Which one of the following is not a Pricing method?
   a. Skimmed Pricing
   b. Cost Plus Pricing
   c. Target Return Pricing
   d. Early Cash Recovery Pricing
   e. Value Based Pricing

15.7 Other Considerations in Pricing

While setting price, marketers have to understand the likely effects of price on demand levels and demand patterns. To understand this, it is absolutely essential to study the competitors in the market and the response patterns of consumers.

15.7.1 Study of Consumers

The price of a product has an impact on its demand and thereby, on its total sales volume. As the price increases, the demand decreases in the case of most products. There are two important studies as given below.

Inability of Consumers to Recall the Price: Some of the observations of this are:

- *Factors for Inability to Recall:* For consumer goods, the consumer’s ability to recall the price of individual products is generally low. Some of the factors that can be attributed to this include: complexity of price information on account of the large number of products available, consumers’ lack of time to seek information regarding prices, similar prices among competing products, and so on.

- *Relevance in Pricing Decisions:* The inability of the consumers to recall the price of individual items is of great relevance when making pricing decisions. Consumers generally encode the price of the products in absolute terms (e.g. the price is hundred rupees for one kilogram) or relative terms (e.g. brand X is cheaper than brand Y).
- *Knowledge of Competing Products Price:* While choosing a product, customers generally make use of their knowledge about the price of competing products. This makes it necessary for the firm to ensure that the prices are not much more expensive than other competing products.

Store Atmosphere and Layout: Some of the observations of this are:

- *Influence Perception of Consumers*: Store atmosphere and layout can significantly influence the perception of consumers about price.

Example

Shoppers Stop[18], one of the leading retailers of fashion and lifestyle products, is adopting a new store design concept for its department stores across the country. A German architecture and design, store branding and communication firm Schwitzke helped it conceive this concept that offers a modern shopping experience to its customers in line with what is happening globally, which influenced the perception of its customers.

Source: ICFAI Research Center

- *Limits of Price:* In the case of products that are commonly purchased, consumers generally have a lower and an upper price limit within which they are willing to buy.
  - *Upper Limit of Price*: It is the price beyond which a consumer may be unwilling to purchase a product. This is because the consumer may not be able to afford the product or may prefer to spend the money on a less expensive product.
  - *Lower Limit of Price:* It stems from the role of price as an indicator of quality and as a status symbol. Many consumers may be unwilling to buy a low priced product as it is perceived to be of low quality.

15.7.2 Study of Competitors

In determining prices, a systematic analysis of the competitive environment is also essential. Some important aspects of studying competitors are as given below:

Pricing Policy: Price changes by a company usually cause competitors to react, and this in turn has an influence on the company's own pricing policies.

[18] https://www.dnaindia.com/business/report-shoppers-stop-to-redesign-its-department-store-format-2745377

Competitive reactions to price changes can even incite price wars in which the prices of all the players in the market are steadily reduced to a level where the profit of all the players gets wiped off. The pricing policy of a company can attract new players into the market or drive existing competitors out of the market.

Competitor's Price Profile Preparation: It may not be easy to get precise information on each of these aspects. But the importance of developing the competitor's price profile should be given top priority. The profile of a few of the most important competitors can be developed first, and this can later be extended to other important competitors.

Factors for Competitor's Price Profile Preparation: A price profile for each of the players in the market can be prepared, taking into consideration the following factors:

- Cost incurred in production
- Likelihood of taking an offensive or defensive pricing strategy
- Likely reaction of distributors
- Brand loyalty for each product
- Resources available to engage in a price war

<u>Check Your Progress – 3</u>

9. Which one of the following is not a factor for competitor's price profile preparation?
   a. Production cost
   b. Ignoring offensive and defensive strategy
   c. Resources available for price war
   d. Likely reaction of distributors
   e. Brand loyalty

15.8 Using Price as a Tactical Weapon

Price is one of the most commonly used weapons to achieve the objective of increasing the customer base. Sometimes, the struggle between companies to increase the customer base reaches the level of a price war.

Price Wars: A price war is a situation in which price reduction by one organization evokes a retaliatory price reduction by competing organizations, and ultimately this leads to a series of price reductions by all the players in the industry. A price reduction started by one company spreads quickly and emerges as a full-fledged price war.

Example
German discounters Aldi and Lidl have grown their market share by nearly a full percentage point and now control 14% of the UK market. Meanwhile, industry titan Tesco (TSCO.L) is also holding onto its 28% market share while its smaller rivals J Sainsbury (SBRY.L) and Wm Morrison Supermarkets have lost ground in 2021[19]. Huge price wars between Tesco and Aldi are witnessed in the UK market.

Source: ICFAI Research Center

Some important features of Price Wars are:

- *Impact on Profitability:* They can be economically destructive for the organizations and ultimately for the industry's profitability. They can be devastating for organizations that aim to make profits.
- Most often, price reductions are initiated by organizations with the objective of increasing market share without regard for the loss of profit margin.

Steps to Minimize Losses due to Price Wars: There are various options which can be adopted to minimize losses arising due to price wars, which are as given below:

- *First Step - Identifying Reasons:* The first step is to take stock of the situation and identify the general reasons why the price war has started.
- *Step Two - History of Price Wars:* There may be a history of price wars in the industry, by analyzing the different circumstances under which price wars previously occurred, managers can get ideas as to the strategy that can be adopted in a similar situation.
- *Step Three - Factors to be considered:* In analyzing the existing situation, factors like the price sensitivity of customers, cost structure of the business and also of competitors, strategic positioning of the business and that of competitors, etc., should be looked at carefully.

15.8.1 Selective Pricing

Selective pricing involves reducing the price only in those segments of the market which are directly affected by price reductions from the competitors. Selective pricing can take the form of providing quantity discounts, bundling, and modifying prices only in selected segments and so on.

Some non-price strategies to counter reduction of price by the competitors are as discussed below:

- In response to a competitor's price reduction, the quality of the firm's product can be improved without increasing the price.

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[19] https://www.reuters.com/breakingviews/online-grocer-woes-imply-fresh-price-wars-2022-03-17/

- To convey to consumers about the poor quality of competitor's products and the risk associated with using such products. This strategy can be adopted for products for which consumers are generally quality conscious.
- To call attention to the negative consequences that may occur on not using the company's products.
- Companies can also try to obtain help from other agencies or governments to thwart competition.

15.8.2 Preemptive Measures

Various preemptive measures can be adopted to prevent competitors from starting a price war. Competitors can be informed about the rationale behind the company's pricing strategies. Revealing one's pricing strategies through public announcements will make it clear to competitors that any price cut they initiate will meet with appropriate retaliation.

Compete through Non-price Elements: The Company is willing to compete not only on the basis of price, but also on the basis of non-price elements, competitors can be informed about the following non-price elements, which are as given below:

- *Low Cost of Production:* The knowledge that a company's cost of production is low can effectively discourage competitors from engaging in a price war. This is because companies with a low cost of production will be able to withstand and engage in a long-running price war.
- *Low Variable Cost:* For a company that has a low variable cost with products being priced higher than the variable cost, engaging in price wars is easier than for companies that have high variable costs. This is because in the long run, competitors will find it difficult to offer products at a price below their variable cost.

15.8.3 Fight Straight On

There are some instances where engaging in a price war through retaliatory price cuts is absolutely necessary.

Some measures to fight Straight On are as given below:

- *Early Price Cuts:* If it is decided to cut prices as a retaliatory measure, it should be done as early as possible. This will take away the advantage competitors may get from their price cuts.
- *Retaliatory & Anticipatory Price Reductions:* Even if engaging in price wars is to be avoided, in certain situations, retaliatory price reductions or even anticipatory price reductions can be embarked on.
- *Engage in a Price War:* In situations where there is a large and price sensitive customer base and when the cost of production is relatively low, it may make sense to engage in a price war.

- *Increase the Customer Base:* If economies of scale can be achieved by increasing production, a price cut to increase the customer base is a viable option.

Check Your Progress – 4

10. Which one of the following is not a measure to fight straight on pricing?
    a. Increase the Customer Base
    b. Early Price Cuts
    c. Decrease in Customer Base
    d. Engage in a Price War
    e. Anticipatory Price Reductions

15.9 Summary

- The most important factors that determine the price of a product include: the objectives of the organization, the cost of production, the stage in the product life cycle, government regulations on pricing, the nature of the competition and of consumers in the market, and so on.
- Pricing objectives are based on overall organizational objectives. The objectives in general fall under: cost oriented, profit oriented, volume oriented and competition oriented objectives.
- The pricing strategies organizations use fall under three broad groups – differential pricing strategies, competitive pricing strategies and product line pricing strategies.
- Cost oriented pricing and market oriented pricing are two of the most commonly used pricing methods. In cost oriented pricing, the unit price of a product is determined on the basis of unit cost of the product. When price is fixed on the basis of the price fixed by competitors, it is competition oriented pricing.
- For pricing decisions, a proper understanding of consumers and competitors is crucial. The competitors' likely reaction to price changes should be kept in mind when making pricing decisions.
- In the face of a price war, businesses can exercise various options. They can adopt selective pricing; non-price measures like increasing quality without increasing price; preemptive measures to prevent competitors from engaging in a price war; and so on.
- If the company has the wherewithal to do so, it may choose to engage in a price war and attempt to beat the competition decisively.

15.10 Glossary

Amplified Mixed Bundling: In amplified mixed bundling, the buyer is given an option to choose from a set of products and purchase them at a discount.

Cost Plus Pricing: In cost plus pricing, the price is fixed on the basis of production cost, which includes both the fixed cost and variable cost along with some profit margin.

Cost: Cost is the money spent to produce and market a product or service.

Differential Pricing: In differential pricing strategies, a brand is priced differently to different customers under similar circumstances, taking into account the heterogeneity of customer characteristics.

Direct Costs: Direct costs are costs incurred by and solely for a particular product, department, program, sales territory, or customer account. These may be fixed costs or variable costs. They are also known as traceable costs or attributable costs.

Early Cash Recovery (ECR) Pricing: Early cash recovery pricing is a method adopted by companies which aim at recovering maximum returns for a product from the market, at the earliest.

Experience Curve Pricing: The experience curve pricing strategy involves pricing products aggressively, i.e. at a lower rate, with the aim of preventing competitors from entering the market. A firm which gains the benefits of economies of experience will have a low average cost and this makes price reductions easier.

Fixed Costs: Fixed costs are the costs incurred by a firm that tend to remain at the same level (fixed) no matter how many units of a product are produced and marketed.

Geographic Pricing: Geographic pricing is usually adopted by firms which sell products in geographically different markets between which transportation costs are significant. The price in each market will be determined on the basis of the transportation cost.

Image Pricing: In image pricing, a company introduces a product which is almost identical to an existing product in the market, but at a higher price. Through image pricing, the company aims at projecting an image of higher quality for the product.

Indirect Costs: Indirect costs are any costs that are incurred for common objectives and therefore cannot be directly charged to any single cost objective.

Mixed Bundling: In mixed bundling, products offered as part of the bundling can be purchased together at discounted price and separately at the normal price.

Penetration Pricing: In a penetration pricing strategy, a new product is introduced into the market at a lower price. When the price is low, customers who are more price sensitive will buy the product.

Periodic Discounting: In periodic discounting strategies, prices are different at different times.

Premium Pricing: In premium pricing, products of high quality are sold at very high prices. High prices charged for products compensate for the loss in the volume of sales on account of high prices.

Price Bundling: Price bundling involves selling two or more complementary products in a product line together at a special price.

Price Signaling: Price signaling involves offering products of low quality to customers at a higher price. Customers may assume that the products are of superior quality, on account of the higher prices.

Pure Bundling: In pure bundling, the products offered have to be purchased together for the consumer to get a price discount. The products are not made available separately in the market at normal prices.

Random Discounting Strategy: In this strategy, prices are generally kept at high levels except for discounts offered at random intervals. Consumers who are not aware of the price discount are not given the discount. Those who are aware, wait for the discount offer.

Reference Price: The reference price is the price that the consumers are assumed to form in their minds as a result of their experience. It is usually considered as a range of price which the consumer assumes to be appropriate for a particular product.

Second Market Discounting: Second market discounting is a form of price differentiation in which different prices are fixed for the same products in different market segments. The segments can be formed on the basis of geographical location, consumer characteristics, etc.

Selective Pricing: Selective pricing involves reducing the price only in those segments of the market which are directly affected by price reductions from the competitors.

Target Return Pricing: In target return pricing, the price is fixed so as to achieve a target return on investment.

Value based Pricing: Value based pricing involves pricing a product on the basis of value it provides to the consumer.

Variable Costs: Variable costs are those costs that vary directly with the number of units produced and marketed.

15.11 Self-Assessment Test

1. Explain the significance of pricing in the success of a new product? Explain various approaches involved in setting a price for a product.
2. Briefly explain different pricing strategies.
3. Explain the different methods of pricing.
4. To understand the likely effects of price on demand levels and demand patterns, it is absolutely essential to study the competitors in the market and the response patterns of consumers. Describe how marketers study consumers and competitors.
5. Analyze, using examples, how pricing can be used as a tactical weapon to achieve the objective of increasing the customer base and minimize losses arising due to price wars.

15.12 Suggested Readings / Reference Material

1. Crawford and DeBenedetto. Irwin, “New Products Management”, 12th edition, by McGraw-Hill, 2021.
2. Cravens, David W, “Strategic Marketing”, 10th ed., ebook, McGraw Hill/Irwin, 2021.
3. O. C. Ferrell, Michael Hartline, Bryan W. Hochstein, “Marketing Strategy”, 2021, Cengage South-Western.
4. Alexander Chernev, Philip Kotler, Musadiq A. Sahaf, “Strategic Marketing Management”, “Strategic Marketing: Making Decisions for Strategic Advantages”, PHI Learning, 2019.
5. Alexander Chernev, Philip Kotler, “Strategic Marketing Management”, Cerebellum Press, 2018.

15.13 Answers to Check Your Progress Questions

1. **(c) Marketing strategy and marketing mix**

   Pricing is an important component of the marketing strategy of an organization. It is also a key element of the marketing mix.

2. **(e) The operating expenses of a business, including the costs of office space, utilities, interior decoration and taxes**.

   Various statements other than option ‘e’ relate to Fixed Costs, direct costs, indirect costs and variable costs. Overhead costs include operating expenses of a business which include rent for office space, cost incurred for utilities, taxes etc.

3. (c) **In the maturity stage, pricing should ensure that the market share of the product is retained.**

All other pricing strategies, except option (c) are unsuitable for the maturity stage of the product life cycle. In the maturity stage pricing strategy needs to ensure that market share is retained.

4. (d) **When the company uses its cost advantage to charge a lower price to capture market share.**

Governments have implemented regulations to prevent companies from adopting pricing strategies that are against the interest of consumers or which may affect local industries, prevent monopoly of a large company and protect small companies and prevent price dumping. However, a company which has a cost advantage may charge a low price to capture market share. The government has no reason to impose any regulations here.

5. (b) **Price elasticity of demand**

The sensitivity of demand to changes in price is called price elasticity of demand. When there is an increase in price, the resultant change in demand can be at different levels: More than proportionate, same level or less than proportionate change. In the case of life saving drugs for instance, a price increase brings about a marginal decrease in demand. However, the demand for cosmetic surgeries or luxury products decrease significantly when price increases. Thus, certain products have higher price elasticity and are more sensitive to price increases as compared to other products.

6. (c) **Loss oriented pricing**

While other options are classified as pricing objectives, option ‘c’ is not a pricing objective. No firm fixed price to make losses.

7. (c) **Premium Pricing strategy**

The competitive pricing strategies are: Penetration Pricing Strategy, Experience Curve Pricing Strategy, Price Signaling Strategy and Geographic Pricing Strategy. Hence, Premium Pricing Strategy is not a competitive pricing strategy.

8. (a) **Skimmed Pricing**

The pricing methods are: Cost Plus Pricing, Target Return Pricing, Early Cash Recovery Pricing and Value Based Pricing. Hence, skimming pricing is not a match here.

9. (b) Ignoring offensive and defensive strategy

The factors for competitor's price profile preparation are: Cost incurred in production, Likelihood of taking an offensive or defensive pricing strategy, Likely reaction of distributors, Brand loyalty for each product and Resources available to engage in a price war. Hence ignoring offensive and defensive strategy is not a match here.

10. (c) Decrease in Customer Base

The measures to fight straight on pricing are: Increase the Customer Base, Early Price Cuts, Engage in a Price War, Retaliatory Price Reductions, Anticipatory Price Reductions and Increase the Customer Base. Hence decrease in customer base does not fit here.

Unit 16

Advertising and Sales Promotion Strategies

Structure

"The more informative your advertising, the more persuasive it will be."

- David Ogilvy

16.1 Introduction

As quoted by David Oglivy, more information has to be given in the promotions to persuade the consumers. Promotion is a key element of marketing mix, co-ordinates all seller initiated efforts to inform, educate, convince, persuade and facilitate the sale of goods and services produced by a firm. Advertising strategies are long-term strategies formulated with the primary objective of creating awareness, building a strong brand and increasing sales.

Sales promotion strategies are formulated to attract customers and boost sales. Through price discounts, competitions, awards, free gifts and other schemes, sales promotion creates excitement and gives a reason to buy the product immediately.

The previous unit discussed the concept of pricing, its role, its significance, various approaches to price setting, different pricing strategies, various methods of pricing, discussion on how marketers study consumers and competitors to understand the likely effects of price on demand levels and demand patterns and how pricing can be used as a tactical weapon.

In this unit, we shall discuss various strategies used for promoting a product, various components of promotion, promotion mix, budgeting approaches used to develop a promotion strategy, advertising, objectives of advertising, strategies adopted for advertising a product, the scope of sales promotion, sales promotion activities and how the effectiveness of a sales promotion strategy can be evaluated.

16.2 Objectives

By the end of this unit, you should be able to:

- Define promotion strategy and understand various components of the promotion mix.
- Elaborate on the advertising strategies, in the context of how they contribute to the achievement of corporate objectives
- Describe various sales promotion activities and the advantages and disadvantages of sales promotion activities
- Discuss how the effectiveness of sales promotion activities can be measured and evaluated.

16.3 Promotion Strategy

The promotion strategy enables coordination of the different components of the promotion mix that help the organization to communicate with the consumers. The responsibility of developing strategies for each of the components of the promotion mix and formulating an integrated promotion strategy lies with the marketing department of the organization.

16.3.1 Components of Promotion Mix

Promotion mix has five main components – personal selling, advertising, direct marketing, sales promotion and publicity.

Personal Selling

Personal selling *is face-to-face communication between the seller and buyer in which the seller persuades the buyer to purchase the products of the company from him/her*. It is one of the most effective forms of communication between buyer and seller as it involves person to person communication where there is an opportunity to give and receive feedback.

Disadvantages of Personal Selling

The important disadvantages of personal selling are:

- Personal selling is very expensive.
- It is suitable for high involvement products that have high profit margins.
- Products which are purchased frequently by the customers are targeted at a wider market. They are generally not suitable for personal selling.
- As managing the large sales force required to contact the target customers means a high expenditure for the organization.

Advertising

According to the American Marketing Association, advertising is *'the placement of announcements and persuasive messages in time or space purchased in any of* *the mass media by business firms, non-profit organizations, government agencies and individuals who seek to inform and/or persuade members of a particular target market or audience about their products, services, organizations, or ideas'.* The major advantage of advertising is the relative ease it offers in reaching a large target audience at a time.

The important features of advertising are as given below:

- Advertising is the primary method adopted by the organizations that want to target a large number of audiences who are spread across diverse markets.
- It is more suitable for less expensive and low involvement products.
- For expensive, high involvement products, advertising acts as a supportive function to personal selling.

Advertising is done conventionally through a wide variety of mass media like television, radio, newspaper, social media and digital media (YouTube, Google, Amazon AWS) etc.

It is the correct selection of mediums that makes advertising a cost effective process.

Direct Marketing

In direct marketing, *organizations communicate directly with the target customers and try to generate a response from them.*

It involves non-personal communication and the objective is to make the receiver, i.e., the target audience, respond instantly to the sender and start the process of a transaction.

One of the advantages that direct marketing has over advertising is that the response can be easily measured immediately and accurately.

The important aspects of direct marketing are as given below:

- A transaction is initiated when the target audience contacts the direct marketer and places an order for the product on the telephone, by fax, etc.
- Telemarketing, catalogs, direct mail, infomercials, print advertisements with contact information, etc., are some forms of direct marketing.
- Like advertising, direct marketing also offers a cost advantage as a lot of people can be contacted at a reasonable level of expenditure.
- A large variety of both high involvement and low involvement products are suitable for direct marketing.

Sales Promotion

Sales promotion *is another component of promotion, which is aimed at generating sales in the short term. This is achieved by providing incentives to the target audience, the sales force and the distributors.*

Incentives can be provided through common sales promotion techniques like price reductions, premiums, rebates, contests, etc. After personal selling, sales promotion is the most expensive component of promotion.

Example

Reliance Smart Point is a neighborhood small format store of Reliance Retail with an objective of "Bade Dukan ki Badi Bachat ab pados mein" (Big Saving of Big Supermarkets, now near you). Every Wednesday and Sunday the stores offer great savings.

Also on the JioMart, the online shopping platform by Reliance Retail Limited which was launched in 2020[20] across 200+ cities and towns across India, they offer daily discounts on select merchandise and also give free home delivery even for small bills.

Source: ICFAI Research Center

Publicity

Publicity *is a non-personal form of promotion that an organization carries out for its products with the aid of the mass media*. Publicity is different from advertising since it is not a paid form of communication and is not done in the name of the organization.

The important aspects of publicity are as given below:

- Publicity for a firm is obtained in the form of press conferences, news releases, photographs, feature articles and so on.
- It usually appears in the media as information about the organization's products, activities, or any other feature of its operations.
- The organization can take measures to influence publicity by controlling the communication process to the media. But the media may or may not be influenced by it. As the organization does not pay for the publicity, it cannot directly control it.
- Publicity can be either positive or negative.
- It is generally done through a source perceived to be neutral and is not directly related to the organization. This impartiality on the part of the source can provide more confidence in the message and can create a huge impact.
- On the flip side, negative publicity can be devastating for any organization.

16.3.2 Developing a Promotion Strategy

The nature of the product, the positioning strategies, the distribution network, the pricing decisions and the target markets of the organization greatly influence its promotion strategies. Different organizations use different promotion strategies.

[20] https://relianceretail.com/reliance-jiomart.html

The following two important decisions are considered for developing a promotion strategy:

- *Carrying Promotional Activities:* For certain organizations, the promotional activities are carried out by intermediaries.
- *Right Promotion Mix Element:* In developing a promotion strategy, a major decision is to choose between personal selling and advertising or to go in for a combination of the two. Usually, companies prefer personal selling for industrial products and advertising for consumer goods.

Developing a promotion strategy involves the following four major steps:

- Developing the marketing communication objectives.
- Deciding the role of the promotion mix components.
- Deciding the approach to budgeting.
- Developing a strategy for each of the components of the promotion mix like personal selling, advertising, direct marketing, sales promotion and publicity.

Marketing Communication Objectives

It is the marketing communication objectives of an organization which determine how various components of the promotion mix like advertising, personal selling and direct marketing can be made use of in the overall marketing program.

The important features of marketing communication objectives are as given below:

- Marketing objectives are different from marketing communication objectives. Marketing objectives refer to what the organization intends to achieve through its overall marketing program.
- Marketing communication objectives refer to what the marketers want to achieve through the communication plan.
- Marketing communication objectives are usually aimed at generating awareness about a product and its characteristics, creating a favorable attitude or image for the product among the customers, and so on.
- Marketing communication objectives are stated in terms of the nature of the message to be communicated or the desired communication effects of the marketing communications program.

Formulation of Marketing Communication Objectives: Marketing communication objectives can be formulated in terms of four basic variables of the communication process, which are as given below:

Target audience: Deciding on the target audience is the most important decision to be taken in formulating a marketing communication strategy. The size and composition of the target audience influence all other decisions in marketing communication like budget, media mix to be adopted, and so on.

Effects of marketing communication: The effects of marketing communication generally make the consumer to go through the following stages:

- *Creating Awareness:* The first communication objective is to create awareness about the product among the target audience, it is necessary to induce them to depict buying behavior. This is most important when a new product is being introduced in the market or when an existing product is being introduced in a new market.
- *Enhancing Knowledge of Consumers:* Many consumers may be aware of a product, but may lack a proper understanding or comprehension of it. Marketing communication aims at improving the understanding of consumers about the product’s features and the benefits that it can provide.
- *Evaluate the Benefits:* Consumers will be able to assess products' utility to them. Consumers at this stage may compare the product with other competing products in the market. After such evaluation, they will decide whether to purchase the product or not.

Message structure and content: The structure and content of the message in marketing communication can have a major influence on the results of marketing communication. The message and its content should therefore clearly focus on the benefits that the consumers can achieve through the use of the company’s products. Product benefits relate to the positive features specific to a product in relation to the competitors’ products.

Measurement of the effectiveness of marketing communication program: Any good marketing communication program should be measurable. While making the marketing communication budget, there should be a proper allocation of funds for measuring the effectiveness of the program. Measurement of effectiveness can also bring answerability to the whole process of marketing communication.

Deciding the role of Promotion Mix Components

The role of each of the elements of the promotion mix varies with the organization. Each of the promotion mix components may have a different role to play in achieving the marketing communication objectives.

Deciding the role of the promotion mix components generally involves the following five steps, as discussed below:

Determining promotion objectives: The marketing department has to determine the objectives that it aims to achieve through promotion.

The promotion objectives should include what the organization desires to communicate and the nature of the results expected from the promotion. This is aimed at ensuring consistency with strategies for other elements of the marketing mix like product, price and place. This will also help to develop promotion mix objectives that will be effective in the long run.

Consideration of different promotion strategies: Once the promotion objectives have been determined, alternative promotion mix strategies that will help to achieve promotional objectives have to be developed.

The management has to basically consider three types of strategies, as given below:

- *Push Strategy:* Organizations that adopt the push strategy to try to push their products through marketing channels with the aid of sales representatives.
- *Pull Strategy:* In pull strategy, the customers are pulled to the stores through large-scale advertisements or sales promotions.
- *Combination of the Two:* In the combination strategy, a combination of both push and pull strategies is used.

Identification of key factors: In evaluating alternative promotion strategies, the key factors that are to be considered include their cost effectiveness, their consistency with the long-term marketing strategy, their consistency with the marketing mix, their ability to exert a favorable influence on buyer behavior, their competitiveness, their ability to reach the right audience and so on.

Collecting information about key factors: Once the key factors have been identified, detailed information regarding each of these factors has to be collected.

For 'the ability to reach the right audience', the collection of information should be as given below:

- The information needs to be gathered on the type of people who purchase the product.
- The media to which they are generally more exposed should be focussed.
- The most effective component of the promotion mix for them needs to be taken care of etc.

Deciding on the best promotion mix: By analyzing the information gathered regarding the key factors just discussed, the management decides on the best promotion mix that will be most beneficial to the organization.

16.3.3 Budgeting Approaches

After determining the promotion mix objectives and the role of each of the components of the promotion mix, budgeting for the promotion has to be done. There are various approaches to determine the promotion budgets and these are divided into two types: Top-down and Bottom-up budgeting, which are as discussed below:

Top-down Budgeting

In top-down budgeting, it is the top management which determines the budgetary amount to be allocated for promotions. Information about the allocated figure is then communicated to the lower levels of the sales organization.

Top-down budgeting is usually adopted when there is very high pressure on the top management to make profits and hence, the chance of any further negotiation to increase the budget allocation is very little.

Various top-down methods include percentage of sales, the affordable method, arbitrary allocation and competitive parity, which are as discussed below:

Percentage of sales: This is one of the most common methods of allocating promotion budgets in large organizations. The budget is allocated as a fixed percentage of the previous year's sales or expected sales in the future.

The important advantage of this method is its simplicity. However, this method has certain limitations arising from the arbitrary determination of percentage of sales and the non-consideration of factors external to the organization in determining such percentage.

The affordable method: In this method, after allocating the budgets for other activities of the organization like product development, R&D and procurement of raw materials, whatever amount is left with the organization is allocated for promotions.

In this method, there are chances that the budget allocated for promotional activities may be much higher or much lower than what is actually required. This is because budgeting is done without considering the functions that are to be performed by promotional activities.

Arbitrary allocation: In this method, the management allocates the budget for promotional activities based on intuition and without considering the promotion objectives to be achieved or the costs involved in achieving those promotion objectives.

Competitive parity: In the competitive parity method, the budget is allocated based on the allocation made by the competitors for their promotional activities. The only consideration in allocating the budget here is the promotional activities of the competitors. The disadvantage of this method is that the budget is allocated on the basis of what the competitors do and not on the requirements of the organization or the promotional strategies.

Bottom-up budgeting

In bottom-up budgeting, the promotional objectives determine the promotional budget. Bottom-up budgeting methods include payout planning, the objective-task method and quantitative models.

Payout planning: This method is usually adopted for new products introduced in the market.

The budget allocation in payout planning is as discussed below:

- The budget allocation will be on the basis of the market share objectives of the organization.

- The budget will usually be allocated for more than one year, as the product is new.
- The period of budget allocation depends on the nature of the product.
- Generally budgets are allocated for a period of three years.
- For those products that are expected to have very long product life cycles, budget allocation may extend up to five years.

There are mainly five stages in the payout planning method, as given below:

- Estimation of the market share expected for the product.
- Estimation of the number of products to be sold to achieve the expected market share.
- Estimation of the total expenditure required for marketing communication.
- Payout period for the product.
- Evaluation of the payout plan.

Objective-task method: It is easy to measure the effectiveness of promotion programs as money is spent on those tasks that are planned in advance. The success of this method of budgeting depends entirely on the type of promotional activities undertaken. If there are flaws in promotional activities, it may result in financial losses.

The following are the steps in which this method can be conducted:

- In this method, a systematic study of the market is undertaken to determine the promotion objectives.
- Next, the different tasks that are to be performed to attain the promotion objectives are found out.
- The total cost of attaining each of the promotional objectives is added up to form the promotion budget.
- The promotion budget is determined by the promotion objectives and this forms the biggest advantage of adopting this budgeting method.

Mathematical models: Various mathematical models based on computer simulation which make use of statistical techniques like regression analysis are available for promotion budgeting. Many of these models are considered too complicated to be applied in the organizational context and, as a result, have not got a good response from marketers. But quantitative models are likely to gain acceptance once more user-friendly software is available.

Integrated Marketing Communication

Integrated Marketing Communication (IMC) is a concept that emerged in the early 1990s. IMC aims at developing a comprehensive plan for finding better ways of understanding and connecting with consumers.

The following are the definitions of IMC:

- IMC was defined by Schultz (1993)[21] as a "new way of looking at the whole, where once we only saw parts such as advertising, public relations, sales promotion, purchasing, employee communications, and so forth. It's realigning communications to look at it the way the customer sees it – as a flow of information from indistinguishable sources".
- Schultz (1993) defined IMC as "the process of managing all sources of information about a product/service to which a customer or prospect is exposed which behaviorally moves the consumer toward a sale and maintains customer loyalty".

Salient Features: The essence of IMC lies in identifying and implementing a well-coordinated marketing communication plan which helps to achieve the marketing communication objectives of an organization. The important features of IMC are as given below:

- *Integration:* All the components of the promotion mix are integrated to provide clarity and consistency to the messages communicated. Such integration helps the company to have economies of scale with regard to the design and execution of communication programs.
- *Influence Buyer Behavior:* IMC involves developing communication programs targeted at customers in order to influence their behavior toward the products and services of a company.
- *Connecting with Organizational Goals:* It helps to bring in accountability in promotional activities by connecting activities related to marketing communication with the organizational goals.
- *Requirement of IMC:* A requirement of IMC is that the 4Ps of marketing – Price, Product, Place, and Promotion – are planned together in order to have a level of consistency in communication efforts.

Limitations of IMC: IMC is not without its limitations, the most important of these are as given below:

- Resistance to change that may arise in an organization from an existing marketing communication program.
- IMC also requires a complete overhaul of established communication practices in the organization as well as that of the advertisement agencies which develop the marketing program.
- It is also difficult to measure the effectiveness of IMC.

[21] Schultz, D. E. (1993). "Maybe we should start all over with an IMC organization", Marketing News, 27(22), 8-9.

Activity 16.1

She Stores Ltd., is a newly launched cosmetics brand in India. Since there was a lot of competition in the market with already established domestic and international cosmetic companies, the company planned to target its customers directly so that they could communicate with them and state the benefits of their cosmetics. Identify the promotion component adopted by the company. Also suggest how it can establish its presence using other components of promotion.

Answer:

Check Your Progress -1

1. Which of the following is not a component of the promotion mix?
   a. Personal selling
   b. Customization of product
   c. Advertising
   d. Sales promotion
   e. Publicity
2. Which of the following best defines the concept of personal selling?
   a. Organizations communicating directly with target customers
   b. Providing incentives to target audience
   c. A Non-personal form of promotion
   d. Placement of announcements and messages through mass media
   e. Face-to-Face communication between seller and buyer.
3. Which of the following is not a step in developing a promotion strategy?
   a. Developing the marketing communication objectives
   b. Deciding the role of the promotion mix components
   c. Developing a strategy for only one of the components of the promotion mix
   d. Deciding the approach to budgeting
   e. Developing a strategy for each of the components of the promotion mix

4. Which of the following relating to Integrated Marketing Communication (IMC) is not valid?
   a. Determine how various components of the promotion mix can be made use of in the overall marketing program.
   b. It is an approach to determine the promotion budget and make suitable allocations to various components of promotion mix
   c. Developing a comprehensive plan for finding better ways of understanding and connecting with consumers.
   d. Each of the promotion mix components may have a similar role to play in achieving the marketing communication objectives
   e. Ensuring that each of the promotion mix components does not operate in isolation and is connected with the overall marketing strategy.
5. Which of the following represents the correct order of steps in deciding the role of promotion mix components?
   a. Determining promotion objectives, collecting information about key factors, consideration of different promotion strategies, identification of key factors, deciding on the best promotion mix
   b. Determining promotion objectives, deciding on the best promotion mix, consideration of different promotion strategies, identification of key factors, collecting information about key factors
   c. Determining promotion objectives, consideration of different promotion strategies, identification of key factors, collecting information about key factors, deciding on the best promotion mix
   d. Identification of key factors, determining promotion objectives, consideration of different promotion strategies, collecting information about key factors, deciding on the best promotion mix
   e. Determining promotion objectives, consideration of different promotion strategies collecting information about key factors, identification of key factors, deciding on the best promotion mix
6. What are various approaches to determine the promotion budgets?
   a. Top-down and bottom-up budgeting
   b. Top-up and bottom-down budgeting
   c. Top-down and bottom-down budgeting
   d. Top-up and bottom-up budgeting
   e. Bottom-up and top up budgeting

16.4 Advertising Strategy

Advertising strategy is defined as "a statement prepared by the advertiser (often in association with an advertising agency) setting forth the competitive frame, target market and message argument to be used in an advertising campaign for a specific product or service".

16.4.1 Developing an Advertising Strategy

The advertising strategy for an organization is developed in the light of its advertising objectives. Advertising objectives depend on the marketing objectives, which in turn depend on the overall organizational objectives.

The following are some steps to develop advertising strategy:

- Setting the advertising objectives
- Finalizing advertising budgets
- Finalizing the creative strategy and the media strategy
- Understanding the role of advertising agencies
- Measuring and evaluating the effectiveness of advertising strategy

16.4.2 Setting the Advertising Objectives

Advertising objectives should be aimed at achieving the marketing objectives. It is also necessary that advertising objectives should be specific, communicable, measurable and attainable in a certain time period.

Suitable Decisions with Clear Advertising Objectives: Clear advertising objectives help an organization to take suitable decisions relating to the following:

- Expenditure of advertisements
- Nature of advertisements
- Content of advertisements
- Appropriate media to be used
- Frequency of advertising
- Most suitable method for evaluating the effectiveness of advertising etc.

Classification of Advertising Objectives: The advertising objectives of an organization can be basically classified into the following two types:

Sales Objectives: Advertising done to attain sales objectives are aimed at increasing the sales of the organization and they are usually achieved through direct-action advertisements.

Direct-Action advertisements:

Direct-action advertisements are aimed at increasing the immediate sale of a product through the use of techniques like toll-free numbers, coupons, free samples, and so on. Though an increase in sales is anticipated after each advertising campaign, it is not a foolproof strategy. Attracting customers for such an ad campaign is greatly influenced by the presence of competition and their advertising.

Such advertising, however, is not considered effective since these ads focus on inducing immediate sales and not on developing long-term relations with the customers.

Communication Objectives: The communication objectives of advertising relate to creating awareness about a product, changing consumer behavior, changing consumer attitude, changing the image of a product, educating consumers and so on.

Many strong brands use advertisement campaigns that aim at increasing the usage rate of the products. Rather than trying to increase market share, such brands try to induce loyal customers of the brand to use their product more frequently.

The following are important advantages of setting advertising objectives:

- Setting advertising objectives helps an organization to incorporate the organization’s advertising efforts with other elements of the marketing mix.
- This, in turn, helps to have a marketing plan consistent with the organizational objectives.
- Advertisement objectives are also essential for determining advertisement budgets.
- The top management can have more control once the objectives of advertising are determined, as they can measure and evaluate the performance of advertising against the objectives set.

16.4.3 Advertising Budgeting

Definition: The American Marketing Association defines advertising budgeting as *“the decision about how much money should be spent for advertising during a specific time period in order to accomplish the specific objectives of a client. This decision also involves the allocation of specific amounts of the total advertising appropriation to various media, creative approaches, times of the year, and to the production costs involved in preparing the advertising messages for placement in the various media”.*

Methods for Setting Advertising Budgets:

There are three most common methods used for setting advertising budgets, which are as given below:

Percentage of Sales Method

In this method, the budget for advertising is fixed as a percentage of the previous year’s sales. The limitation of this method is that factors external to the organization like the political and economic climate of the country are not considered in fixing the budget.

If the sale of the previous year is USD 1 million, and the percentage of sales to be allocated for the advertising budget is determined at 5 percent, then the advertising budget for the current year will be USD 50,000.

Competitive Level Method

This method of advertising budgeting involves fixing budgets on similar lines with the advertising budgets of competitors or in accordance with the firm's own market share. An assumption in this method of budgeting is that by spending on advertisements as per the advertisement expenditure of competitors, the firm can maintain its position in the market.

The disadvantages of this method are as given below:

- The major disadvantage of this method is that only the advertising expenditure of competitors is considered.
- The quality of advertising of both the organization and the competitors is not considered in determining the expenditure to be made for advertising.
- Similarly, the past advertising budgets of competitors do not give any indication as to the budget required in the future.

Task Method

In the task method of advertising budgeting, the management first sets the advertising objectives in terms of the increase in market share and sales volume sought by the company through advertising. On the basis of these objectives, the management allocates the budget for advertising. The task method considers advertising objectives and as a result, integration of advertising with the overall marketing plan is possible, as advertising objectives are prepared on the basis of overall marketing objectives.

16.4.4 Creative Strategy

Advertising creativity is the skill to create new, distinctive and suitable ideas that can be used as solutions to communication problems. Creativity plays an important role in advertising and it is creative strategies that guide advertisement campaigns.

In order to be effective, the creative idea must be relevant to the target audience. The creative strategy determines what an advertisement message will communicate. A good creative advertisement will stand out from among a clutter of advertisements and easily attract the attention of the target audience.

Creative specialists thus often face a challenge in coming up with new creative ideas that are distinctive, memorable and can strike the right chord with the target audience.

Those who deal with creativity in advertising have to deal with various tasks like writing the ad copy, designing layouts and producing advertisements around which the main theme of the advertisement campaign is based in the most appealing manner.

Types of Creative Strategy

The following are various types of Creative Strategies:

Information as a Creative Strategy

To provide information, advertisements usually use a simple statement of facts. It is to be ensured that the information provided is unique and is relevant to the target audience. Informational advertising also takes the form of public service or social advertising undertaken by the government and other non-governmental organizations.

The information strategy is used for the following aspects:

- To introduce new products,
- To provide technical details of a product,
- To provide the results of any test conducted,
- To compare the product with a competitor's product etc.,
- To influence the behavior of consumers.

Argument as a Creative Strategy

The creative advertising strategy, which makes use of an argument, is suitable for advertising products which have many unique features compared to competing products. This strategy is highly effective in a competitive marketing environment. This type of advertisement specifies the quality of the product that is being advertised and tries to convince the audience about why this product is better than other competing products.

Image as a Creative Strategy

Image advertising involves promoting the image or general perception of a product or service, rather than promoting its functional characteristics. It is commonly used for differentiating brands of similar products like jeans, soft drinks, etc. where the brand image is important as the actual difference between the product categories is not much.

Image advertising is adopted for the following objectives:

- Through image advertising, advertisers try to make the consumers select a particular brand over cheap generic products and other competing brands.
- They try to give the product a unique image and personality which distinguishes it from similar products and which makes the consumer choose it from among similar products which provide similar advantages.

- Image is used to establish the identification of a brand with a particular style.
- The objective is to create an emotional identification for the brand that will be long-lasting.
- Established companies in the market usually adopt this strategy to maintain or augment their image.

Emotion as a Creative Strategy

When emotion is used as a creative strategy, the advertisements try to generate emotions like love, sorrow, hatred, anger, etc. Emotions are used in advertisements to generally differentiate products in the market.

Example

SBI Life Insurance Company of SBI used emotions like happiness, self-confidence etc., in its advertisement 'Apno ki #HimmatWaliSeeti' in 2020[22], illustrating the effect family support can have in establishing an individual's self-confidence. The campaign showcases that a person's happiness is key to the family's well-being. MullenLowe Lintas Group had crafted this advertisement.

Source: ICFAI Research Center

Entertainment as a Creative Strategy

Advertisements which use entertainment as the creative strategy try to catch the attention of customers by providing interesting messages. Such advertisements are generally used for low involvement and low cost products which are frequently purchased without much brand loyalty.

16.4.5 Media Strategy

Definition: Media strategy can be defined as *"a plan of action by an advertiser for bringing advertising messages to the attention of the consumers through the use of appropriate media".* Different types of media like television, newspaper, radio, the internet, digital media (YouTube, Websites, Mobile Apps) etc., are available for advertising.

Developing Media Plan: A media plan is an essential prerequisite for developing a media strategy, the steps of developing a media plan are as given below:

- The starting point of developing a media plan is the analysis of the existing situation of the firm and it culminates in the development of the media objectives.

[22] https://www.afaqs.com/news/advertising/sbi-life-gives-a-father-daughter-touch-to-its-family-first- narrative accessed on 9.2.22

- In order to analyze the existing situation, the type of information to be collected includes corporate history, corporate objectives, marketing objectives, target audience, characteristics of the product, types of distribution channels used, budget allocation, geographical area to be covered, competition, cultural factors, legal environment, and so on.
- After analyzing the situation on the basis of information collected, the media objectives are set.
- Media objectives are important as they help in providing direction and control to the media plan.

Bases for Formulating Media Objectives/Strategy: Media objectives are formulated on the basis of reach, frequency, timing, and cost, which are as discussed below:

Media Reach

Reach involves the total number of people who are exposed to a specific medium, at least once, during a specific time period. Advertisers usually go in for high frequency of advertisements, when their objective is to make the target population knowledgeable about something.

The concept of media reach or exposure is different from media perception. Media exposure provides only an opportunity to the target consumers to perceive the advertisement. The consumers may or may not perceive the advertisement to which they are exposed.

Media Frequency

Frequency is the number of times that a particular consumer is exposed to an advertisement within a specified time period. If the objective of the advertiser is to change the attitude or behavior of consumers, high frequency advertisements are necessary.

Media Timing

The nature and usage of the product determine the timing of the advertising messages. This is because while there is only seasonal demand for some products, there is demand throughout the year for some.

Effective media planning involves deciding on the most effective method of running an ad campaign, which will help to give maximum returns for the expenditure incurred. In India, during the festive season, there is an increase in the demand for commercial time or space available in the media.

Media Cost

The relative cost of various types of media has to be considered in relation to budget allocation for the ad campaign. The cost of different types of media as well as the cost of time or space in each medium is to be considered.

There are basically two aspects that are to be considered in association with media cost, which are as given below:

- One aspect relates to the relative cost of the media used in reaching each and every segment of the target audience.
- The other aspect relates to the cost of space (in newspapers, magazines, etc.) and time (television, radio), digital ad space (Pay-as-you-go / costs per view etc., for Digital Media like Amazon Web Services (AWS) and YouTube) in the medium selected.

Exhibit 16.1 illustrates the emerging digital media trends and their costs/spend.

Exhibit 16.1: Emerging Digital Media Trends and Their Costs/Spend

App store privacy changes by Apple and Google are hitting advertisers in the Global Digital Advertising market. Despite this, Global Digital Advertising Cost or Spend will increase from $407 billion in 2022 to $753 billion in 2026 with an 85 per cent growth.

The important types of digital media and their costs are as given below:

The Mobile In-app Advertising: The mobile in-app spend will increase from $201 billion in 2022 to $425 billion in 2026.

Desktop Advertising: The spending will increase from $97 billion in 2022 to $142 billion in 2026.

Video Advertising: Video ad spend expected to grow by 63 per cent over the next four years (from 2022 to 2026).

Impact of App Store Privacy Policy on Global Firms:

Apple: Apple iOS privacy changes will cost Meta (formerly Facebook) a whopping $10 billion.

Amazon: Amazon, known for e-commerce, has a lucrative cloud business, AWS, and the ad business. Its business was growing and not impacted due to app store privacy policy.

Companies with Meta Platforms: Meta Platforms Inc., shattered confidence in the online advertising industry due to privacy changes by Apple and had made it harder for advertisers.

Sources: https://brandequity.economictimes.indiatimes.com/news/research/despite-privacy-changes-digital-ad-spend-to-hit-753-billion-in-2026-report/89402778 Accessed on 9.2.22

https://brandequity.economictimes.indiatimes.com/news/digital/amazons-31-billion-ad-revenue-puts-it-ahead-of-youtube/89336311 Accessed on 9.2.22

Developing Media Strategy

Designing the media strategy involves selecting any one of the three basic media strategies – general advertising strategy, key market advertising strategy, or a skim advertising strategy.

General advertising strategy: The objective of this advertising strategy is to ensure that the advertisements reach the entire target segment wherever it is located.

General advertising strategy targets consumers located in a wide geographical area and the media chosen for such a strategy have to be competent enough to reach a large number of consumers at a relatively low cost. The media chosen for such campaigns include television channels, national newspapers, radio and so on, which can achieve nationwide coverage.

Key market advertising strategy: In this advertising strategy, only one specific market is selected and advertising efforts are concentrated on this key market. The key market can be a particular geographic area or a group of consumers who share common consumer characteristics.

The availability of funds is a major factor which determines the selection of markets for advertising. Advertisers who use the key market advertising strategy generally prefer the local media to the national media as it is easier to target the selected key market through the local media.

Skim advertising strategy: In the skim advertising strategy, advertising is directed at target customers based on factors like income, education, age and so on. The skim strategy is usually adopted for specialty goods that are used by particular customer groups. The media chosen will also be suited for the customer groups that are targeted.

Selecting Appropriate Media

There is more to media planning than mere selection of a cost-effective medium. Factors like product fit, technical quality, competitive advertising strategy, target population and product distribution system have to be considered in selecting the appropriate media.

Product fit: The product to be advertised should match the media in which it is advertised. The image of the media used also should be considered while advertising.

Technical quality: The technical quality of the media can enhance or diminish the effect of an advertising message. In the case of the print media, the quality of paper used can enhance the effect of the advertisement. In the case of a radio channel, if the quality of sound is good, the advertisement aired will be more effective.

Competitive strategy: The media used by competitors to advertise their products have to be considered in selecting the media. The company has to decide very carefully whether or not to use the same media as the competitor does.

Uniqueness is a very important factor in making an advertisement stand out among others. If the same media used by the competitor are used, then the advertisement should be able to project a different format and appeal to the target customers.

Target population: The target population of an advertisement may vary. It could be for children, women, men, family, youth, middle aged people, etc. If the target population is the family audience, evening television programs will be more suitable as the whole family watches them together.

Those advertisements that target homemakers have to be aired at a time when they are relatively relaxed and free from household chores. In this way, the target population's suitability has to be kept in mind while advertising.

Product distribution: The distribution system of the company may not be equally strong in all areas of the target market. This aspect has to be considered in selecting the media for advertising. In those areas where distribution is strong, the advertising medium which has the highest circulation or coverage should be used.

16.4.6 Understanding The Role of Advertising Agencies

An advertising agency is an organization that provides a variety of advertising related services to clients seeking assistance in their advertising activities.

Example

Madison Communication Pvt. Ltd. is a Mumbai based advertising agency in India. It had taken up the advertising of Narendra Modi for his election campaigning during 2019[23] general elections. Marketing guru Sam Balsara-led Madison Media created media planning and buying strategy for the BJP for all mass media including print, television and radio.

Source: ICFAI Research Center

The various functions of ad agencies are as given below:

- Design advertisements
- Create advertisements
- Manage the production of advertisements
- Media planning
- Decide the media strategies and purchase media slots for the ads
- To see that the clients are able to make profits in the long run.

[23] *https://www.business-standard.com/article/news-ians/madison-media-to-handle-bjp-s-media- campaign-for-2019-election-119030800722_1.html accessed on 9.2.22*

Types of Ad Agencies*:* There are two types of advertising agencies, they can operate either as a full-service or a limited-service agency, which are as discussed below:

- *Full Service Agency:* A full service agency engages in the following aspects:
  - Planning and administration of advertising campaigns including
  - Setting advertising objectives,
  - Developing advertising strategies,
  - Developing and producing the advertising messages,
  - Developing and executing media plans, and
  - Coordinating related activities such as sales promotion and public relations.
- *Limited Service Agency:* A limited-service advertising agency, on the other hand, concentrates on one of the major functions such as developing and producing advertising messages or media plans'. To see that its clients are able to make profits in the long run.

Roles Performed by Ad Agencies: The three important roles performed by advertising agencies are preparation of advertisements, creation of advertisements and effective organization of the whole process. The details are as given below:

Preparation

Thorough preparation is required on the part of advertising agencies to perform the function of creating and carrying out an ad campaign.

Sound Knowledge: For thorough preparation they require sound knowledge about the following aspects as given below:

- Type of product to be advertised
- The product's features and benefits
- Past ad campaigns of the product
- Positioning of the product etc.
- Information about the market situation
- The advertising channels and marketing methods that were used for the product in the past should also be analyzed
- Comparative cost of each medium that can be used for advertising
- Level of exposure of the audience to each of these media.

Media Suitability: The agency has to ensure that the ad campaign it creates is suitable for the type of media used, as given below:

- The needs of each medium will be different and the agency has to take into account these factors while developing the campaign.

- All the information that the agency has about a product, its market, type of competitors, most suitable media strategy for the product and so on can be used by the agency to advise the client on the best advertisement strategies to use.
- Once the client approves the agency's suggestions, the agency can start creating the advertisements.

Creation

The creation of an advertisement involves various activities like writing the advertisement copy, preparing the layout, drawing or photographing the illustrations and so on.

The media for running the advertisements are usually chosen before the advertisements are prepared. Space or time in the media is also purchased beforehand. After publishing the advertisement messages, the agency makes payment to the media and gives an invoice to the client for the payment.

Organization

To maximize the profits of an organization, coordinated efforts are needed on the part of the sales force, distributors and retailers. This requires the support of advertising.

The advertising agencies may also try to coordinate their efforts with the sales force and distribution channels of the clients to maximize the effectiveness of advertising, prior to the commencement of the ad campaign.

16.4.7 Measuring and Evaluating the Effectiveness of the Advertising Strategy

Before an ad campaign begins on a large scale, it has to be tested for its effectiveness. Developing an idea for a number of advertisements helps to choose the best one to be used in the media. Testing also helps to choose the advertisements that are to be aired in the local market and also in the foreign markets.

The pre-testing of advertisements can be done at various stages as given below:

- *Testing the Concept of the Advertisement:* At the level of concept testing, the advertisement is in the initial stages of development. Only the idea about the advertisement is present and this is conveyed to the participants of the concept test and their feedback is sought.
- *Testing the Advertisement Draft*: In the case of a print advertisement, a sketch of the final advertisement which is of the same size as the final ad can be made and consumers' reaction to it can be tested. Testing the draft can help to find out what works and what doesn't, the reason for it and what could be done to make the advertisement even better.
- *Testing the Completed Advertisement:* Once the advertisement is completed, it can be tested to find consumer response to it.

Post Testing / Measuring and Evaluating the Effectiveness of the Advertisement (Print Ads): Testing is also required after the implementation of the advertisement campaign. In the case of both print and broadcasting advertisements, a variety of methods are available for measuring and evaluating the effectiveness of the advertisement.

Inquiry test, recognition test, and recall test are some of the common methods available for evaluating print advertisements, which are as explained below:

Inquiry tests: This test is intended to measure the effectiveness of the advertisements placed in the print media on the basis of total enquiries generated.

Inquiry generated may be in the form of telephone calls, number of coupons returned, direct enquiries and so on. When a person makes a phone call in response to a print advertisement, questions will be asked about how he/she came to know about the product or the company and where he/she found the advertisement.

Some issues in inquiry tests are as given below:

- An inquiry test is not considered to be a very effective method of testing advertising effectiveness.
- All those who see and like an advertisement need not call and enquire about the product advertised.
- Similarly, all those who see the advertisements may not require the product at the time and may not care to call and enquire about it.
- Thus, fewer enquiries need not be an indicator of the ineffectiveness of an advertisement.
- Likewise, a person who is searching for information about a particular product may enquire about the product regardless of whether the advertisement is effective or not.

Recognition tests: The objective of the recognition test is to measure the recognition of print advertisements and compare it with other print advertisements of the same kind in other magazines.

Recognition tests also come in for criticism, as there are chances of false claims being made by the participants and this may even be deliberately done.

Steps in conducting recognition tests are as given below:

- The test involves conducting personal interviews on a sample population drawn from various cities.
- The participants are asked to go through a magazine, see the advertisements, and provide responses to the questions asked.
- Evaluation is done on the basis of the percentage of readers who remember seeing the advertisement, the percentage of readers who report having read at least half of the advertisement copy and so on.

Recall test: This involves assessing the performance of advertisements by tracking the recall of advertisements that come in magazines.

The test method involves selecting a sample population and providing a magazine to each of the participants. They are asked to read the magazine on one day and the next day, are asked questions on the telephone about the advertisements in the magazine.

The advantage of the recall test is in the fact that it helps to assess the impact of advertisements on the memory of the readers.

Check Your Progress - 2

7. Which of the following is not a valid advertising decision taken based on advertising objectives?
   a. Expenditure, nature and content of advertisements
   b. Appropriate media to be used
   c. Frequency of advertising
   d. Selecting suitable segments to target
   e. Most suitable method for evaluating the effectiveness of advertising
8. Which of the following is not a method for setting an advertising budget?
   a. Percentage of sales method
   b. Scientific method
   c. Competitive level method
   d. Task method
   e. Competitive parity method
9. When would an advertiser present a powerful argument in the ad to prove his point?
   a. Catch the attention of customers
   b. Generate emotions like love, sorrow, etc.
   c. To introduce new products
   d. Promoting the image or general perception of a Product
   e. To advertise products with unique features
10. Which of the following is least considered when media objectives are formulated?
    a. Media reach
    b. The suitable method for evaluating communication effectiveness
    c. Media frequency
    d. Media timing and cost
    e. Target group which watches the media

Activity 16.2

ABC Productions Ltd., is a film production company. The company had made several successful films in the past. Of late the company noticed that though the films received good reviews they were not successful at the box office. The management found that films did not do well if they were not promoted well. Thus the company decided to promote its upcoming thriller film. Suggest a suitable creative advertising strategy for the company that would enable the company to promote its film in a creative manner.

Answer:

16.5 Sales Promotion Strategies

Definition: Sale promotion is defined by the American Marketing Association as *"the media and non-media marketing pressure applied for a predetermined, limited period of time at the level of the consumer, retailer, or wholesaler in order to stimulate trial, increase consumer demand, or improve product availability".*

16.5.1 Nature and Scope of Sales Promotion

Sales promotion is an important component of the promotion mix. Sales promotion like other components also requires careful planning and the development of strategies for its effective implementation.

Many manufacturers spend a considerable amount of money on sales promotions because of the greater chances of increasing sales, compared to a similar investment made in advertising.

Sales Promotion as a Pull Strategy: Sales promotions are generally aimed at consumers or the distribution channels. A sales promotion aimed at consumers is termed as 'pull strategy' and it encourages customers to purchase more.

Sales Promotion as a Push Strategy: Sales promotion strategy is a push strategy that motivates customers to buy the company's products by offering incentives and discounts. A sales promotion aimed at distribution channels is known as 'push strategy' and it encourages channels to stock more products.

Examining Nature and Scope of Sales Promotion: The nature and scope of sales promotions can be examined in terms of their effects on sales in the short term and the long term, as given below:

Short Term Impact: In the short term, sales promotions can have a greater impact on sales than advertisements. But it is not easy to measure the effectiveness of sales promotions as there are various factors that influence sales.

One major problem is that even if sales promotions increase sales rapidly, they may not cause consumers to make repeat purchases. For the manufacturers, sales promotions usually involve price reductions and such reductions will normally reduce the manufacturers' profits.

Long Term Impact: In the long run, the returns obtained from sales promotions are expected to come down. When competitors also start offering sales promotions, the rate of increase in sales on account of sales promotions will slowly start coming down.

Another problem is that when sales promotions are withdrawn, the sales may be even lower than in the period when the sales promotions began. In the long run, sales promotions can also bring down the image of the product in the market.

Types of Sales Promotion: Sales promotion strategies can be examined in terms of sales promotion to consumers as well as the trade. The two types of sales promotion are as given below:

Consumer Sales Promotion

Sales promotions offered to consumers take the form of offering coupons, premiums, rebates, etc., which are aimed at motivating them to try a new product, increase the frequency of product purchase, increase the usage of the product and so on. The objective of consumer sales promotion is to increase sales in the short term.

Example

Reliance Smart Point and Reliance Signature Stores of Reliance Retail Ltd. persuade their consumers through huge sales promotion offers on Wednesdays and weekends. Also through their mobile app 'JioMart' they have daily offers on a wide range of merchandise and will get free delivery to their doorstep for less quantity orders also.

Source: ICFAI Research Center

Trade Sales Promotion

Trade sales promotions involve activities aimed at channel members to encourage them to provide special support for the marketer's products or service. Consumers will be encouraged by retailers to buy more if the retailers in turn get more benefits in selling the brand.

Retailers can support the sale of a brand through the proper display of the products on their shelves, the proper display of advertisements and signs for the product at the retail outlet and so on.

16.5.2 Planning and Managing Sales Promotion

Many of the tools of sales promotion like coupons, rebates, etc. are planned only for the short term, and this makes planning and managing sales promotion in the long run a difficult task. The sales promotion planning process involves environmental assessment, development of objectives and finally, the formation of strategies.

Environmental Assessment

Environmental assessment is the primary step in planning sales promotions. Many internal and external factors influence the sales promotion practices of an organization. Some companies could have their own policies which do not favor sales promotions.

Development of Sales Promotion Objectives

Sales promotions can induce consumers to increase the quantity and frequency of purchases of products. The objectives of sales promotions can be varied and can be different for different market segments.

Sales promotion objectives can be broadly classified as long-term and short- term objectives, which are as given below:

Long-term objectives: There are mainly four long-term objectives of sales promotion. They are increasing the market share of the company and thereby increasing revenue, creating a positive image for the company, increasing the target market and finally increasing the value of the brand.

Short term objectives: Short-term objectives of sales promotions include reducing the over stock of products, matching the sales promotion efforts of competitors, increasing cash generation in the short term and so on.

16.5.3 Sales Promotion Activities

Definition: Sales promotion is *"an activity designed to boost the sales of a product or service. It may include an advertising campaign, increased PR activity, a free-sample campaign, offering free gifts or trading stamps, arranging demonstrations or exhibitions, setting up competitions with attractive prizes, temporary price reductions, door-to-door calling and telemarketing".*

Types of Sales Promotion Activities: There are various types of sales promotion activities which include price promotions, coupons, gifts along with purchase, competitions and prizes, money refunds, loyalty programs for frequent users, point-of-sale displays and so on. The important types of sales promotion activities are as discussed below:

Price Promotions

Definition: Price promotion is defined as *"the advertising of a price for a product or service. Usually, the price promotion may take the form of a lower price, a coupon to be redeemed, or a rebate to be received".*

Price promotion takes the form of providing products at a lower price or providing a larger quantity of the product at the regular selling price. Aggressive price promotion has the disadvantage that it may cause the brand to lose its reputation and image among its consumers. It may also cause erosion of profits.

Coupons

Coupons are certificates offered by manufacturers and retailers to consumers, which offer them special benefits like savings on purchase of selected products. Sales promotions with the aid of coupons have limitations like customers may be disappointed if the required stock of products is not available to obtain the special benefits of coupons.

The important ways to provide coupons are as given below:

- Coupons have to be presented at a specified place for the benefits to be availed.
- Coupons, which are provided by either manufacturers or retailers, are distributed in a variety of forms.
- Coupons, which are provided along with the product package, are aimed at encouraging repeat purchases.
- Coupons, distributed along with newspapers, allow the readers to avail of special discounts on the purchase of certain products from certain retail outlets.
- Coupons are also provided along with print ads. Such coupons can be separated from the advertisement and presented at a retail outlet for redemption.
- Coupons are considered to be most preferable while promoting the sale of new products or products for which sales are declining.

Gifts

In this type of sales promotion, consumers are provided with gifts on the purchase of certain products. Providing gifts is a kind of premium promotion strategy as consumers receive something more than they actually purchase. Gifts are also offered for luxury products and services as part of the promotional scheme.

Sweepstakes

A sweepstake is a promotional mechanism by which prizes are awarded to consumers who participate in it on the basis of chance and there is no entry fee. The chances of winning the sweepstakes vary with the number of participants and the number of prizes offered; but the chances of winning bigger prizes is low.

Sweepstakes generally attract very good consumer attention and the companies that sponsor them may report substantial increase in revenues.

The selection process of winners in sweepstakes has the following two steps:

- The winners are selected in an even handed manner, which gives all the participants an equal chance of winning.
- The selection process is usually through random draws in which entries are either picked manually or by a computer by making use of random selection programs.

Competition

Unlike sweepstakes, competitions require the consumers to show certain skills, in order to win prizes. The winner is declared on the basis of their skill and there is no element of risk involved. Competition can increase the consumer interest in a product and generate more sales for a product for which sales have slumped.

16.5.4 Evaluating the Effectiveness of Sales Promotions

As in the case of other components of promotion mix, sales promotion also needs to be evaluated on its effectiveness.

Evaluation through Mathematical Models: Various mathematical models are available for evaluating sales promotion effectiveness. However, as sales promotions are usually short term in nature, complicated mathematical models are generally not used; instead simple methods like the following are used:

- Awareness tracking studies
- Counting the number of inquiries
- Coupon redemptions
- Participation in sweepstakes
- Tracking sales during the sales promotion period and the non-sales promotion period, with all other factors remaining constant.

Evaluation against Objectives Achievement: Through the achievement of the following objectives, sales promotions can be evaluated:

- If the objectives have been attained, the next question is regarding how to improve the performance even more.
- If the objectives of the sales promotion have not been achieved, the reasons for the failure could be looked into.
- The results of the evaluation should be made available to all others in the company to help them enhance their knowledge.

Check Your Progress - 3

11. Which of the following is not a type of sales promotion activity?
    a. Price Promotions
    b. Coupons
    c. Gifts
    d. Advertising
    e. Competition

16.6 Summary

- Promotion is an important component of the marketing mix, the other components being price, product and place.
- The key components of the promotion mix include personal selling, direct marketing, advertising, sales promotion and public relations.
- Developing a promotion strategy involves deciding on the objectives of marketing communication, deciding the role of each of the components of the promotion mix, budgeting and strategy development for the promotion mix components.
- Promotion objectives determine the role of each of the components of the promotion mix in the marketing objectives of the organization. The role of the promotion mix components depends on the type of organization, nature of products and so on.
- Budgeting for promotion makes use of various approaches like the top-down approach (percentage of sales, affordable method, arbitrary allocation and competitive parity) and bottom-up approach (payout planning, objective task method and mathematical models).
- Integrated Marketing Communication is a concept which recognizes the advantages of having a complete plan to find better ways of understanding and connecting with consumers
- An advertising strategy is a statement which provides information on the competitive framework, target market, and messages to be used in an advertising campaign for a specific product or service and so on.
- Advertising objectives help to fix advertisement expenditure, type of advertisements to be used, most suitable media, frequency of the ad campaign, method for evaluating the effectiveness of advertisements, etc.
- Various methods of budgeting like percentage of sales method, competitive level method, task method and the breakeven method are commonly used in organizations for advertising budgeting.

- Creativity plays an important role in advertising and various creative strategies like information, argument, image, emotion and entertainment are used in advertising.
- Media strategy involves developing a media plan and media objectives.
- Advertising agencies are organizations that design, create and also manage the production of advertisements for their clients. These will ultimately help to enhance the profits of the clients.
- Sales promotion is aimed at increasing sales in the short term. Two types of sales promotion – consumer sales promotion and trade sales promotion are generally used.
- Sales promotions make use of various tools like price promotions, coupons, sweepstakes, competitions, gifts and so on.

16.7 Glossary

Advertising: According to the American Marketing Association, advertising is the placement of announcements and persuasive messages in time or space purchased in any of the mass media by business firms, non-profit organizations, government agencies and individuals who seek to inform and/or persuade members of a particular target market or audience about their products, services, organizations, or ideas.

Advertising Agency: An advertising agency is an organization that provides a variety of advertising related services to clients seeking assistance in their advertising activities.

Advertising Budgeting: The American Marketing Association defines advertising budgeting as the decision about how much money should be spent for advertising during a specific time period in order to accomplish the specific objectives of a client. This decision also involves the allocation of specific amounts of the total advertising appropriation to various media, creative approaches, times of the year, and to the production costs involved in preparing the advertising messages for placement in the various media.

Advertising Creativity: Advertising creativity is the skill to create new, distinctive and suitable ideas that can be used as solutions to communication problems.

Advertising Strategy: Advertising strategy is defined as a statement prepared by the advertiser (often in association with an advertising agency) setting forth the competitive frame, target market, and message argument to be used in an advertising campaign for a specific product or service.

Coupons: Coupons are certificates offered by manufacturers and retailers to consumers, which offer them special benefits like savings on purchase of selected products.

Direct Marketing: In direct marketing, organizations communicate directly with the target customers and try to generate a response from them.

Integrated Marketing Communication (IMC): Schultz defined IMC as the process of managing all sources of information about a product/service to which a customer or prospect is exposed which behaviorally moves the consumer towards a sale and maintains customer loyalty.

Media Strategy: Media strategy can be defined as a plan of action by an advertiser for bringing advertising messages to the attention of the consumers through the use of appropriate media.

Publicity: Publicity is a non-personal form of promotion that an organization carries out for its products with the aid of the mass media.

Promotion: Promotion is the organization's persuasive communication with a target audience and it is a key component of the marketing program.

Personal Selling: Personal selling is face-to-face communication between the seller and buyer in which the seller persuades the buyer to purchase the products of the company from him/her.

Price Promotion: Price promotion is defined as the advertising of a price for a product or service. Usually, the price promotion may take the form of a lower price, a coupon to be redeemed, or a rebate to be received.

Sales Promotion: Sales promotion is a component of promotion which is aimed at generating sales in the short-term. This is achieved by providing incentives to the target audience, sales force and distributors.

Sweepstake: A sweepstake is a promotional mechanism by which prizes are awarded to consumers who participate in it.

16.8 Self-Assessment Test

1. Explain in brief the components of promotion mix.
2. Define an advertising strategy. State the objectives of an advertising strategy.
3. Define an advertising budget. Explain various methods used for setting advertising budgets.
4. Explain the significance of a creative strategy in advertising. Describe various creative strategies employed in advertising.
5. Explain the different roles performed by an advertising agency.
6. Explain the steps involved in the sales promotion planning process.

16.9 Suggested Readings / Reference Material

1. Crawford and DeBenedetto. Irwin, "New Products Management", 12th edition, by McGraw-Hill, 2021.
2. Cravens, David W, "Strategic Marketing", 10th ed., ebook, McGraw Hill/Irwin, 2021.

3. O. C. Ferrell, Michael Hartline, Bryan W. Hochstein, “Marketing Strategy”, 2021, Cengage South-Western.
4. Alexander Chernev, Philip Kotler, Musadiq A. Sahaf, “Strategic Marketing Management”, “Strategic Marketing: Making Decisions for Strategic Advantages”, PHI Learning, 2019.
5. Alexander Chernev, Philip Kotler, “Strategic Marketing Management”, Cerebellum Press, 2018.

16.10 Answers to Check Your Progress Questions

1. **(b) Customization of the product**

   Promotion has five main components – personal selling, advertising, direct marketing, sales promotion and publicity. Customization of products and services is a part of the product strategy of a company. It is not a part of promotion.

2. **(e) Personal selling is face-to-face communication between the seller and buyer**

   Option ‘e’ states the definition of Personal Selling, i.e., ‘Face to face communication’ between buyer and seller.

3. **(c) Developing a strategy for only one of the components of the promotion mix**

   Developing a promotion strategy involves four major steps. They are developing the marketing communication objectives, deciding the role of the promotion mix components, deciding the approach to budgeting, and finally, developing a strategy for each of the components of the promotion mix like personal selling, advertising, direct marketing, sales promotion and publicity.

4. **(b) It is an approach to determine the promotion budget and make suitable allocations to various components of promotion mix**

   The statements in the other options relate to various aspects of Integrated Marketing Communication (IMC). However, option ‘b’ which states that it is an approach to budgeting is not true, hence option ‘b’ is correct.

5. **(c) Determining promotion objectives, consideration of different promotion strategies, identification of key factors, collecting information about key factors, deciding on the best promotion mix**

   Option 'c' represents the correct order of steps in deciding the role of promotion mix components.

6. **(a) Top-down and bottom-up budgeting**

   There are various approaches to determine the promotion budgets and these are divided into top-down and bottom-up budgeting.

7. (d) Selecting segments to target

Clear advertising objectives help an organization to take suitable decisions relating to a range of issues on promotion. Selecting suitable segments to target is a step taken at the very outset. This major decision precedes all other decisions and hence this is not based on advertising objectives.

8. (b) Scientific method

The most common methods used for setting advertising budgets include the percentage of sales method, the competitive level method, and the task method. Scientific method is not a method for determining promotion budget.

9. (e) To advertise products with unique features

When an ad sponsor advertises products highlighting unique features he follows an information strategy. The information strategy is used to introduce new products, to provide technical details of a product, to provide the results of any test conducted, to compare the product with a competitor's products, and so on.

10. (d) The suitable method for evaluating communication effectiveness

Media objectives are formulated on the basis of reach, frequency, timing and cost. While advertisers are conscious of measuring the effectiveness of communication, it is not an important factor that needs to be considered in making media decisions.

11. (d) Advertising

As the sales promotion activities are price promotions, coupons, gifts along with purchase, competitions and prizes, money refunds, loyalty programs for frequent users, point-of-sale displays and so on, advertising does not fit in this.

Unit 17

Public Relations and Direct Marketing Strategies

Structure

"The history of PR is… a history of a battle for what is reality and how people will see and understand reality."

– Stuart Ewen

17.1 Introduction

As rightly quoted by Stuart Ewen, public relations is properly presenting the organization's image to the public in a proper way. Public relations is the way organizations and businesses communicate directly or indirectly with the stakeholders and general public with an aim of maintaining a positive image and creating strong relationships with the latter.

Businesses reach out directly with the customers to drive business results. Success in direct marketing depends on how well the company is able to identify, segment, and target customers, who are most likely to respond positively to the organization's communication and products.

The previous unit discussed various components of promotion, promotion mix, budgeting approaches used to develop a promotion strategy, advertising, objectives of advertising, strategies adopted for advertising a product, scope of sales promotion, sales promotion activities and how the effectiveness of a sales promotion strategy can be evaluated.

In this unit, we shall define public relations, discuss the public relations objectives, its strategies, public relations planning, various techniques of public relations, define direct marketing, discuss its objectives, considerations in direct marketing and finally the evaluation and control in direct marketing.

17.2 Objectives

By the end of this unit, you should be able to:

- Define public relations and discuss its objectives.
- Elucidate various types of public relations strategies, public relations planning.
- Make a comparative study of various techniques of public relations.
- Define direct marketing, discuss its objectives and elucidate various considerations in direct marketing.
- Discuss how direct marketing is evaluated and controlled.

17.3 Public Relations

Definition: Public relations is *"that form of communication management that seeks to make use of publicity and other non-paid forms of promotion and information to influence the feelings, opinions, or beliefs about the company, its products or services, or about the value of the product or service or the activities of the organization to buyers, prospects, or other stakeholders".*

Public relations play a major role in influencing how the public views a company and well run public relation operations are crucial for the success of all organizations.

17.3.1 Public Relations Objectives

The basic purpose of any public relations program is to help the organization achieve its overall objectives.

Prerequisites for Setting PR Objectives are:

- *Understanding the Organizational Objectives:* Information regarding the objectives of the organization can be obtained from the public relations staff. Organizational objectives generally include increasing market share, increasing share price, increasing sales, increasing output, decreasing employee turnover and so on.
- *Research on Industry Issues:* The public relations staff also has to do research on industry issues and trends and about target audiences to get information that will assist them in coming up with public relations objectives.

The important public relations objectives of an organization are as mentioned below:

- Supporting the organizational objectives
- Explaining organizational policies to the public
- Getting media attention

- Changing the perceptions of customers or influencing consumers attitudes
- Motivating employees and supporting the marketing and sales efforts
- Building and sustaining one's reputation over time and restoring the organization's credibility among the public, etc.

The following are the important features of PR Objectives of a firm:

- *Realistic and Achievable:* Any public relations objective should be realistic and achievable. There should also be a fixed period within which the public relations objective is expected to be achieved.
- *Measurable:* Measurable objectives help the public relations department to ensure that the activities they undertake are in fact helpful in achieving the organizational goals. It is not an easy task to establish meaningful public relations objectives, as the results from public relations are difficult to measure.
- *Changing Public Opinion:* Many public relations campaigns have the objective of changing the perceptions of the public regarding a particular subject. However, it is not an easy task to change public opinion. Public opinion may not always remain constant nor is it easy to measure, it could be positive or negative.

17.3.2 Public Relations Strategies

This makes it necessary for every company to have a planned and systematic public relations strategy that will help in increasing the visibility of the organization in the market. The success of any public relations strategy depends on the support that it receives from the top management.

The following are various PR Strategies for developing effective public relations for a company:

Creative Strategy

Creative strategy decisions are the most visible part of the total marketing communication process. Public relations, just like any other kind of marketing communication, requires the effective use of creativity while developing the message, for the format being used and also for the images, etc.

Creative Strategies for Effective Public Relations are:

- *Creative Storyline:* For developing effective public relations for a company, having a valuable storyline is an absolute necessity. Any effort by the organization to promote something without having a really creative storyline can end in failure.
- *Media Coverage:* It can also result in the organization being labeled as one which brashly promotes itself. The media may stop giving coverage to such an organization and may even direct it to go in for advertisements instead.

- *Provide Benefits or Entertainment:* In order for a public relations story to be accepted by the media, it should either provide some sort of benefit to the readers or provide entertainment. In the absence of these conditions in a public relations campaign, it is difficult to obtain adequate coverage in the media.

Media Channel and Target Audience

A proper understanding of the target audience is very important in public relations. The media used for public relations should also suit the target audience. Thus, the correct understanding of the target audience and the appropriate use of media to target the audience is a must in effective public relations.

Public Relations Spokesperson

When an organization receives any request from media persons seeking information regarding its products and services, its public relations department should make all efforts to ensure that relevant information is provided at the earliest. Similarly, requests from the media regarding interviews with the staff of the organization should be solicited. The organization should do its utmost to help media persons to meet their deadlines.

Use of Public Relations Agencies

Many firms seek the help of public relations agencies to build a corporate image for themselves, launch a new product, etc. The agencies can also help in writing speeches, creating newsletters, supporting crisis control efforts and so on.

Some of the important factors for selecting a PR Agency by an organization are as given below:

- The experience of the agency in the business
- Reputation of the agency
- Its cost to the company
- The agency's knowledge of the industry (in which the company is operating)

Example

'Madison Public Relations' is an Indian PR Agency with a vision to build strong corporate reputations and great brands. It was established in 1997 and its CEO is Madhu Chhibber as of 2022[24] February. Some of its services are: Public Relations, Advertising, Media Planning and Buying, etc.

Source: ICFAI Research Center

[24] https://www.digitalvidya.com/blog/pr-agencies-in-india/# (Accesses on 15.02.22)

17.3.3 Public Relations Planning

A public relations planning involves an examination of the mission statement and goals of the organization. This provides an understanding of the organization's present and future expectations. Just like the organization's efforts, the public relations efforts of the organization are also based on the achievement of organizational mission and goals. The five steps of PR Planning are as given below:

Appraisal of the Existing Situation

Any organization has to keep monitoring its environment to find out when a public relations campaign will be required. Organization has to identify when a public relations program is required, i.e. to identify various situations where it is required.

Situation Analysis: Situation analysis helps to understand the changes that happen in the business environment and how it affects the organization compared with its position in the market and also with respect to customers, investors, prospects, competitors, the media, etc.

The following are the various situations for conducting PR:

- *New Product Launch:* Organizations need PR while launching a new product to create more awareness among the target groups.
- *Image Makeover:* When an organization is going for an image makeover also it requires PR for creating awareness.
- *Participation in Social Causes:* Also when an organization is participating in society building or social causes, it needs PR to showcase its activities.
- *Crisis/Image Crisis:* In some instances, as in the case of a crisis, the need for a public relations response will be immediate. If the organization is facing any image crisis, considerable time and money will have to be spent on public relations efforts in creating a positive image.

Determining the Objectives

It is better to divide the public relations objectives into short-term and long-term objectives. This will help to ensure that public relations are viewed as something required for the organization on a continual basis. The achievement of short-term public relations objectives should lead the organization on to achieve its long-term public relations objectives.

Determining the Target Audience

The target audience for public relations could be the stakeholders in the organization like Suppliers, Owners, Investors, Creditors, Communities, Trade unions, Employees, Government agencies, Customers and Media or stakeholders in the other organizations. The location of the target audience and the best time to contact them should be carefully determined. The greater the information collected about the target audience, the easier it is for the firm to design the public relations message.

Determining the Methods of Implementation

This involves selecting the public relations technique and deciding on the method and time of delivering the message to the target audience.

Cost Determination: Cost determination also requires special consideration in public relations planning. Public relations are considered to be more cost-effective than advertising. Some of the cost considerations for determining the methods of PR implementation are as given below:

- *Other Expenditures:* Various types of other expenditures like cost of maintaining an information center, printing, travel and entertainment, sponsorships, staging events and so on should be considered.
- *Affordability of Media:* The most effective media for communicating with the target audience may not be affordable for the organization, and thus, it is required to find a balance between the effectiveness of the media used for communication and the budget allocated.
- *Cost of Publicity:* Publicity, which is a tool used in public relations, may not involve any direct expenditure. However, the efforts that will help a company to get publicity may involve expenditure in some form or the other. For instance, when a donation is made by an organization to support a social cause, it will help to get publicity, but at a cost.
- *Alternatives:* If it is not possible to achieve the public relations objectives within the specified time, with the aid of the budget allotted, the alternatives available are changing the public relations objectives, changing the time period for achieving the objective, or changing the budget.

Evaluation of Results: The measurement of public relations efforts is a difficult task. Changing the perception or the attitude of people about something may be the objective of the public relations campaign and it is not easy to measure the results achieved. The results of the public relations program can be measured in terms of the effectiveness in administering the public relations plans.

17.3.4 Public Relations in Times of Crisis

Crisis Definition: "A crisis is a situation that threatens the integrity or reputation of the company, usually brought on by adverse or negative media attention".

The public relations failure would have long lasting repercussions on the company's financial standing and its image as a trusted brand.

Public relations in times of a crisis require the following two steps: proper preparation for crisis communication and the implementation of the crisis communication plan:

Preparation for Crisis Communication

Preparation for crisis communication essentially involves the formation of a crisis committee comprising persons who are directly related to the crisis. The public relations department of the organization should have efficient members who are skilled in handling all the communication with the external environment. The media also may have to be specifically considered in terms of local and international, foreign trade, general, specialized and so on.

Crisis Committee: It is to be ensured that all the members of the crisis committee have access to the same information and that there is agreement on what is to be communicated to the media.

The crisis committee should include the following important members:

- The CEO of the firm.
- The head of the public relations department.
- The senior manager of the division or area in which the crisis occurred.
- The security officer.
- The legal representative of the organization.
- If possible, it is better to have an eyewitness of the crisis who can provide more information.

The following are the important functions of the crisis committee of an organization:

- It is the function of the crisis committee to develop a crisis communication plan, which provides a basic outline of various alternatives to be considered when the organization is in the midst of a crisis. A general crisis communication plan can be prepared which can be modified to make it suitable for any type of crisis.
- The functions that are to be performed by each crisis committee member should be determined in advance.
- The crisis committee has to decide the spokesperson for communicating with the media, the employees, the consumers and so on.
- The crisis committee members should possess a copy of contact phone numbers and the addresses of all the members of the management team.

Audience of Crisis Communication: In public relations, in times of a crisis, the audience to whom information is to be provided should be predetermined. Various audiences to be considered are as given below.

- *Employees*: In communicating with employees, the needs of various kinds of employees like the top management, the salaried and contractual employees, union members, retired employees, etc., have to be separately considered as their information needs may differ.

- *Family Members of the Employees:* The family members of the employees, the community in which employees live, etc., are also to be kept in mind.
- *Intermediaries and Others:* Suppliers of the organization, distributors, wholesalers, retailers, competitors, etc., all form the audience for public relations in the event of a crisis.

Implementation of Crisis Communication Plan

The public relations efforts after a crisis should be aimed at protecting the reputation and credibility of the company. When a mistake has been made, it is better to admit it and begin doing whatever is possible to restore the confidence of the company's internal and external public.

Some of the important factors causing crisis in an organization are as given below:

- Human error
- Clerical error
- Illegal procedures
- Poor supervision
- Poor quality control
- Mishandling of confidential information
- Errors of judgment and so on.
- For the company to take a position on the crisis, all the financial, legal and technical implications should be considered.

Considerations in Implementation of Crisis Communication Plan are:

- *Quick Media Communication:* Whatever is required to be communicated to the media has to be done as quickly as possible. The global media are so evolved that they are able to pick up whatever happens in any corner of the globe and break the news worldwide. Ignoring a crisis will only make matters worse.
- *Crisis Committee Meeting:* The crisis committee has to convene a meeting immediately after a crisis has occurred and prepare a working plan.
- *Solution to Crisis:* For some types of crises as in the case of defective products introduced in the market, it would be a wise decision to announce a solution to the problem along with the acknowledgement of the mistake.
- *Consumer-Oriented Crisis Communication:* As far as possible, all the crisis communication should be consumer-oriented. Through various channels like the company website, online bulletin boards, via direct mail and through the media, consumers should be directly addressed at the earliest.

- *Communication to All Public:* All the internal and external public of the organization have to be informed as to what is being done to prevent such a crisis from occurring again in the future.

  For instance, if the crisis occurred as a result of inferior quality products that had to be recalled from the market and if the management has decided to install new quality control mechanisms to prevent such quality related issues from happening in the future, this should be conveyed to the public.

- *Spokesperson:* There should be an officially designated spokesperson for the company who will handle all the communication regarding the crisis. The CEO of the organization also has an important role to play in damage control after a crisis occurs. In addition to the spokesperson, there should be persons from various departments who can support the spokesperson if required.

  The following are few qualities of a spokesperson:

  - The spokesperson should have a thorough knowledge about the organization and the crisis and should be able to answer media queries effectively and to project a sincere and confident image of the organization.
  - The spokesperson has to be thoroughly prepared for all the difficult questions that may arise during the media briefing. It is necessary to have rehearsals before the actual media briefing.
  - Only the information that is asked by the media needs to be provided, unless the company feels that it is important to provide additional information.

- *Location of Media Center:* The media center should be located away from the offices of the crisis communication team, as it will help to prevent the media members from trying to get information on what is going on in these offices. It is necessary to treat all types of media equally and as such, the privileges extended to one should be given to all others.

- *Maintaining Contact Log:* There should be a contact log which records information regarding all the calls received seeking information about the crisis. Information regarding the name of the person who called, the date, time, contact information, the nature of information sought, the person responsible for contacting, etc. should be recorded.

- *Follow-Up Plan:* If any follow-up action is required, that aspect should also be mentioned in the contact log. When the initial stages of crisis management have been completed, it is necessary to develop a follow up plan to ensure that the crisis does not recur in the future.

Exhibit 17.1 illustrates the Volkswagen Crisis and its PR Crisis Management.

Exhibit 17.1: Volkswagen - Center of Crisis

Volkswagen is always the center of the crisis. In 2020 as it was coming out of its Emissions Scandal, it again was the center of a crisis due to its advertisement to promote its New Golf brand.

Emissions Scandal Crisis: This crisis began in September 2015, when the United States Environmental Protection Agency (EPA) issued a notice of violation of the Clean Air Act to German automaker Volkswagen Group. Volkswagen deployed defeat devices and software in about eleven million cars worldwide, including 5,00,000 in the United States, in model years 2009 through 2015. By 2020, it paid all the fines and came out of the issue.

Crisis due to Advertising: In 2020, it created a series of short videos for its Golf Ad 2021. One of the videos showed a large white hand holding a man with dark skin and moving him around the street like a marionette. Finally, the hand flipped this man into the entrance of Buenos Aires' Petit Colon cafe, evoking images of colonialism.

Aside from the weird image itself, the audience noted that as the German tagline "Der Neue Golf" (which means "The New Golf") fades in, the letters that disappear first spell out a word in German, "neger," which can be used as the German equivalent of the n-word.

Volkswagen Reaction to the Advertising Crisis:

VW quickly realized that the commercial was a colossal failure and issued an apology, stating that the company does not tolerate any type of racism, xenophobia, or prejudice. The video was also removed from the brand's social media accounts and elsewhere.

Source: i) https://everipedia.org/Volkswagen_emissions_scandal   Accessed on 11.2.22.

https://thehill.com/opinion/technology/587696-best-and-worst-crisis-management-in-2021 Accessed on 11.2.22.

iii) https://youscan.io/blog/reputation-crisis/   Accessed on 11.2.22.

17.3.5 Internet and Public Relations

The Internet can play an important role in the public relations efforts of organizations around the globe, as it allows two-way communication between the organization and its public on a real time basis.

The important advantages of internet for the public relations of a firm are as given below:

- Ease of use and any time access.
- The public relations audience can interact with the organization more effectively and this can result in getting them more involved with the organization.

- The problem of geographical barriers is also eliminated with the use of the internet, as it is accessible to the public in any part of the globe.
- The speed with which information can be disseminated forms another major advantage of public relations via the internet. In the event of a crisis, this aspect gains more importance.
- The internet also provides a cost effective medium for public relations. Moreover, by using this single source, a wide section of the target audience can be contacted.

Internet Tools for PR:

Some of the internet tools for PR are explained below:

- *Newsgroups:* There are various newsgroups, discussion groups, etc., over the internet, the members of which may discuss the company and its products.

  The important aspects of Newsgroups are as given below:

  - Certain groups may specifically discuss the new product introductions of the company.
  - By observing these newsgroups, the company can gain valuable information about present and potential customers as well as about the critics of the company.
  - Monitoring the content of newsgroups and discussion groups provides information about any negative publicity that may arise and help the company in dealing with such a situation.
  - When wrong information about the company is spread via newsgroups, the company representative can take all possible efforts to control its spread.
  - If it is found that wrong information about the company has been generated by the competitors, the company can take measures to prevent its spread.
  - The representatives of the company can also enter these discussion groups and forums and reveal their identity honestly and try to provide all the required information.
  - As the members of a newsgroup or discussion group have a common interest in their topics of discussion, the public relations people have to ensure the relevance of the posted message to the particular situation.
- *Online Newsletters:* Online newsletters also provide a worthwhile opportunity for public relations personnel to contact a large number of the target audience and build lasting relationships with them.

- *E-mail IDs of Visitors:* The e-mail IDs of visitors to these pages can be collected to form a mailing list. With the aid of the internet, the effectiveness of the PR campaign can be increased to a great extent. The use of e-mails and making effective use of search engines to increase the traffic to the company's website can go a long way in effective online public relations.

Electronic Mail and Public Relations

Electronic mail or e-mail can play a significant role in maintaining good public relations. E-mail helps companies to disseminate information efficiently within the organization.

The following are the advantages of E-mail and PR:

- It is faster and more cost effective than ordinary mail or fax and it helps in the sharing of documents without the attendant problem of storage devices (CDs, floppy disks) that are misplaced or lost.
- The management can provide information to employees with the aid of online bulletins. Such bulletins ensure that the information does not go unnoticed by employees, as was the case with the traditional notice boards.

Corporate Website

For the external public of the company like customers, creditors, etc. it is the corporate website that generally serves as the first source of information about the company. Information on the corporate website has to be consistent with the public relations materials which are used offline. The downloading time for the contents of the website should be minimal to enable smooth navigation across the web pages.

Example

ITC, one of the most valuable companies of India, showcases its achievements towards its various stakeholders on its website - https://www.itcportal.com/. Like, it mentions the sustainability practices it initiates and their outcomes, it generates 41% of energy from renewable sources, its hotels are LEED Platinum Certified Green Hotels etc.

Source: ICFAI Research Center

The various important aspects of corporate websites of an organization are as given below:

- The use of informal and intelligible fonts and avoiding too many graphics can make the web pages more attractive.
- In cases where the target audience is located in various countries, country specific websites can be provided.
- In-depth information about the organization, its products, etc., can be provided on the corporate website, which can generate more visitors.

- The website can also feature additional attractions like a search engine, a bulletin board, discussion groups, facility for translating the web pages and so on.
- Online contests, which are relevant to the area of operation of the business, can also be conducted.
- There can be an FAQ page, which answers frequently asked questions and allows downloading of articles for free. Press conferences can be webcast live on the corporate website.

Search Engines

A search engine is "a program that indexes documents and then attempts to match documents relevant to the user's search requests". Some of the search engines on the Internet are Yahoo!, Google and MSN. Search engines can help in increasing the number of visitors to a particular website.

Important considerations for good search engine results are:

- *Keywords:* To get top rankings on search engines, the relevant keywords have to be submitted to the search engines. These keywords have to be selected considering the interests of a wide variety of target audiences.
- *Search Engine Reputation Management* (*SERM):* It is equally important to register with a number of search engines rather than just one. Some important aspects of SERM are as given below:
  - Search Engine Reputation Management (SERM) is gaining importance with companies trying to obtain high rankings on the search engines for all press releases and corporate communications.
  - SERM combines the public relations efforts of the organization with technical skills with the objective of increasing web presence. A person who uses a search engine for any particular information may not view more than the first few pages.
  - The objective of SERM is to get a high ranking for all the corporate communications, including the press releases available on the internet.
- *Search Engine Optimization (SEO):* By ensuring that the corporate website is optimized for the search engine, ranking can be improved to a good extent. This can be done by regularly issuing news releases that prominently feature the organization's name and address and providing them to online publishers.
- *Publication of Corporate Communication:* The publication of corporate communication like articles, case studies, and press releases on the corporate website can help to improve a company's web presence. Organizations also have to ensure that all the published articles relating to it, which are found in the top search engines, are accurate.

Blog

A blog is "a hybrid form of Internet communication that combines a column, diary and directory. The term, short for 'Web log', refers to a frequently updated collection of short articles on various subjects with links to further resources". Blogs are increasingly becoming more important where public relations are concerned on account of their ability to connect with a diverse target audience like employees, customers, etc., through communications that have a personal touch.

> **Example**
>
> Coca Cola India has an official blog with website address - https://www.coca-colaindia.com/point-of-view. Through this blog it is promoting its positive image to the Indian public and consumers. It has posts like World Water Day changing lives in water scarce Bundelkhand etc.

Source: ICFAI Research Center

17.3.6 Public Relations Techniques

A variety of techniques are available for public relations practitioners to aid them in achieving their public relations objectives. Various media like the television, the radio, newspapers, magazines, newsletters and the internet are available for developing public relations through press releases, news articles, interviews and product reviews, speeches, special events, etc. Some of the most common public relations techniques are listed here.

Press Releases

Press releases are short documents issued by the organization to the media, with the objective of providing information about an interesting happening in the organization. It helps the media to get significant information about the organization. Various important aspects of Press Releases made by an organization are as given below:

- While issuing a press release, the company has to keep in mind its newsworthiness.
- Each press release should provide, in the introduction, answers to customary questions like what happened, when, why, etc.
- Press releases should preferably be less than one page in length and should be neatly arranged into short paragraphs.
- If required, quotes from outside sources could be used in order to add credibility.
- Contact information about the person who is responsible for providing supplementary information to the media has also to be provided.
- Any media person who finds the press release interesting will contact the organization for additional information and may write favorably about the organization.

Newsletters

Newsletters, which come in the print, audio, or online format, can be an effective technique in public relations.

The various important aspects of Newsletters made by an organization are as given below:

- Newsletters perform the function of educating the people about various activities of the company and sometimes also about various uses of a product or service of a company.
- They are different from sales brochures, as they do not have the direct objective of selling a product, they just provide information to the readers.
- They also help in building a company's credibility in the market and create a distinct image for it.

Trade Shows

Trade shows can be a good occasion for any organization to get good media coverage.

The important aspects of trade shows made by an organization are as given below:

- When a trade show is being conducted in a relevant industry, the organizers have to be contacted with relevant information about the organization, its products and what the organization plans to do at the trade show.
- Trade shows can also be used as a venue for making new product announcements or for new product launches.
- A pressroom can be arranged to convene a press conference at the venue to make any important announcement or to launch the new product.
- If possible, the organization can collaborate with the trade show organizers to generate more media attention as, for instance, co-sponsoring the trade show or giving ads on the website of the organizers.

Special Events

Various events like fund-raisers, contests, celebrations for achieving organizational milestones, anniversaries, parties provided for or by the clients, etc., can be considered as events that help to enhance the image of the company. Such public relations events require careful planning and budgeting.

Example
Mercedes Benz, the premium car manufacturer, organizes fashion weeks across the globe regularly. In 2022[25] it is organizing MBFW-Mercedes Benz Fashion Week at Berlin during 14-16 March, 2022. This is to showcase its products through this special event to its target customers and also create a great image of the company among them.

Source: ICFAI Research Center

[25] https://mbfw.berlin/

Photographs and Graphics

Photographs: Photographs and other graphics given along with a news release can enhance the quality of the news release and prompt the editors of the media to use such photos in their coverage.

Photographs can be submitted for all regular announcements made by the company like the following:

- New recruitment
- Launch of a promotional campaign
- Retirement of the CEO or other senior management persons
- Any awards being conferred on the organization or its employees, etc.

Graphics: In the case of budgets and such other complicated matters, use of graphs, pie charts, etc., can make the news release appear less complicated.

17.3.7 Public Relations Budgets

Public relations generally are a part of the general advertising program of an organization. Budgets for public relations are usually prepared on the basis of a public relations plan, which lists out the activities that the organization intends to undertake as part of public relations.

The strategies followed by public relations managers in budgeting for public relations are affordability method, competitive parity method and the cost accounting method.

Affordability Method

Many firms allot funds for public relations after making allotments for other activities such as for advertising, direct selling and so on after allocating the budget for all other unavoidable expenditures, which is a major disadvantage. This leads to public relations being left with the remaining budget that the organization can afford to give. This method is generally adopted by firms with limited resources.

Competitive Parity Method

Here, the budget allocation for public relations is based on how competitors allocate their budgets for public relations. The rationale behind this strategy is the belief that when organizations in a particular industry spend almost in a similar way for a purpose, sooner or later an optimum level will be achieved. Any major deviation in spending by any of the organizations can cause the onset of a spending war.

The various limitations of competitive parity method are as given below:

- A problem associated with the competitive parity method is the difficulty in assessing the public relations expenditure of competitors.
- Most often, organizations adopting this method will have to observe the public relations activities of competitors and estimate their expenditure. This may lead to serious miscalculations.

Cost Accounting Method

The cost accounting method involves preparation of an itemized list of all the activities planned under public relations during the coming year and the expected cost of each of these items. There will be a ceiling beyond which total expenditure cannot be increased. Once the list is prepared, it is sent to the top management for approval and adjustments are made in the list, if required.

Reserve Budget Accounts

Public relations can involve many unexpected expenditures and this causes difficulties in preparing accurate estimates for PR expenditure.

Unplanned Account: Reserve Budget Account is *a technique in which essential, but unplanned accounts are kept in a separate account.*

The various considerations for Reserve Budget Accounts are as given below:

- For instance, the unexpected need to recall a product or an accident which takes place in the factory premises may cause an unforeseen burden on the public relations department of the organization.
- There can also be the development of some new public relations opportunities, which may not have been evident earlier. This often causes an expenditure on public relations that is beyond what is actually planned and provided for.

Steps for the creation of a reserve budget account for public relations are:

- In the first step, the actual expenditure and budgeted expenditure of the organization for the previous three years is studied.
- The next step involves identifying the difference between the actual expenditure and the budgeted expenditure during these years. The average of these figures will form the reserve budget amount and it can give a rough estimate about the deviation in the PR expenditure, if any, in the coming years.

17.3.8 Public Relations – Evaluation and Control

Public relations measurement and evaluation involves “any and all research designed to determine the relative effectiveness or value of what is done in public relations.

The following are the important aspects of PR Measurement:

- *Short Term:* In the short term, PR measurement and evaluation involves assessing the success or failure of specific PR programs, strategies, activities, or tactics by measuring the outputs, outtakes and/or outcomes of those programs against a predetermined set of objectives.

- *Long Term:* In the long term, PR measurement and evaluation involves assessing the success or failure of much broader PR efforts that have as their aim seeking to improve and enhance the relationships that organizations maintain with key constituents".
- *Assigning Numerical Values:* PR measurement takes place through assigning numerical values to various activities of public relations as, for instance, number of brochures distributed, number of phone calls made, etc., and measuring them against standards established previously.

Guidelines to be followed in measuring and evaluating the effectiveness of public relations:

- The foremost among these is the establishment of clear objectives to be achieved through public relations.
- It is not possible to rely on a single tool or technique to measure and evaluate the public relations undertaken, but a combination of various tools and techniques like media content analysis, cyberspace analysis, trade show and event measurement, public opinion, etc., will be required.
- It is also necessary to desist from comparing public relations with advertising. This is because advertising messages are given by an organization on the payment of specified charges, but the public relations messages of a company appear in the media free of cost and the decision about the nature and extent of media coverage is taken by the media themselves.
- Another aspect to be considered is the importance of identifying the key messages, channels of communication used and the organization's target audience.
- Similarly, the public relations efforts of an organization should never be considered separate from the overall goals and objectives of the organization.

Components of PR Measurement and Evaluation

There are mainly five components in the process of evaluating public relations effectiveness and these are discussed here:

Establishment of measurable public relations goals and objectives: The most important constituent of evaluating the public relations program is the establishment of goals and objectives of the public relations program. Once measurable goals and objectives have been set, the effectiveness of individual PR activities like trade shows, lobbying efforts, press conferences and so on can be individually measured, rather than measuring the public relations program as a whole.

Measurement of public relations output: Public relations output refers to what is visible immediately from a public relations program. For instance, in the case of a brochure published, its visual appeal is to be measured, while in the case of a special public relations event, the attendance of related people is to be measured.

Measurement of public relations outtakes: Outtake refers to what the intended audience has obtained from the organization's public relations effort. This can be measured in terms of factors like favorable response received to the message, understanding of the message, the level of message retention, the attention received by the message and how it is able to induce action in the audience.

Measurement of public relations outcome: The public relations outcome measures whether the public relations efforts have created any change in the opinion or attitude of the target audience. Compared to measuring public relations output and outtake, measuring public relations outcome is more difficult and expensive. This is because the measurement of outcome requires the use of complicated tools like surveys, focus groups, multivariate studies, etc.

Measurement of organizational outcome: The eventual objective of any public relations program is the attainment of organizational objectives. This requires the outcome of public relations campaigns to be linked to the achievement of organizational objectives like increasing market share, increasing profit, etc.

Activity 17.1

Vista Auto Ltd., (Vista) is a world-renowned company manufacturing cars for the premium customer segment. It is known for the quality and performance of its cars. To serve the lower customer segment, the company launched a low-cost version of its very successful premium model. The customers who bought the car found that the car had many flaws and defects. This also had a major impact on the company's successful premium segment cars. If you are the CEO of this company, how would you handle this crisis situation and maintain its reputation as a successful automaker?

Answer:

Check Your Progress - 1

1. Which of the following is not a public relations objective?
   a. Supporting the organizational objectives
   b. Explaining organizational policies to the public
   c. Getting media attention
   d. Changing the perceptions of the CEO
   e. A tool to inform people during a crisis situation

2. Which of the following could negatively influence the success of a public relations campaign?
   a. Creative strategy aligned to PR goals
   b. Media mix complements the campaign objectives
   c. Content appeals to the target audience or publics
   d. Generalized content with superlatives about the company's work
   e. Suitably chosen timing of campaign
3. Which of the following is not a part of public relations planning?
   a. Appraisal of the existing business environment
   b. Determining the target audience
   c. Determining the salary of its employees
   d. Identifying the methods of implementation and evaluating the results
   e. Evolving a suitable creative strategy that is aligned to PR goals
4. Who among the following is not a member of the crisis committee?
   a. The CEO
   b. The head of the public relations department
   c. The senior most employee of the organization
   d. The legal representative of the organization
   e. The marketing head
5. Which of the following is not an advantage with the use of the internet for public relations?
   a. Two-way communication between the organization and its public
   b. Ease of use and any time access
   c. Eliminates geographical barriers
   d. Reduces the speed of information dissemination
   e. When PR content goes viral the campaign becomes an instant hit
6. Which of the following is not an internet tool used to maintain public relations by the company?
   a. Electronic Mail
   b. Handwritten letters
   c. Corporate website
   d. Blog
   e. Videos
7. Which of the following is not a public relations technique?
   a. Press releases
   b. Trade shows
   c. Board meetings
   d. Newsletters
   e. Photographs and graphics

8. Which of the following is not a method of budgeting strategy for public relations?
   a. Affordability method
   b. Cost accounting method
   c. Reserve parity method
   d. Reserve budget method
   e. Objective and task

17.4 Direct Marketing

Definitions of Direct Marketing

Direct marketing is *"a form of non-store retailing in which customers are exposed to merchandise through an impersonal medium and then purchase the merchandise by telephone or mail"*.

Example

Naaptol was founded in 2008 as a TV-first platform for product discovery. It sells products through TV channels in multiple languages, including Hindi, Tamil, Telugu, Malayalam, and Kannada. In 2022[26], it is planning to launch an initial public offering (IPO) that could see the company raise as much as ₹1,000 crore.

Source: ICFAI Research Center

Direct marketing can also be defined as the *"total of activities by which the seller, in affecting the exchange of goods and services with the buyer, directs efforts to a target audience using one or more media (direct selling, direct mail, telemarketing, direct-action advertising, catalog selling, cable selling, etc.) for the purpose of soliciting a response by phone, mail, or personal visit from a prospect or customer*".

Direct Marketing Objectives

Direct marketing objectives are those that an organization aims to achieve through its direct marketing efforts.

Some of the important direct marketing objectives are as mentioned below:

- Identifying new prospects
- Increasing sales
- Inducing customers to make repeat purchases
- Test marketing and launch of new products
- Marketing products to niche market segments, and so on.

[26] https://www.livemint.com/market/ipo/naaptol-plans-to-raise-up-to-1-000-cr-via-ipo-11643564431671.html

Issues to be considered while setting direct marketing objectives are:

- The success rate of the direct marketing objectives of the organization in the previous years,
- The nature of the industry, industry trends,
- The nature of sales in the industry during previous years,
- The projected sales revenue from direct marketing, the expected revenue from each and every product and product group and the legal environment.

Some of the important considerations for setting realistic objectives are as mentioned below:

- Well-established direct marketing objectives are measurable and are set in realistic terms after considering the financial, technological and other resources available within the organization.
- It is not an easy task to establish realistic objectives, but experience makes the task less difficult.
- In many organizations, direct marketing will be an integral part of various promotional activities.
- It is therefore essential that the objectives set for direct marketing are compatible with other promotional activities like personal selling, advertising, etc., and ultimately with the overall organizational objectives.

17.4.1 Considerations in the Use of Direct Marketing

Several factors influence the performance of direct marketing in an organization. Such factors which need to be considered are consumer resistance, cost effective communication channels, databases, value provided to customers, market segmentation, etc. These are discussed below.

Consumer Resistance

Many people consider direct marketing methods like telemarketing as an intrusion into their privacy. Direct marketers have to keep the following factors in mind before marketing their products or services:

- *Calls:* Many customers feel disturbed when telemarketers call them and they complain to the authorities or block the numbers of telecallers.
- *E-mails:* In the case of e-mails, many consumers hesitate to open the mails fearing computer viruses or they delete them without opening to prevent their mailbox from getting cluttered.

Relationship Building

Relationship building is one of the most important activities for an organization. Identifying profitable customers is a key here since any organization will be seeking to identify profitable customers to build long-lasting relationships.

The following are few considerations in relationship building:

- *Identify the Most Profitable Customers:* Companies try to identify the most profitable customers by scanning the customer database that is available with them and by analyzing their previous purchase patterns.
- *Building Customer Relations:* The manager of a company might think that he/she is building customer relations while communicating with them, but consumers often look at relationship building as an intrusive activity.
- *Mutual Trust:* For relationship building, it is essential that there is mutual trust between the marketer and the customer.
- *Retaining Existing Customers:* A widely accepted fact in marketing is that retaining existing customers is more cost effective for companies than trying to gain new customers.
- *LTV:* Companies focus more on customer relationship building. Marketers use a technique called lifetime value (LTV) to build relations with customers.

  The important aspects of LTV are as given below:

  - Customer lifetime value is a measure of the worth of a customer to an organization on account of its relationship with him/her.
  - It is calculated on the basis of the cost involved in communicating with the target customer over a certain period of time and the revenue generated from it.
  - Customer lifetime value helps to identify if the relationship with a customer is worthwhile in the long term.
  - Thus, through LTV analysis, customers who are not generating any profit to the organization can be eliminated from the database and the resources of the organization can be concentrated more on the rest of the customers.

Integrated Marketing Communication

Definition: Integrated marketing communication is *'a management concept that is designed to make all aspects of marketing communication such as advertising, sales promotion, public relations and direct marketing work together as a unified force, rather than permitting each to work in isolation'.*

Integrated marketing communication calls for a high degree of cross-functional and interpersonal communication within the organization, across business units and with suppliers. Direct marketing is a part of the overall marketing communication mix of an organization. The integration of direct marketing with other marketing communication tools provides synergies that will help to have the highest impact on the target customers.

17.4.2 Database – The Key to Direct Marketing

There are mainly three types of databases – customer database, transaction database and database marketing, which are as given below:

Customer Database: While a customer database provides information about all the customers of the organization, a marketing database contains information about prospective customers, in addition to customer information.

Transaction Database: A transaction database manages all customer transactions. It is often believed that databases have only a customer focus, but there are comprehensive databases that integrate information about the products of the organization, information about suppliers, competitors and various other areas of business, in addition to having a customer focus.

Database Marketing: In the late 1980s and early 1990s, database marketing was the prerogative of large organizations with access to large mainframe computers. Later, it became possible to manage large databases with the aid of personal computers and so they began to be increasingly used by small businesses also.

The definitions of database marketing are:

- Database marketing is "the technique of gathering all the information available about your customer, leads, and prospects into a central database and using that information to drive all your marketing efforts".
- Philip Kotler defines database marketing as "an organized collection of comprehensive data about individual customers, prospects, or suspects that is current, accessible, and actionable for such marketing purposes as lead generation, lead qualification, sale of a product or service, or maintenance of customer relationships".

Advantages of Database Marketing are as given below:

Customer Information: In the database, there will be information about each and every existing customer, as well as prospective customers and each bit of information is identified as a record. The database also contains the details of previous transactions, previous communication with the customers, etc. Such information can greatly help direct marketers when communicating with the customers.

Better Decision Making: The information available in the databases will help the management to take decisions regarding managing market segments.

Cost Reduction: An important principle behind the use of database marketing is the belief that costs can be reduced while profits can be enhanced by collecting and organizing information about the business.

Customer/Customer Group Specific Marketing Communication: Thus, database marketing helps to decide what to market and to whom, on the basis of all the information collected from the customer or the prospect.

Each customer and customer group in the database will thus be exposed to marketing communication that is specifically directed at them. This ensures that the expenditure incurred in marketing gets the maximum returns as marketing efforts are focused on only prospective customers.

17.4.3 Direct Marketing – Evaluation and Control

Direct marketing is one of the most easily measurable components of marketing communication and the success rate can be measured fairly accurately. This is largely because it is possible to monitor and control the communication made to customers and the prospects as well as the responses received by the company from the customers.

The evaluation of direct marketing generally takes place with regard to two aspects – customer response and profitability, which are as given below:

Customer Response

In direct marketing, it is important to know if the audience has received the messages properly. There are three techniques that are generally used to measure customer response to direct marketing, which are as given below:

Geodemographic Classification: It is a system which was introduced in the 1930s, but widespread commercial use began only in the 1970s and 1980s when US-based Claritas Corporation launched the PRIZM system.

Some important aspects of Geodemographic classification technique are as given below:

- The basic principle behind the Geodemographic classification system is the belief that 'people with similar cultural backgrounds, means and perspectives naturally gravitate toward one another – or "cluster" – to form relatively homogeneous communities'.
- On clustering together, they try to emulate one another and tend to have comparable consumer behavior toward products, media and promotional activities.
- Geodemographic classification has application in direct marketing as the information available is a valuable resource in studying the quality and nature of the respondents.
- Instead of depending on sample data, direct marketers are able to make use of the purchase information of millions of people.

Tracking Studies: Tracking studies are short, focused surveys that are conducted periodically to identify the changing trends in consumer behavior. Various factors like customer awareness, customer purchase plans, etc., are studied through tracking studies. They help the marketers to keep themselves informed about the emerging trends among consumers.

Responder/Non Responder Surveys: In responder/non-responder surveys, as the name implies, the attempt is to find out the difference between responders and non-responders to a direct marketing campaign and the reasons for that. This helps to modify the next direct marketing campaign on the basis of the results obtained.

Profitability

The ultimate objective of any direct marketing campaign is to achieve profits. It is the profit expectation that acts as a basis for all the decisions regarding expanding or reducing the size of a direct marketing activity. Direct marketers can go in for new customer acquisition, use new media and increase the number of times a customer is contacted in order to increase sales, profitability and return on investment.

Activity 17.2

Alex Watches is an established watch manufacturer in the US. The company is planning to set up a new division in India. After setting up its division, the company made efforts to advertise its products through television and print media. However the company could not succeed. The top management found that the company faced difficulty in marketing its products. Moreover, the Indian watch market was flooded with established players. Assume that you are the CEO of this company and suggest the most effective ways of marketing that would help the company generate awareness of its watch brand among consumers.

Answer:

Check Your Progress - 2

9. Which of the following is not an objective of direct marketing?

   a. Identifying new prospects

   b. Inducing customers to make repeat purchases

   c. Test marketing and launch of new products

   d. Marketing products to all market segments

   e. Demonstrating use of product and educating customers

10. Which are the two aspects considered in the evaluation of direct marketing?
    a. Customer response; losses
    b. Employee response; profitability
    c. Customer response; profitability
    d. Reach and Sales
    e. Persuasion and Purchase decisions
11. Which of the following factors least influences the performance of direct marketing in an organization?
    a. Consumer resistance
    b. Cost effective communication channels
    c. Value provided to customers
    d. Evaluation of direct marketing
    e. Direct marketing media mix

17.5 Summary

- Public relations are a non-paid form of communication which aims at influencing the feelings, opinion, or belief of consumers, prospects, or shareholders.
- The objective of public relations should always be helpful in achieving the overall organizational objectives. Setting measurable and time bound objectives are essential as this will help the public relations department of an organization to show the results achieved.
- Public relations have to play an important role when a crisis occurs in an organization. All the relevant information has to be provided to the media at the earliest. All the concerns of the stakeholders of the organization like employees, consumers, etc. need to be addressed. Once the crisis is under control, follow-up measures have to be undertaken and conveyed to the media.
- The Internet plays a significant role in public relations. It provides the advantage of real time interactive communication which can be accessed by people in all parts of the globe without any geographical barriers. E-mails, corporate websites, search engines, etc., can be effectively made use of in public relations. Blogs form another potential online public relations medium and they are widely used by many organizations.
- Various techniques are used in public relations like newsletters, speeches, special events, and trade shows.

- Direct marketing involves all the activities undertaken by an organization in effecting the exchange of goods and services with a target audience by making use of media like direct selling, direct mail, telemarketing, direct-action advertising, catalog selling, cable selling, etc.
- Some of the important objectives of direct marketing are identifying new prospects, increasing sales, inducing customers to make repeat purchases, test marketing and launch of new products, marketing products to niche market segments, and so on.
- Databases form an important aspect of direct marketing. Database marketing involves collecting all the available information about customers and prospects and using that information to increase the effectiveness of marketing efforts.
- Evaluation of direct marketing can be done from the customer response and profitability attained. Customer response can be studied through geodemographic classification, tracking studies, responder/non-responder surveys, etc.
- New customer acquisition, use of new media, addition of new products, or increase in the number of times a customer is contacted, etc., can help to increase sales, profitability, return on investment, etc.

17.6 Glossary

Blog: A blog is a hybrid form of Internet communication that combines a column, diary and directory. The term, short for 'Web log', refers to a frequently updated collection of short articles on various subjects with links to further resources.

Database Marketing: The technique of gathering all necessary information about the customers and prospects and storing it in a central database and using that information to drive the marketing efforts of a company is database marketing.

Direct Marketing: In direct marketing, organizations communicate directly with the target customers and try to generate a response from them. It involves non-personal communication and the objective is to make the receiver, i.e. the target audience responds instantly to the sender and start the process of a transaction.

Integrated Marketing Communication: Integrated marketing communication is a management concept that is designed to make all aspects of marketing communication such as advertising, sales promotion, public relations and direct marketing work together as a unified force, rather than permitting each to work in isolation.

Public Relations: Public relations is that form of communication management that seeks to make use of publicity and other non-paid forms of promotion and information to influence the feelings, opinions, or beliefs about the company, its products or services, or about the value of the product or service or the activities of the organization to buyers, prospects, or other stakeholders.

Search Engine: A search engine is a program that indexes documents and then attempts to match documents relevant to the user's search requests.

17.7 Self-Assessment Test

1. Define public relations and state its objectives.
2. Explain various types of public relations strategies.
3. Explain the concept of public relations planning.
4. Define direct marketing. State its objectives.
5. Explain various considerations in direct marketing.
6. Explain how direct marketing is evaluated and controlled.

17.8 Suggested Readings / Reference Material

1. Crawford and DeBenedetto. Irwin, "New Products Management", 12th edition, by McGraw-Hill, 2021.
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3. O. C. Ferrell, Michael Hartline, Bryan W. Hochstein, "Marketing Strategy", 2021, Cengage South-Western.
4. Alexander Chernev, Philip Kotler, Musadiq A. Sahaf, "Strategic Marketing Management", "Strategic Marketing: Making Decisions for Strategic Advantages", PHI Learning, 2019.
5. Alexander Chernev, Philip Kotler, "Strategic Marketing Management", Cerebellum Press, 2018.

17.9 Answers to Check Your Progress Questions

1. (d) Changing the perceptions of the CEO

Some of the most important public relations objectives include supporting the organizational objectives, explaining organizational policies to the public, getting media attention, changing the perceptions of customers or influencing their attitudes, motivating employees, supporting the marketing and sales efforts, building and sustaining one's reputation over time, restoring the organization's credibility among the public, etc. Hence option 'd' is correct.

2. (d) Generalized content with superlatives about the company's work

All options state factors that would contribute to the success of a PR campaign. Option 'd' however could have credibility issues and therefore negatively impact the success of a PR campaign. Generalized content and use of superlatives without specific proof could impact the credibility of the campaign.

3. (c) **Determining the salary of its employees**

Public Relations planning generally involves an appraisal of the existing business environment, determining the objectives, determining the target audience, identifying the methods of implementation, and evaluating the results. Hence option 'c' is correct.

4. (c) **The senior most employee of the organization**

Preparation for crisis communication essentially involves the formation of a crisis committee comprising persons who are directly related to the crisis. The crisis committee should include the CEO, the head of the public relations department, the senior manager of the division or area in which the crisis occurred, the security officer, and the legal representative of the organization. Hence option 'c' is correct.

5. (d) **Reduces the speed of information dissemination**

The advantages offered by the use of Internet as a public relations tool include two-way communication between the organization and its public, ease of use and any time access, eliminates geographical barriers, etc. It also increases the speed of information dissemination. Hence option 'd' is correct.

6. (b) **Handwritten letters**

Electronic mail, corporate website, blogs and search engines are the various Internet tools that are used by the company to maintain its public relations. Hand written letters is not an Internet tool used for public relations.

7. (c) **Board Meeting**

Press releases, Newsletters, trade shows, special events, photographs and graphics are the various techniques of public relations. Board meetings is not a public relations technique.

8. (c) **Reserve parity method**

Affordability method, competitive parity method, cost accounting method and reserve budget method are the four methods used in a public relations budgeting strategy. Hence option 'c' is correct.

9. (d) **Marketing products to all market segments**

Some of the important direct marketing objectives are identifying new prospects, increasing sales, inducing customers to make repeat purchases, test marketing and launch of new products, marketing products to niche market segments, and so on. Hence option 'd' is incorrect.

10. (c) Customer response; profitability

The evaluation of direct marketing generally takes place with regard to two aspects – customer response and profitability.

11. (e) Evaluation of direct marketing

The various options state the crucial factors that influence the success of direct marketing. The evaluation of direct marketing comes after completing the direct marketing activity and hence can possibly help make positive changes only in future direct marketing activities.

Unit 18

Sales Force Strategies

Structure

"Sellers who listen to buyers carefully and then give them the missing ingredients – those are the ones who stand out."

– Deb Calvert

18.1 Introduction

As quoted rightly by Deb Calvert, the salesforce should carefully listen to the customers and provide what is missing. The sales force of a firm works as a team to build brand awareness and build trust with customers. They engage with customers as they navigate through successive stages of the buying process to drive sales.

Sales force strategies include an action plan to recruit and manage an efficient sales force and also coordinating sales operations to facilitate and support achievement of sales targets.

In the previous unit we discussed public relations, its objectives, its strategies, public relations planning, various techniques of it, direct marketing, its objectives, considerations in direct marketing and the evaluation and control in direct marketing.

In this unit, we shall discuss about the sales force strategies, the role of the sales force, the steps involved in the selling process, various sales channels available for a company to sell its products, various organizational structures that help in designing a sales organization, the functions involved in managing the sales force and the concept of personal selling.

18.2 Objectives

After reading this unit, you should be able to:

- Elucidate various roles of the sales force and discuss the steps involved in the selling process.
- Explain various sales channels available for a company to sell its products.
- Elaborate on various organizational structures used in designing a sales organization.
- Discuss the functions involved in managing the sales force.
- Define personal selling and understand its objectives.

18.3 Developing and Implementing Sales Force Strategy

An effective sales force strategy is very important for achieving sales targets as well as for bringing the sales force in line with the course of the organization. It is the sales managers who are entrusted with the task of developing sales force strategies, communicating them to the sales force and ensuring their implementation.

In developing and implementing sales force strategies, various steps are involved which include identifying the role of the sales force, defining the selling process, choosing appropriate sales channels, designing the sales organization, managing the sales force and evaluating the sales force performance.

18.3.1 Role of Sales Force

The role of the sales force is not limited to making sales calls or presentations alone. In fact, they spend a considerable amount of time on various other activities like planning, organizing and implementing tasks associated with increasing sales and thereby the profits from the sales territories allocated to them. Various roles that the sales force generally performs are summarized here.

Seller

The most important role performed by the salesperson is that of a seller. In performing the role of a seller, the salesperson gets a chance to interact with a lot of people.

The following are the important activities for a salesperson:

- *New Customers:* Getting new customers is a very important activity for a salesperson to grow business in his/her territory.
- *Existing Customers:* He/she has to get the existing customers to buy more products or increase the usage of products purchased from him/her.

Some of the key success factors for a seller are:

- *Customer Orientation:* The key to success for a salesperson is the ability to listen carefully to the needs of the customers and provide them with products that meet their needs. Thus, customer orientation is the means by which a salesperson can play the role of a seller successfully.

- *Dependence of Customers:* Customers depend on salespersons for reliable information. This dependence usually increases with the increase in the price of products. He should utilize this dependence for getting success.
- *Providing Assistance:* Salespersons also provide assistance to their customers in reselling the products and help wholesalers and retailers in selling the products to final customers. By helping them, he can be successful.

Problem Solver

This is an approach to selling where the salesperson helps the consumer to evaluate alternative solutions to a problem and to select the best solution.

Some important salesperson tasks in the problem solver approach are as given below:

- Customers may have various unmet or unsatisfied needs. It is the responsibility of salespersons to identify such needs and try to fulfill them.
- The sales force is supposed to educate the customers on how using a particular product can help them in solving their problems and fulfilling their needs.
- Deciding on the frequency of visits to customers. Visiting a customer for the second time, he/she should go well prepared to clarify any doubts expressed by the customer during the first visit.
- Planning the sales calls and preparing for the sales presentation, etc.

Service Provider

This is an approach to selling where the sales person provides various services to the customers, retail outlets, distributors and wholesalers, which are as given below.

- *Services to Customers:* Salespersons provide various services to customers like handling complaints, reporting such customer complaints to their superiors, taking orders, taking back any damaged goods, providing free samples and so on. Once the sale has been made, they have to assist customers in installing the product or help them understand how to use it.
- *Services to Retail Outlets:* They will have to provide services to the retail outlets by training the salespersons of these outlets in the demonstration process and teaching them how to demonstrate it to visitors to the store.
- *Services to Intermediaries:* The salespersons of the firm also provide services to the distributors or wholesalers in terms of supporting them in selling the product to their customers in turn.

Information Provider

The sales force is in direct contact with the customers and they can be a valuable source of information to the company. Vital customer information can be collected and recorded in the below mentioned ways:

- *Information Collection:* Salesforce gets to know the response of customers to new products sold, their complaints, about competitors' products sold, the customers' reaction to competitors' products and so on. Such information is to be collected.
- *Information Recording:* The salespersons have to keep a record of the number of customers they visit, the information sought by the customers, the complaints given by them, the nature of complaints and so on. Companies usually provide books or cards to make the recordings.
- *Frequency of Recording:* The sales force can consistently keep providing such information to the company in the form of daily, weekly, or monthly reports. The company can make use of such information to assess future market opportunities and modify its sales strategies accordingly.

Relationship Builder

The sales job involves interacting directly with customers, in this process, salespersons often build a relationship with their customers based on trust. These relationships often influence the purchase decisions of customers positively. The role of the sales force in building relationships is an ongoing one.

Relationship can be built by the following ways:

- *Satisfy Consumer Needs:* The salespersons continually strive to satisfy consumer needs, while at the same time maintaining high ethical standards in their operations.
- *Provide Services to Customers*: Providing various services to customers like assistance to obtain credit facilities, technical support for products, reliable delivery of products at the customer's premises, prompt after sales services, etc., can be effective in building better relationships.

Types of Selling Adopted by Salesforce

The role of the sales force in an organization can be further examined in terms of four kinds of selling that the sales force generally adopts – trade selling, missionary selling, technical selling and new business selling.

Trade selling

Trade selling is usually adopted for products that are well established in the market and as a result, the sales force does not actually spend much of its time in persuading customers to purchase their products.

Some important activities of the trade sales force are as given below:

- The trade sales force does not sell directly to customers.
- They are mainly involved with routine activities like taking orders from customers, supporting customers in their sales activities and so on.
- They support their clients in their promotional activities to increase their sales.
- They help their client company to improve its distribution channel or devise new techniques in selling.

Missionary selling

This involves selling products for the company's direct customers. In other words, the sales force assists its direct customers by persuading indirect customers (i.e. the customers of customers) to purchase from the direct customers. The missionary sales force primarily receives orders by making use of their personal contacts. They do not close the sales.

Technical selling

Technical selling primarily takes place in the case of industrial products where the sales force tries to sell directly to the company or to the purchasing agents of the company.

Some important aspects of technical selling are as given below:

- The sales force, in fact, provides consultation services to the customers and are required to have a deep understanding of the problems that customers face.
- They should be able to convincingly present the product that they intend to sell as the solution to the problems faced by the customer company.
- In technical selling, the personality of the members of the sales force is important in affecting sales decisions.
- Too much or too little assertiveness on the part of the salesperson can result in lost opportunities.
- Equally important is the support provided by the company to the sales force.
- Training has to be provided on a continual basis and there should be good understanding between the members of the sales force and the management.

New business selling

This involves obtaining new customers for the company, i.e., the sales force tries to convert prospects (identified list of people who may need the product and have the ability to purchase it) into customers.

The sales force will have to visit a large number of prospects to convert them into customers of the company and will have to face a large number of rejections in the process. It is the kind of sales force selected by the company that makes the crucial difference between success and failure in new business selling.

Activity 18.1 Vertex Ltd., is a leading vacuum cleaner company in India. The company's success was attributed to its effective products and its sales force. The company had a sales force for selling its products to the consumers, clarifying their doubts about a particular product, and providing after sales service. Identify the different roles performed by the sales force. Also discuss other roles that the sales force generally performs. **Answer:**

18.3.2 Defining the Selling Process

There are seven sequential steps through which a salesperson passes in the selling process as given below:

Prospecting

Prospecting involves identifying and collecting information about a group of customers who may purchase the product. The identified customers or prospects should not only have the need for the product, but also the readiness and ability to purchase it. Some prospective customers may not be aware of their need for such products. In such cases, it becomes the responsibility of the salesperson to help them in identifying their needs.

Details regarding prospective customers can be obtained from several sources. However, the selection of such sources generally depends on the type of product to be sold.

There are three types of sources from which information about prospects can be generally obtained which are as mentioned below.

- *Internal Sources:* Internal sources refer to sources within the organization. Information can be obtained from employees of the organization, old records of customers and so on. If the company advertises its products, it may generate some queries and the list of such people would form another internal source of prospecting.

- *External Sources:* External sources of prospects can be obtained from sources external to the organization as mentioned below.
  - *Existing Customers:* A salesperson can obtain a reference about a prospect from existing customers. This can be through a phone call, reference letter, etc. Similarly, friends and relatives of the salespersons can also help in identifying prospective customers.
  - *Organizations:* Another external source is organizations like clubs, chambers of commerce, etc., which may be able to provide a list of prospects.
  - *Other Salespersons:* Other salespersons who work in non-competing firms can also provide information.

Example

Multi Level Marketing (MLM) companies like Tupperware depend on external sources like people in the locality. They conduct parties within a locality and the people who attend the parties will be the prospects for their MLM concept. They explain their concept and try to convince them to join.

Source: ICFAI Research Center

- *Miscellaneous Sources:* In addition to internal and external sources, the salesperson can participate in various trade shows, which are mainly aimed at potential customers and collect information regarding prospective customers for the company.

The Pre-approach

Pre-approach is the stage where a salesperson gets ready to approach a customer. In this stage, the salesperson tries to obtain the maximum information about the prospects and also tries to meet them.

The following are the sources of information in pre-approach:

- *Prospect:* A salesperson waiting for a prospect in the latter's office can observe the surroundings and gather as much information as possible. He/she can also ask the prospect directly about some critical information which may be required for sales.
- *Television Channels or Newspapers:* Scanning through the local television channels or newspapers may also help to get the address of or other useful information about the prospects.
- *Prospects' Colleagues:* In some instances, even a casual conversation with other employees of the organization in which the prospect is working can be helpful.

Arranging Customer Meeting: An important aspect of pre-approach is the salesperson arranging a meeting with the prospect, the two ways are as mentioned below.

- *Requesting an Appointment:* The salesperson can contact the prospect directly on the telephone or send a letter introducing himself/herself and requesting an appointment. Making an appointment with the prospect is viewed as a symbol of professionalism and gives the salesperson a better image in the eyes of the prospect.
- *Cold Calling:* Many salespersons resort to cold calling i.e. approaching a prospect without prior notice. But this may not be the appropriate strategy for approaching certain types of prospects, as they may not be interested in meeting a person who comes unannounced. For the salesperson, cold calls may prove to be a waste of time as the prospect may be either busy or out when he/she arrives.

The Approach

The approach is the initial stage of the contact between the salesperson and the prospect. Even if this stage lasts only a few minutes, it plays a crucial role in effecting sales.

Types of Approaches to start a conversation with the prospect are:

- *Product Related Approach:* A product related approach involves focusing the attention of the prospect directly on the product.
- *Non-Product Related Approach*: In a non-product related approach, the salesperson usually highlights the drawbacks associated with not purchasing the product, giving a gift to the prospect, providing the name of the organization, name of the salesperson and so on.
- *Consumer Related Approach:* A consumer related approach involves getting the attention of the customer with the aid of a question or the offer of some help for the prospect. The salesperson can also thank the prospect for meeting him/her and thus gain the prospect's attention.
- *Interest Arousing Approach:* In the interest arousing approach, the salesperson explains various benefits that the product can provide and tries to assess the prospect's interest in the product.

Sales Presentation

Sales Presentation is essentially an information providing step in which the prospect is given details about the product and the salesperson tries to create the maximum interest in the prospect for the product. After providing all the relevant details, the salesperson provides the marketing plan which explains how to resell the product (in the case of resellers) and how to use the product (in the case of individual customers). Normally, the salesperson mentions the price of the product to the customer only after he/she has explained to the customer about the value the product will provide to him/her.

The following are few sales presentation techniques:

- *Visual Aids:* Many salespersons make use of visual aids like letters of testimony, copy of product guarantee, order forms, sample advertisements, sales details of the product, product model, etc.
- *Product Demonstration:* A product demonstration can also be arranged, provided the salesperson is prepared for it and that the product is suitable for demonstration. A well-performed demonstration can be very effective in minimizing any apprehensions the prospect may have regarding the product. The participation of the prospect in the demonstration process can also be very effective as it can help him/her envision owning or using the product.
- *Dramatization:* Dramatization or presenting the product in an interesting manner can be helpful in sales presentations. However, the salesperson should resort to this technique only if he/she is fully confident about his/her ability to use it. The salesperson can use techniques like dramatization to help the prospect create a visual image of the product and the benefits that it can provide.

Types of Sales Presentations are:

- *Customized Sales Presentation:* In this type of presentation, the salesperson comes out with a presentation that is suitable for the particular prospect to whom he/she is making the presentation.
- *Moderately Customized Sales Presentation:* In this type of presentation, the salesperson partly modifies a standardized presentation to suit the type of customer.
- *Standardized Sales Presentation:* In this type of presentation, as the name implies, a similar presentation is used for all the prospects.

Handling of Objections

In the personal selling process, customer objections can come up at any time – at the approach stage, presentation stage, at close of sales, or just after one objection has been effectively handled. Effectively handling such objections is crucial for the successful culmination of the salesperson's efforts. Handling objections requires the salesperson to be well prepared.

Some key approaches for handling objections are as given below:

- Neglecting the opposition (usually unintended)
- Agreeing with the objection but drawing attention to various other features that may compensate for the objection
- Explaining the matter clearly to the prospect and showing him/her that the objection is very minor

- Attending to the concerns of the prospect directly by comparing the product with competitors' products (to show that he/she is getting a better deal, if he/she purchases the product).

Closing the Sale

In this stage, the salesperson tries to induce the prospect to purchase the product and close the sale. A salesperson can learn from experience the point at which he/she should press for the close of sale. When the prospect is ready for closing, the salesperson can discuss and finalize with him/her the details of the transaction and can ask for an order to be placed.

Some key signals of prospect readiness are as given below:

- When a prospect asks about the price of the product
- When a prospect seeks the opinion of a trusted person
- The prospect may start a more careful inspection of the product and become more relaxed and friendly at this point.

Some of the difficulties in closing the sale are as given below:

- *Lack of Confidence:* Many salespersons experience difficulty in closing a sale because of a lack of confidence in them.
- *Mental Blocks:* A salesperson who has had difficulty in closing a sale on a previous occasion may have a mental block, which could prevent him/her from making the decisive move to close the sale in this instance.
- *Apprehensiveness:* In some cases, the salesperson may be apprehensive about the prospect's requirement for the product. Again, if the sales presentation does not go well, the salesperson may have difficulty in closing the sale.

Follow-up

Follow-up of sale is very important for ensuring the after-sales satisfaction of the customer and to ensure that he/she makes purchases again from the salesperson. Thus, customer satisfaction leads to customer retention and it will be difficult for a competing salesperson to attract these customers. In a highly competitive market situation, to retain customers, it is necessary to satisfy them and provide excellent service.

Some key advantages of follow-up are as given below:

- Follow-up helps to alleviate any post-purchase uneasiness that the buyer may experience on comparing the product with competitors' products.
- Follow-up helps in establishing better relationships with the customers.
- The buyers are usually provided training to use the product during follow-up. Many successful salespersons develop the knack of converting follow-up of sales into further opportunities for sale over a period of time.

Check Your Progress - 1

1. Which of these represent the most important objective for having an effective sales force strategy?
   a. Achieve sales targets
   b. Bringing the sales force in line with the course of the organization
   c. Creating awareness of the product amongst consumers
   d. Both achieving sales targets and bringing the sales force in line with company objectives
   e. Implementation of overall marketing strategy
2. Which of the following is not a task entrusted to the sales managers?
   a. Developing sales force strategies
   b. Communicating the sales force strategy to the sales force
   c. Communicating the sales force strategy to the customers
   d. Ensuring the implementation of sales force strategy
   e. Motivating sales force
3. Which of the following is not a step involved in developing and implementing sales force strategies?
   a. Identifying the role of the sales force
   b. Evaluating the performance of the top management
   c. Defining the selling process
   d. Choosing appropriate sales channels
   e. Training the sales force
4. Which of the following roles the sales force does not perform?
   a. Buyer
   b. Seller
   c. Problem solver
   d. Service provider
   e. Educator
5. What kind of selling is not practiced in general by the salesforce?
   a. Trade selling
   b. Missionary selling
   c. Technical selling
   d. Mechanical selling
   e. Persuasive selling

18.4 Sales Channels

For an organization, the choice of sales channel depends on factors like the buying capacity of the customer group, size of the customer group, competition, etc. The role of a sales channel keeps changing with the changes in market conditions.

Direct marketing is enabled through the following channels:

18.4.1 Mail Order or Catalogs

Marketing through mails or catalogs is one of the most common methods of direct marketing. Mail order involves purchasing goods or services through the mail.

The steps in mail order/catalog method are:

- *Step 1:* In this method, catalogs providing information about the product are dispatched by mail to the proposed customer.
- *Step 2:* The person who receives the mail places an order with the company, provided he/she likes the product.
- *Step 3:* The company sends the product to the buyer either at the address provided by him/her or to a retail location of the company from where he/she can pick up the product.
- *Step 4:* Payment for the product is made through credit card, check, demand draft, etc., in this method of selling.

18.4.2 Tele-Marketing

Tele-marketing makes use of the telephone to contact customers. Telemarketing operations usually take place in an area called a call center.

India is becoming a hub for telemarketing operations of various companies around the world. Various multinational companies have set up their call centers and telemarketing facilities in India to sell various products and services. Even though there is no personal interaction in this case, telemarketing provides the telemarketer with the facility to interact with customers.

It also allows the caller to adjust his/her sales strategy based on the response of the prospect and to make any changes at any time necessary to enhance the results. Telemarketing is one of the least expensive forms of direct marketing, which is suitable for selling a variety of industrial products, services and consumer durables.

18.4.3 Teleshopping

Teleshopping is a kind of direct marketing in which the marketer exhibits a product on television. Those viewers who find the product interesting call the telephone numbers given by the marketer to order the product.

Teleshopping makes it convenient for the shopper to shop from home. For marketers, teleshopping is a very cost-effective method of promoting their products. As intermediaries are eliminated, the margins they get on products sold are high.

18.4.4 Direct Response through Media

Direct response marketing is akin to mail order marketing. However, unlike mail order marketing, it makes use of various media like the television, the radio, the newspaper, etc., to inform customers about a product. Along with product information, the contact address is provided so that anyone interested can contact the company.

Different media used for direct response are*:*

- *TV and Radio:* In television or radio advertising, product information is provided and then the firm, through the advertisement, asks consumers to respond directly to the company.
- *Newspaper:* If a newspaper is used to provide product information, a coupon is usually provided to get feedback from the readers.
- *Toll-free Numbers:* Providing toll-free numbers is another kind of direct response marketing. Interested parties can contact the company and place orders through these numbers.
- *Website:* Providing company websites is also another kind of direct response marketing. Interested parties can contact the company and place orders by visiting the company website.

Exhibit 18.1 illustrates the direct response marketing of not for profit NGOs in India.

Exhibit 18.1: Direct Response Marketing of NGOs in India

Most of the NGOs are not for profit organizations working for a social cause like alleviating poverty, child education, providing nutrition and medical treatments to the marginal communities and needy people. They use Direct Response Marketing through different media so that the donors can quickly reach them. Some of the Direct Response Marketing TV ads of various NGOs are mentioned below:

Oxfam India: Oxfam India is an NGO which works to ensure that Adivasis, Dalits, Muslims and women and girls have safe-violence free lives with freedom to speak their mind, equal opportunities to realize their rights and a discrimination free future. Oxfam India is a movement of people working to end discrimination and create a free and just society. This NGO releases advertisements on TV and other media and gives its Toll Free Number 040 43 43 43 00 to call them and contribute at least INR 500 for girl education etc.

Contd….

'savethechildren': 'savethechildren' is an Indian NGO working for children safety like nutrition, education and other aspects and releases advertisements in TV and other media by giving its toll free number and website details in its ads. Its Toll Free Number is 022-42727272 and website address is https://www.savethechildren.in/.

CRY: Another NGO 'CRY', which works for child care like education, releases advertisements on TV and various media and asks the audience to visit its website at https://www.cry.org/ and donate money for child care causes.

Source: https://www.oxfamindia.org/ Accessed on 17.2.22

Check Your Progress - 2

6. Which of the following factors least influence the choice of sales channel?
   a. Buying capacity of the customer group
   b. Size of the customer group
   c. How the product is used
   d. Competition
   e. Nature of the product
7. Direct marketing does not take place through one of the following sales channels. Which one is that?
   a. Catalogs and direct mail
   b. Retailers and supermarkets
   c. Telemarketing and teleshopping
   d. Internet marketing
   e. Database marketing

18.5 Designing the Sales Organization

A sales organization or department plays a significant role in an organization's success. Sales organization provides a useful way of gaining a competitive advantage and fulfills organizational objectives. Thus, it is necessary for organizations to design an effective sales organization.

One of the most important characteristics of effective sales organizations is the ability of the organization to build a long-lasting relationship with its customers. In designing a sales organization, the prime consideration should be its ability to achieve organizational objectives.

Types of Sales Organizational Structures

Various types of organizational structures that sales organizations generally adopt include line organization, line and staff organization, functional organization and horizontal organization.

18.5.1 Line Organization

In a line organization, authority flows down from the top level of the organization to the bottom in a hierarchical manner and decision-making is highly centralized. Usually the head of the organization is the owner and as a result, the chances of replacing the top person in the firm are practically zero. Line organization is most suited for small organizations or departments in a large organization.

The advantage with this kind of organization is that decision making is quick. Also, maintaining a line organizational structure is relatively less costly.

18.5.2 Line and Staff Organization

In a line and staff organization, there are staff specialists in various areas like marketing research, advertising, etc. These staff specialists perform the role of advisors to the sales managers, sales staff, etc., who form part of the line organization. This organizational structure is most suitable when the total number of sales personnel is very large or if the organization has a very large number of products and a large customer base.

It can be very costly since the staff executives may function as separate departments with related costs. Decision-making can also be slower in such organizations.

18.5.3 Functional Organization

In a functional organizational structure, the specialists for each activity like sales promotion or advertising will have line authority over the salespersons. These specialists can instruct, or order the salespersons to perform certain tasks. Functional organization is most suitable for organizations which have a large number of product lines and customers.

A major disadvantage with this type of structure is the ambiguity that may occur on account of the salespersons being supervised by both the sales managers and the functional specialists.

18.5.4 Horizontal Organization

In a horizontal organizational structure, there will be self-managing teams for various functions like sales, new product development, etc. A group of top-level executives will administer various support functions like HR, finance, etc. Except for this group of executives, all others in the organization will be part of the functional teams.

Specialization in the Sales Organization & Types

As the organization grows and the sales force increases in number, there is a need for some kind of specialization that will make the operations of the sales force more effective.

The three important approaches used for introducing specialization in the sales organization are as given below:

Product-based Sales Force Specialization

This type of specialization is usually adopted by companies which have a large number of products and where the sales force requires specialized knowledge to sell these products. For a firm which offers diverse products like banking, insurance, services and so on, salespersons who are specialized in selling each of these products will be required. It is beneficial to have a separate sales force for selling each of the diverse products.

Product-based sales force specialization has the disadvantage of having to incur very high travel expenditure as the same geographical area will be covered by different salespersons to sell different products.

A large company can also have a product group specialization in which products with similar characteristics are grouped together and for each such group salespersons can be assigned for different geographic regions.

In product group specialization, instead of having to sell a single product as in the case of product specialization, the salespersons will be given a group of products, thus reducing costs to a certain extent.

Geographic Sales Force Specialization

In an organization that adopts geographic specialization, the sales force will be grouped on the basis of geographical regions. In this process, every salesperson will be allocated a specific geographic region in which he/she is supposed to sell the products or services. A group of salespersons will be headed by a manager who will report to a general sales manager.

Example

Asian Paints, one of the leading paint companies of India, follows geographic sales force specialization where they divide the market based on geographical regions. They have divided regions into small territories and for each territory they have one TSI (Territory Sales Incharge) and three sales representatives, all these will report to a Sales Officer, who, in turn, reports to the Regional Sales Manager of that State.

Source: ICFAI Research Center

Some important advantages of geographic sales force specialization are:

- Geographic sales force specialization ensures better coverage of the whole market area.
- Moreover, there will only be a few management levels and this keeps administrative and overhead expenditure to the minimum.

- The allocation of a salesperson exclusively to a geographic region helps the organization to provide services that are suitable for that particular region. The traveling cost of the sales force can also be considerably reduced.
- Moreover, competition existing in a territory can also be effectively met with this type of sales force specialization as the salespersons in each geographic region will be well aware of the market conditions in that region.
- Also, quick action can be taken by the local management in providing customer service and handling customer problems, when geographic sales force specialization is adopted.

Some important disadvantages of geographic sales force specialization are:

- The organization will not be able to reap the benefits of division of labor as a salesperson will have to perform all the functions related to the sale of a variety of products to different types of customers.
- The organization may also not have much of a control on the salespersons as it is the salespersons who take the decisions regarding the type of consumers and the products to concentrate on.

Market Based Sales Force Specialization

In market-based sales force specialization, a salesperson sells a range of products that are suitable for a particular market or a customer group. Customer groups can be formed on the basis of age, gender and so on. Market organization reflects the marketing orientation of the organization and it usually requires a good understanding of the needs of customers. Market-based sales force specialization allows salespeople to be more in touch with the customers.

A major disadvantage associated with market-based specialization is the possible overlapping of territories covered by salespersons, which may increase transportation costs. This specialization may sometimes create confusion among customers if more than one salesperson from the same company tries to approach them.

18.5.5 Role of Sales Force in Sales Organization

A sales organization's main component is its sales force, which is guided and supervised by sales managers. Sales personnel are closer to customers than employees in any other functional department. Large-sized sales organizations usually have a large number of sales personnel, sales offices in different locations and multiple levels of hierarchy.

Some important roles of sales force in the firm are:

- The main role of the sales force in an organization is to increase its sales volumes, gain market share and improve profitability which, in turn, enhances the effectiveness of a sales organization. It is the sales organization that has a direct impact on the revenues and profits of the organization.

- Once an organization develops a new product for the market, it needs to communicate and create awareness about that product in the market. This can be done through advertisement and sales promotion and through the sales force.

Marketing System: The marketing system consists of various elements like input (marketing strategy), the process (communication through sales and promotional activities and also by the sales force) and output (the profit, market share, etc., gained). The feedback obtained from the marketplace helps in the development of marketing strategies, which again form the input to the system.

Activity 18.2

Thomas is a Regional Sales Manager at Impex Lubricants Pvt. Ltd. The company produces various lubricants and coating products like – Molykote 1000 (a lubricant for threading), Molykote BR2+ (a bearing grease), Molykote 106 (anti-friction and corrosion resistant lubrication), Hylomar Universal Blue (a gasketing compound used in gear boxes), Stag B (a parting plane compound used in turbines), etc. The customers of these products are generally industries which are into the production and usage of mechanical equipment. Thomas manages a sales force of 20 people. Each sales person is assigned a single product and a region in which he/she should carry out the sales. What is the kind of selling that the sales force of Thomas should adopt to sell these products? Which approach has Thomas used for his sales force specialization? Also discuss other forms of specialization.

Answer:

<u>Check Your Progress - 3</u>

8. Which of the following is not generally used in the sales organizational structure?
   a. Line Organization
   b. Line and Staff Organization
   c. Matrix Organization
   d. Functional Organization
   e. Horizontal Organization

18.6 Managing the Sales Force

The management of the sales force involves various functions like selection and training of sales persons, performance measurement and motivation through monetary and non-monetary incentives.

18.6.1 Selection

It is important for an organization to select the best salespersons as the performance of the sales force has a huge impact on the overall performance of the organization.

Channels for Selection: It is advantageous for the organization to study the various channels and identify the most cost-effective one that can provide the best candidates for the organization. These channels include advertisements in newspapers, references from existing employees, and so on. The effectiveness of different channels may differ.

Selection Tools: Once a pool of applicants has been generated, the next task is to identify the best method to select the most suitable salespersons from the list. A variety of selection tools like application blanks, personal interview, psychological tests and reports obtained from an investigating agency appointed by the organization are available for selecting the sales force.

Application Blanks

This is the method of collecting the personal history or profile of the applicant. The important usage of these application blanks are as given below.

- *Screening:* Application Blank at this stage generally contains questions about the candidate's educational qualification, work experience, family background, health condition that may have an influence on the carrying out of the job, and so on.
- *Post-Screening:* Those candidates who pass the screening will be provided the longer version of application blanks, which contain more detailed questions.
- *Interview:* At the time of the interview, questions are asked of the applicant based on the application blanks filled in by him/her. Many companies seek details regarding the candidate's hobbies and interests, membership in clubs, etc., questions which will help them to assess the personality of the individual.

Example

An ABC FMCG company initially provides an Application Blank to its applicants in such a way that it collects the information like candidate's educational qualification, work experience, family background and the health condition. Based on such an application blank, it screens the applicants based on the above criteria and work experience being one of the most important aspects for screening.

Source: ICFAI Research Center

Personal Interview

This is the most commonly used selection tool as it is considered to be the most effective one. Personal interviews help the interviewer to know an applicant personally and to assess if he/she is fit for the job. The appearance of the person, conversational skills, voice modulation ability, etc., can be assessed only through a personal interview.

Some important considerations for effective interview are as follows:

- For a sales job, the importance of personal interview lies in the fact that the personal interview is most similar to making a sales presentation. However, in order for the interview to be effective, the interviewer should be well prepared.
- He/she should also be capable enough to construe properly the reactions or responses of the interviewee.
- The interviewers should also make it a point to ask the right questions and listen more.

18.6.2 Training

Once the salespersons have been hired, they should be provided training to enhance their skills and knowledge. The objectives of sales training include improving the morale of the sales force, increasing productivity, enhancing communication skills, and increasing their ability to manage themselves.

Designing Effective Sales Training Programs: Managers should gauge the effectiveness of the training process to identify any modifications that may be required in future training programs. Effective sales training imparts to the salespersons all the skills necessary to achieve success. Product knowledge, knowledge about competitors' products, knowledge of basic business practices, communication skills, selling skills, the aptitude to understand customers well, etc., increases with training.

Sales training programs have to be designed before the training process starts and after assessing the below mentioned aspects.

- *Who is to be trained:* The organization should identify who is to be trained like the sales force, IT staff, HR staff etc. Then the training programs should be developed. For instance, the training programs for the sales force should be well coordinated with the marketing strategy and also the overall objectives of the organization.
- *Training needs of individual salespersons:* The training needs of individual salespersons depend on the skills of the salesperson, marketing strategy and the overall corporate objectives.

- *Level of training to be provided:* Salespeople who work as teams need to be trained to cooperate with team members. Another aspect of training is to help salespersons manage their time so as to enhance their productivity. Many companies prefer the creation of a long-term relationship with their customers for the success of their business and should therefore train their salespeople to create and develop better relationships with customers.

18.6.3 Performance Measurement

The output or sales volume generated by the sales force usually depends on its individual effectiveness. The key considerations for measurement of performance are as given below.

- *Ability to Generate Sales Volume:* The performance of the salespersons is usually measured on the basis of the sales volume that they generate. The incentives provided to them are also related to the sales volume.
- *External Factors:* There are many other external factors like new products launched by competitors in the market, economy of the country, etc., which affect the sales volume generated. Firms have, therefore, to be sensitive to such external factors while developing a performance measurement system.
- *Sales Calls:* If generation of sales volume is not directly related to the efforts put in by the salespeople, then salespersons can be evaluated on the basis of their efforts like number of sales calls made, the frequency of these sales calls and so on.
- *Efforts of the Salesperson:* Similarly, if the sales volume is heavily dependent on the efforts of the salesperson, performance can be measured on the basis of sales volume generated by him/her. In this situation, the organization has to ensure that all the salespersons are treated equally. There should not be any factor that will unduly influence the output of any salesperson.

18.6.4 Motivation

The sales force of an organization requires high motivational levels on account of the nature of their job. They generally have to face more rejections and will normally be frustrated before a sale is finally made. The low esteem in which society holds salespersons also makes their job difficult.

Motivation through Monetary & Non-Monetary Incentives: The sales force is generally motivated through monetary and non-monetary incentives. Compensation is the most important element in motivating a sales force.

- *Monetary Incentives:* They take the form of fixed salary, commission based on performance, bonuses, prizes, etc.
- *Non-monetary Incentives:* These are techniques that primarily endow the salesmen with recognition, status and a sense of belonging to the organization. Some important non-monetary incentives are as given below.
  - *Career Progression:* It is often as important to salespeople as good compensation. Obtaining managerial positions may be the natural

sequence of career progression for salespersons. The salesperson can also advance to HR positions in the organization.

- *Membership being provided in certain clubs:* To motivate salespeople, a lot of non-monetary incentives can be provided like providing membership in certain clubs, so that they can enjoy dining, gym, spa, entertainment etc. facilities and get refreshed.
- *Encouragement and support from the management:* The management should encourage the efforts put forth by the salesperson and support them which will boost their motivation.
- *Organizational culture for Work Life Balance:* The organization should provide a culture where the salesperson can balance their personal life and work life.

18.6.5 Evaluating the Sales Force Performance

The performance of the sales force is critical for the organization to achieve its corporate objectives and succeed in business. Similarly, better performance helps salespersons to achieve personal objectives. Each organization has a performance period after which the performance of the sales staff is evaluated by the sales manager.

Some of the important advantages of evaluating the salesforce performance are as given below:

- Though the basic objective of performance evaluation is to assess the performance of a salesperson, it can be used as a tool by the management to motivate him/her.
- Further, performance evaluation acts as a tool in developing a sales plan, which will help to improve the performance of the person in the future.
- Performance evaluation also helps the salesperson to adjust his/her work to suit the expectations of the management, on the basis of the feedback received.
- Thus, it is helpful in discovering those areas that can be improved in the performance of each and every salesperson.
- If the performance of a salesperson is found to be unsatisfactory, he/she can be provided counseling and motivation, which will help him/her in improving his/her performance. If all these measures fail to yield the required results, the salesperson may be discharged from service.

The Performance Evaluation Process

Performance evaluation is a formal and planned system for measuring and evaluating the performance of salespersons. It is the method by which sales managers monitor and measure the performance of the sales force. The management of the organization compares the performance of each and every salesperson with the standards set for them.

The steps in the performance evaluation process are:

Choose the Basis for Performance Evaluation: The basis of performance evaluation can be determined by considering qualitative as well as quantitative variables.

- *Qualitative Variables:* Qualitative variables are those variables that a sales manager can intuitively evaluate. All the following limitations make depending on qualitative variables alone practically ineffective and, it is generally used as a supplement to the use of quantitative variables for evaluating performance.

  Limitations
  - When qualitative variables are used, there is the problem relating to the difficulty in measuring performance.
  - Subjectivity may creep into the evaluation procedure as sales managers may be influenced by their presumptions.
  - There can also be differences in the viewpoint of both the sales manager and the salesperson.
- *Quantitative Variables:* The use of quantitative variables for performance evaluation lends objectivity to the measurement of performance. The two important variables are as given below.
  - *Effort put in by the Salesperson:* The effort put in by the salesperson in the job. It will not be a fair evaluation procedure if only the result achieved by the salesperson is considered in an annual performance evaluation. This means that appropriate consideration has to be given to a salesperson's efforts over which he/she has more control.
  - *Results Obtained:* Results obtained from a sales person's performance include the sales volume generated by the person, total sales orders in the pipeline in his/her account and so on. Various factors like the quality of the product, market conditions, etc., may influence the results that a salesperson can achieve and the person has very little control over such factors.

Determine expected level of performance: The expected level of performance should be determined for each of the criteria chosen for performance evaluation. The performance standards are set only by the sales manager in some organizations, while in some other organizations they are set jointly by the sales manager and the salespersons. The participation of salespersons in setting performance standards is very helpful in making sure that they understand clearly what is expected of them and agree to it.

Measure the actual performance: The actual performance of the salespersons is measured against a predetermined expected level of performance. Measurement can be done by checking various documents generated like account books, order forms, expenditure records and so on. The casual feedback obtained from customers or colleagues of the salesperson, their own personal judgment, based on observation, of sales managers can be used in the evaluation of salespersons.

Assess the performance: Generally, there will be an interview of the salesperson in which he/she can give an explanation about his/her performance. If there is a deviation in the actual performance against the standards set, that aspect has to be communicated to the employee on this occasion. Correcting deviations from the actual standards set is one objective of performance assessment.

Check Your Progress - 4

9. Which of the following factors is not a key consideration for measurement of performance?
   a. Ability to Generate Sales Volume
   b. External Factors
   c. Sales Calls
   d. Efforts of the Salesperson
   e. Internal Factors

18.7 Personal Selling

The American Marketing Association defines personal selling as ‘selling that involves a face-to-face interaction with the customer’.

Personal selling is one of the components of promotion, the others being advertising, sales promotion, and publicity. It is different from the other components as it involves a direct, personal interaction with the customers. Personal selling, being an interactive process, helps the salesperson in immediately responding to any queries that the customers may have about the product.

Example

Sonovision is a chain retailer dealing with electronics and home appliances across Andhra Pradesh. They use personal selling in the form of customer care executives in their showroom who will explain the product to the visitors of the showroom and try to persuade them.

Source: ICFAI Research Center

The role of personal selling varies with the nature of the product to be sold. Some salespersons play a key role and act as an advisor to the customer. In some organizations, their role is limited; they may just take orders from the customers.

Personal selling can also be used to motivate dealers and distributors to stock and sell the products of the company. The role of personal selling, however, is decided by the management of the organization based on its strategic objectives.

Deciding between Advertising and Personal Selling

A crucial decision that the management has to take is whether to give importance to advertising or personal selling. A marketing strategy which chooses personal selling over advertisements should be totally justified. This decision depends on the following factors:

- *Nature of the Customers:* The nature of the customers the organization intends to serve impacts the decision as personal selling could be more effective to understand the nature of customers than that of advertising.
- *Customer Decision-Making Approaches:* The decision-making approaches of the customers can be more influenced by personal selling than advertising as advertising is non-personal.
- *Cost Involved:* Personal selling is relatively more expensive, its impact on the customers is greater due to the ability of the personal seller to engage in a face-to-face interaction with the customer and make the sales presentation customized. But in the case of an advertisement, even though it is relatively inexpensive, the impact which it has is less than that of personal selling.

18.7.1 Personal Selling Objectives

The personal selling objectives of a company depend on factors like the nature of products manufactured, the nature of the market which the company intends to serve, the resources available, the sales strategies adopted by competitors and most importantly, the overall organizational objectives. Personal selling objectives influence various aspects like size of the sales force, nature of the sales force, sales force performance evaluation techniques to be adopted, etc.

The objectives of personal selling can be grouped into qualitative objectives and quantitative objectives as mentioned below:

Qualitative Personal Selling Objectives

Qualitative personal selling objectives are long term in nature and deal with the organization's expectations over personal selling in the long run. The effectiveness of personal selling depends upon the overall corporate objectives and the various elements in the promotional mix. Some companies may choose only personal selling to sell their products without using any other sales channels.

The important qualitative personal selling objectives are:

- To generate new customers and serve the existing customers successfully, thus developing long-term customer satisfaction.
- To obtain reorders from industrial customers through personal selling (while serving the existing industrial customers).

- Providing training needs to the industrial customers to effectively use the products sold to them. Such product training is also sometimes necessary for wholesalers and other middlemen to help them further sell these products to their customers.
- Helping the wholesalers or retailers in managing their sales.

Quantitative Personal Selling Objectives

Quantitative personal selling objectives are usually short term in nature and they keep changing on a short-term basis, usually from one promotional period to another. The company should focus on developing a few important quantitative personal selling objectives rather than developing too many and then being unable to achieve them.

The important quantitative personal selling objectives are:

- To achieve the sales volume or sales targets fixed for the sales force.
- To generate profits for the organization.
- To retain and increase the existing market share of the organization.

Check Your Progress - 5

10. Which of the following is a personal selling objective?
    a. Personal Objective
    b. Quantitative Objective
    c. Sales Objective
    d. PR Objective
    e. Place Objective

18.8 Summary

- The role of the sales force in the overall promotion mix is to be identified as the first step in developing and implementing sales force strategies.
- A salesperson generally plays various roles like seller, information provider, service provider, relationship builder, and so on. The role of the sales force also depends on the type of selling adopted by them. Four types of selling which include trade selling, missionary selling, technical selling and new business selling are commonly adopted by the sales force.
- The selling process typically involves prospecting, pre-approach, approach, sales presentation, handling of objections from customers, close of sale and sales follow up.
- The sales channels used for sales generally involve mail orders or catalogs, tele-marketing, teleshopping, direct response through media, etc.

- Various types of organizational structures that sales organizations generally adopt include line organization, line and staff organization, functional organization and horizontal organization.
- Managing the sales force helps in developing and implementing a sales force strategy. The management of the sales force involves functions like selecting salespersons, providing training, measuring performance and motivating them with the aid of monetary and non-monetary incentives.
- Personal selling, which is a component of promotion, involves direct face-to-face interaction with the customers.
- The objectives of personal selling can be classified as qualitative objectives and quantitative objectives. Qualitative objectives are long term in nature and relate to the organization’s expectation from personal selling toward achievement of organizational objectives. Quantitative objectives are short term in nature and are related to an increase in sales volume, market share, and so on.

18.9 Glossary

Application Blanks: An application blank is the method of collecting the personal history or profile of the applicant. It contains questions about the candidate’s educational qualification, work experience, family background, health condition, etc..

Direct Response Marketing: Direct response marketing makes use of various media like the television, the radio, the newspaper, etc. to inform customers about a product.

Mail Order or Catalog: Mail order involves purchasing goods or services through the mail. In this method, catalogs providing product information are dispatched by mail to the proposed customer.

Personal Selling: The American Marketing Association defines personal selling as ‘selling that involves a face-to-face interaction with the customer'.

18.10 Self-Assessment Test

1. Explain various roles played by the sales force of an organization.
2. Explain the steps involved in the selling process.
3. Describe various sales channels available for a company to sell its products.
4. Describe various types of organizational structures. Explain various approaches for introducing specialization in the sales organization.
5. Explain various steps for evaluating the performance of the sales force.
6. Define personal selling. Explain its objectives.

18.11 Suggested Readings / Reference Material

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4. Alexander Chernev, Philip Kotler, Musadiq A. Sahaf, "Strategic Marketing Management", "Strategic Marketing: Making Decisions for Strategic Advantages", PHI Learning, 2019.
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18.12 Answers to Check Your Progress Questions

1. (d) Both achieving sales target and bringing sales force in line with organization objectives

An effective sales force strategy is very important for achieving sales targets as well as for bringing the sales force in line with the course of the organization.

2. (c) Communicating the sales force strategy to the customers

The sales managers are entrusted with the task of developing sales force strategies, communicating them to the sales force, and ensuring their implementation.

3. (b) Evaluating the performance of the top management

Various steps involved in developing and implementing sales force strategies are identifying the role of the sales force, defining the selling process, choosing appropriate sales channels, designing the sales organization, managing the sales force, and evaluating the sales force performance. Hence option 'b' is not a step involved in developing and implementing sales force strategies.

4. (a) Buyer

The various roles that the sales force generally performs are – Seller, problem solver, service provider, information provider and relationship builder. Buyer is not a role performed by the sales force.

5. (d) Mechanical selling

The role of the sales force in an organization can be further examined in terms of four kinds of selling that the sales force generally adopts – trade selling, missionary selling, technical selling and new business selling.

6. (c) How the customer uses the product

The choice of sales channel depends on factors like the buying capacity of the customer group, size of the customer group, competition, etc. How a customer uses the product very rarely influences sales channel decisions.

7. (b) Retailers and supermarkets

Sales channels through which direct marketing takes place include catalogs and direct mail, telemarketing, teleshopping, Internet marketing, direct response marketing and database marketing.

8. (c) Matrix Organization

Generally used sales organizational structures are: Line Organization, Line and Staff Organization, Functional Organization and Horizontal Organization. Hence Matrix Organization Structure is mostly not used.

9. (e) Internal Factors

The factors for key consideration for measurement of performance are: Ability to Generate Sales Volume, External Factors, Sales Calls and Efforts of the Salesperson etc. Hence Internal Factors are not a key factor here.

10. (b) Quantitative Objective

The personal selling objectives of an organization are basically two types which are qualitative objectives and quantitative objectives. Hence the quantitative objective is the right answer.

Unit 19
Distribution Strategy

Structure

"A product with better distribution will always win over a superior product with poor distribution or customer access. It's not fair, It's not right, but it's reality"

\- Stephen Davis

19.1 Introduction

Stephen Davis has rightly quoted the advantage of distribution to overtake competition. Distribution (Place) is one of the important elements of the marketing mix. Distribution Strategy is the company's action plan to make the company's products accessible to its target customers.

The previous unit discussed the role of the sales force, the steps involved in the selling process, sales channels, sales organizational structures, salesforce functions, concept of personal selling.

In this unit, we shall discuss the distribution strategies, strategic issues related to distribution, types of distribution channels, considerations for designing a distribution channel, levels of distribution intensity, distribution channel conflicts, controlling the distribution channels, management of distribution channels and the concept of international channels.

19.2 Objectives

After reading this unit, you should be able to:

- Discuss the issues in marketing decisions and issues in channel relations.
- Describe various types of distribution channels.
- Explain various considerations to be taken care of while designing a distribution channel.
- Define distribution intensity and discuss the levels of distribution intensity.
- Discuss various channel conflicts in distribution channels and establish the need for their control.
- Elaborate on the guidelines for the effective management of distribution channels.
- State and deliberate on various channels that are used for distribution in the international arena and the problems with local channel partners.

19.3 Strategic Issues in Distribution

A distribution channel can be defined as an organized network of different agencies, which in combination carry out all the activities necessary to connect manufacturers to consumers for achieving the marketing objectives.

The distribution channel links the manufacturers with the ultimate users of the product, i.e. the consumers. While some organizations make use of their own sales force, many others utilize various intermediaries to distribute products to the end users.

Strategic Distribution Management

Distribution efficiency is very important for organizations and to achieve this efficiency, a distribution strategy is absolutely necessary.

Strategic Distribution Management mainly encompasses the following four issues:

- *Analyzing the present distribution system:* Analyzing the present distribution strategy involves identifying the strengths, weaknesses and opportunities of various elements in the distribution function and also different aspects of business. There may be various limitations in the process of transferring products from the manufacturer to the consumers.
- *Deciding on the distribution system that is required in the future:* Decisions relating to distribution play an important role in the achievement of marketing objectives. This necessitates proper research and planning in effectively carrying out the distribution tasks.

- *Devising strategies to revamp the current distribution system:* While designing a distribution strategy, factors affecting the marketing decisions and the relationship between channel partners have to be considered.
- *Creating the new distribution system for the organization:* While designing a distribution strategy, the new distribution system for the organization can be developed.

While designing a distribution strategy, factors affecting the marketing decisions and the relationship between channel partners have to be considered. Thus, these factors can be grouped as issues related to marketing decisions and issues related to channel relations.

19.3.1 Issues Related to Marketing Decisions

The distribution strategy of an organization is influenced by the decisions taken in other areas of marketing like product, price and promotion apart from place – the four Ps of marketing.

Product Issues

The nature of the product is an important issue in distribution strategy. The choice of distribution channel made depends on the nature of the product and should match the image of the product.

The transportation arrangements to be made for products that require delicate handling and are perishable would be different from the arrangements that are required for durable and tough products. Consumers' perception about the product also influences the choice of distribution channels.

Example

The distribution and marketing operations of Dodla dairy consist of distribution of milk and dairy based VAPs (value added products) through 40 sales offices, 3,285 distribution agents, 861 milk distributors and 544 milk product distributors across 11 states in India as on 2021[27]. Dodla uses more efficient supply chain systems as milk is a highly perishable product.

Pricing Issues

The price at which a product is intended to be sold also determines the distribution strategy. The number of intermediaries in the distribution channel affects the final selling price.

If there are a lot of intermediaries in the channel, each member will seek a profit for its distribution efforts and this will ultimately affect the final price of the product and if the price increases beyond organizational expectations, it may be difficult to achieve the sales targets.

[27] https://ashikagroup.com/images/blog_images/2021-06-15_6028_Dodla%20Dairy%20Ltd._IPO%20Note.pdf accessed on 21/2/22

Promotion Issues

The type of promotional activities that are required to sell a product also influences the distribution strategy. The main reason for this is the difference in the type of assistance required for the sale of a product. While some products like milk or vegetables require relatively no assistance from the salespersons, products like automobiles or consumer electronics require special assistance from the salespersons.

19.3.2 Issues Related to Channel Relations

In addition to marketing decisions, the relationships within the distribution channels can also have an impact on the product. Channel relationship issues can be broadly divided into channel power related issues and issues related to loyalty. Channel conflict, which is another channel relationship issue, is discussed in the latter part of the unit.

Channel Power Issues

A distribution channel consists of many members with varying degrees of power. Some members exert more influence on channel members than others. The use of power by one channel member over others leads to various issues among the channel members.

The influential channel member or the member with more channel power may make certain demands like asking for better financial terms such as higher price for the product to be sold and lower price for the product to be purchased.

Channel power issues can originate at the back-end, at the middle level, or at the front-end of the distribution channel as discussed below:

Back-end: The back-end of the distribution channel consists of the manufacturer or the marketer. They will have more power in the distribution channel if the product is in high demand in the market. In this situation, the other channel members will have to carry the product for increased profits.

Middle level: The middle level in the distribution channel usually consists of the wholesalers. The channel power of the wholesaler will be greater if a particular wholesaler who carries a wide variety of products obtained from a wide variety of manufacturers caters to a large number of smaller retailers. In this case, the retailers will have to depend on this wholesaler as the single source for obtaining a wide variety of products at a reasonable rate and this will give channel power to the wholesaler.

Front-end: The front-end of the distribution channel consists of retailers who sell products directly to the end users. The channel power of retailers will be more if they are able to generate a significant amount of sales in the market. In this situation, the other members of the distribution channel will be dependent on the sales generated by the retailer.

Loyalty issues

Any decision regarding distribution can have a long-term impact on the organization. The major reason for this is the relatively irreversible nature of channel decisions. Ending a long-term relationship with a channel partner could be a difficult task; at the same time, starting a new channel relation would be time consuming.

It is not easy for an organization to take decisions regarding shifting from one type of a distribution channel to another. The existing channel members may resist this move very strongly. If the company wants to shift to the distribution channels that were previously used by it, it may not be possible as new members may have occupied the spot vacated by the company.

Check Your Progress - 1

1. A distribution channel can be defined as an organized network of different agencies, which in combination carry out all the activities necessary to connect which of the following for achieving the marketing objectives?
   a. Consumers to manufacturers
   b. Manufacturers to manufacturers
   c. Manufacturers to consumers
   d. Consumers to consumers
   e. Business to stakeholders
2. Which of the following is not a part of the strategic distribution management?
   a. Analyzing the present distribution system
   b. Formulating the marketing objectives
   c. Deciding the future distribution system
   d. Creating the new distribution system
   e. Implement methods to improve the efficiency of the distribution system
3. Factors affecting which of the following aspects need to be considered while designing a distribution strategy?
   a. Raw material and production techniques
   b. Employee salary and incentives
   c. Machinery and manpower
   d. Marketing decisions and relationship between channel partners
   e. Producer and consumers

4. The distribution strategy of an organization is not influenced by which of the following marketing decisions?

   a. Product

   b. Price

   c. Pay-scale

   d. Promotion

   e. Segments chosen to target

5. Channel power related issues do not originate at which of the following levels?

   a. Front-end

   b. Back-end

   c. High-end

   d. Middle level

   e. Lower level

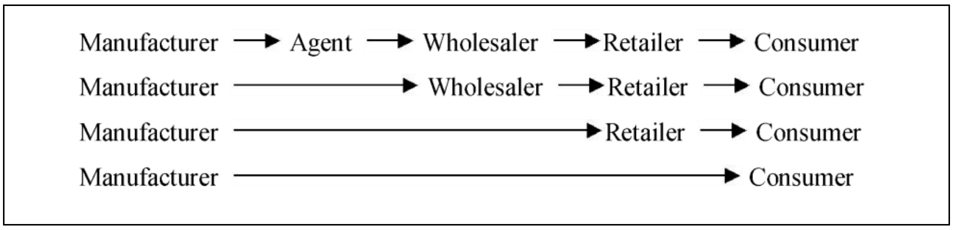
19.4 Types of Distribution Channels

There are various types of distribution channels, depending on the number of intermediary levels that exist between the producer and the final user (Refer to Figure 19.1).

For consumer markets, various levels of channels possible are zero, one, two and three levels as given below:

- *A zero-level channel:* A zero-level channel represents a manufacturer directly selling his products to the final consumer. Door-to-door selling, mail order catalogs, telemarketing and manufacturer-owned retail outlets, Direct to Consumer (D2C) brands are some instances of zero-level channels.
- *One-level channel:* In a one-level channel, there will be only one intermediary, such as a retailer buying goods directly from the producer and selling them to the final consumer.

Figure 19.1: Channels of Distribution



Source: ICFAI Research Center

- *Two-level channel:* In a two-level channel, there will be two intermediaries, such as a wholesaler, who purchases the goods from a producer and sells them to a retailer and the retailer who sells them to the final consumers.
- *Three-level channel:* In a three-level channel, there will be a wholesaler, an agent and a retailer.

Exhibit 19.1 illustrates various types of distribution channels in the market.

Exhibit 19.1: Distribution Channels of Aditya Birla Group Textile Business

Zero Level Distribution - D2C: Aditya Birla Fashion and Retail Limited (ABFRL) will be setting up a dedicated company to enter the direct to consumer (D2C) business (as of 2022 February), part of its strategy to build a portfolio of new-age, digital brands across categories in fashion, beauty and lifestyle segments through its online channels.

One Level Distribution - Peter England Stores: Peter England brand was founded in 1889 in Ireland and entered the Indian market in 1997. It was acquired by Aditya Birla Group in 2000. As of February 2022, the brand has 700 plus Retail Brand Outlets in more than 1,550 Indian towns and cities.

Two Level Distribution - Grasim Textiles: Aditya Birla Group started Grasim Industries which manufactures cement, VSF (versatile fiber), textiles and largest chemicals and also offers diversified financial services. For its Grasim textiles like suiting, it follows a two-level channel of distribution through wholesalers and retailers.

Three Level Distribution - Grasim Textiles: The Grasim Textiles also follows a three level distribution channel where it hands over its textiles to the selling agents. The agents distribute the textiles to a few wholesalers. Then each wholesaler distributes the textiles among a number of retailers who finally sell it to the consumers.

Sources: i) https://economictimes.indiatimes.com/industry/services/retail/abfrl-to-set-up-new-entity-for-d2c-entry/articleshow/89343261.cms Accessed on 18/2/22

ii) https://www.peterengland.com/ Accessed on 18/2/22

iii) https://www.grasim.com/ Accessed on 18/2/22

19.4.1 Reverse Channel of Distribution

Products can flow in the backward direction too, and the flow of goods in the reverse direction encompasses the reverse channel of distribution. With the increasing emphasis on protecting the environment, customers are now looking for environmental friendly products.

The two important aspects of Reverse Channel of Distribution are as given below:

- *Recycle Management:* Recycle management has become one of the most important aspects of a cost-effective production process. Recycling of products is common in the plastic, glass and paper industries.
- *Reverse Logistics Management*: By doing reverse logistics management of collecting old products/items from customers (greeting cards, glass bottles etc.) and using them for future manufacturing, the manufacturers can save on various financial and environmental costs associated with land filling, etc. Reverse logistics also offers companies a chance to make reasonable profits as the used goods can be bought at a very low rate and resold at a higher price.

19.4.2 Flexible Distribution Channels

Even if an organization tries its best to have a faultless distribution system, there is the possibility of problems occurring as, for instance, a stock-out of some critical components when a customer places an order. This is because it is difficult to have an adequate supply of all the critical components of a product in all parts of the market as and when required by the customer. This challenge is often met by stocking surplus inventory, which, however, leads to higher costs.

The four important advantages of flexible distribution channel are:

- As a remedy for the above mentioned problems, the concept of flexible distribution channels has emerged wherein the distribution channels are developed as a network within a wider system.
- By sharing their resources, these distribution channel networks are able to make profits that they would not have got otherwise.
- Distribution channels generally provide opportunities for cost savings and productivity enhancements.
- Flexible distribution channels through strategic alliances and partnerships have the advantage of increasing productivity along with substantial cost savings.

The four important aspects in setting up a flexible distribution channel are:

- Identification of critical but infrequent customer requirements that the organization cannot carry out on a continual basis, without external support.
- Cooperative arrangements are made with the help of other channel members to get help in fulfilling these customer requirements.
- All the required formalities like the nature of assistance, the process of providing assistance, payment, etc., are decided in advance.
- Use of information technology and integrated logistics systems that can monitor the availability of products and services, process orders and deliver products and services rapidly from far-off places to the customers' location is another important aspect of such flexible distribution channels.

Activity 19.1 IBH furniture Ltd., (IBH) is a furniture company based in India. The company is a wholesaler that buys the furniture from XYZ Ltd., a manufacturing company based in India. After purchasing the furniture, IBH sells its furniture to various retailers across India that sell the furniture under the IBH brand. Identify the distribution channel used by IBH. Also discuss other channels of distribution. **Answer:**

Check Your Progress – 2

6. For consumer markets, which of the following is not a level of channel for distribution?
   a. Bottom-level channel
   b. Zero-level channel
   c. One-level channel
   d. Three-level channel
   e. High level
7. Which of the following is not a requirement for setting up a flexible distribution channel?
   a. Critical but infrequent customer requirements
   b. Cooperative arrangements with other channels
   c. Integrated logistics systems
   d. Non-integrated logistics systems
   e. Both Critical customer requirements and integrated logistics systems

19.5 Considerations in Distribution Channels

In designing a distribution channel, there are various considerations to be kept in mind, relating to middlemen, customers, product, price, etc.

19.5.1 Middlemen Considerations

In choosing intermediaries for distributing products, the organization has to ensure that the middlemen have certain characteristics which make them suitable for the job.

Some of the important middlemen considerations in distribution are:

- Sound financial position of the distributor
- Distributor's willingness to invest in information technology in order to increase the efficiency of the operations
- The distributor should have built up a good reputation within the industry and in the regional and national market
- Type of products carried by the distributor through its distribution channel
- Depth and width of product lines carried
- Competitor's products carried through the channel, etc. are other factors that have to be considered
- Readiness of the distributor to share information

19.5.2 Customer Considerations

The major function of a distribution channel is to ensure the availability of products to the customers at the right time and at the right place. Thus, a major consideration in choosing a distribution channel is the ability of the channel to reach customers in the most effective manner.

The distribution coverage or the intensity with which the product should be made available in the market has a major influence on the distributor selection.

19.5.3 Product Considerations

In many organizations, those who are involved in new product development teams often work closely with the production and personnel departments. They associate themselves with the supply chain organization only after the product design is complete. This is because the new product designers tend to view the supply chain as just a delivery system and do not realize the cost that product design can add to the supply chain operations.

The four important product considerations are:

- *Product Design:* Product design determines a major share of the supply chain cost. It is therefore important for the product design team to coordinate with the supply chain during the designing process.
- *Nature of the Product:* Nature of the product should be considered in deciding the distribution channel. The type of distributor required for delicate products is different from the type of distributor required for heavy products.
- *Durability or Perishability:* Durability or perishability of the product should be considered in deciding the distribution channel.
- *After Sales Services:* After sales services required for the product should be considered in deciding the distribution channel.

19.5.4 Price Considerations

Price is a major consideration in deciding on the distribution channel.

The three price factors requiring consideration in designing the distribution channel are:

- *Product Price:* The organization may have decided on the price at which it intends to sell its products. This decision will impact its decision to choose the distributor.
- *Profit:* Each and every member in a distribution channel will try to make some profit out of the product.
- *No. of Intermediaries:* When the total number of intermediaries increases, the final selling price of the product may also increase. This may have an impact on the total sales volume.

Example

Dell is very popular for its innovations in distribution and supply chain. It used direct market channel without any intermediaries (zero level distribution channel) when it started its organization in 1985 and later from 2007 onwards till date (as of 2022[28] February) it also started using a limited number of retailers. By following this model it was able to offer the product at a reduced price to the customers.

Source: ICFAI Research Center

19.5.5 Setting up a Distribution Channel

In setting up a distribution channel, the first step involves deciding on the various functions to be performed by the channel. Once the functions have been identified, the structure of the channel has to be designed and finally the designed structure should be put into operation.

Functions of Distribution Channel

The functions performed by distribution channels generally include storage and physical distribution of products, sales, management of finances related to sales, providing after sales services, etc. In some industries, all these functions are performed by the distributors while in others, physical distribution of products or after sales services may be performed by the organization itself.

After determining the functions to be performed by the distribution channel, organizations will have to adopt a distribution strategy which is most suitable for their operations.

[28] https://learn.marsdd.com/article/case-study-dell-distribution-and-supply-chain-innovation/ accessed on 21/2/22

Designing the Structure of the Distribution Channel

Designing the structure of the distribution channel should be done after taking into account the competitive position of the organization and also its business strategies. Thus, the distribution strategy of the organization should form part of its overall business strategy.

It is only the bigger companies that are usually in a position to maintain their own sales force and distribution networks. Smaller companies may not be in a position to do so.

The structure of the distribution channel depends on the following eight factors:

- Type of consumers of the product
- Needs of the consumers
- Features of the product
- Shifts in role from one member in the channel to another
- Organizational needs
- Competitive position of the organization
- Organizational objectives
- Location

Operation of Distribution Channel

In putting the distribution channel into operation, the availability of appropriate channel members is of extreme importance. Once a distribution channel has been finalized, all the required support should be provided to it. If required, sales personnel can be assigned to provide any training required for the staff of the distribution channel.

The sales program designed for the organization should also be in line with the strengths and weaknesses of the distribution channel.

The two key considerations in operation of distribution channel are:

- *Established Products:* For established products, channel members may be available without much difficulty, but for new products, this may not be the case. Cost plays a major role in the availability of channel members.
- *New Products:* For new products, channel members may ask for more of a margin to carry the product and it may not be profitable for the new product manufacturer to rely on them.

Check Your Progress - 3

8. Which of the following is not a consideration to be kept in mind while designing a distribution channel?

   a. Middlemen considerations

   b. Customer considerations

   c. Segmentation considerations
   d. Price considerations
   e. Product consideration

9. Which of the following is not a favorable aspect or consideration when an organization is choosing its intermediaries?
   a. Strong financial position of the distributor
   b. Good reputation within the industry
   c. Supplier outsources work to subcontractors
   d. Willingness of the distributor to invest in information technology
   e. Sound financial position of the distributor

19.6 Distribution Intensity

The marketer has to decide on the level of distribution coverage needed to effectively make the product available to the customer.

Definitions

- Distribution coverage is measured in terms of distribution intensity, which can be defined as ‘the level of availability – intensive, selective, or exclusive – selected for a particular product by the marketer’.
- It is defined as the number of intermediaries used by a manufacturer within its trade areas.
- The distribution intensity can be considered as a function of the cost involved and the benefits that can be reaped out of increased coverage.

The key issues to be considered in deciding the distribution coverage are:

- The more the coverage, the greater the cost involved for the organization. Some of the components of distribution cost like transportation cost can be transferred to consumers.
- Distribution coverage also depends on the nature of the product. Consumer goods generally require more distribution coverage than industrial goods.

Levels of Distribution Intensity

There are basically three levels of distribution intensity – exclusive coverage, selective coverage and intensive coverage.

19.6.1 Exclusive Coverage

In exclusive coverage, distribution intensity will be the lowest. This kind of coverage is usually provided for products that have fewer consumers. The consumers have exclusive tastes regarding the products and are particularly conscious about quality and distinctiveness.

This leads the marketer to sell the product only through exclusive retailers. Some marketers choose to sell their products only through their exclusive retail outlets. These need not be luxury products, but the fact that the product is available only at company outlets gives exclusivity to it.

19.6.2 Selective Coverage

In selective coverage, the distribution intensity will be greater than in the case of exclusive coverage, but the marketer deliberately tries to limit the total number of locations through which the products are sold. The number of outlets will be determined by the type and nature of the target market. The type of products sold through selective outlets will appeal to smaller target markets where the consumers are fewer.

As there are fewer consumers, the number of outlets required is also less. Selective distribution coverage is usually provided for consumer electronics products where the number of customers is not very large when compared to products of mass consumption.

19.6.3 Intensive Coverage

In intensive coverage, the marketer attempts to sell the product through all possible avenues. The marketer which adopts this approach will try to make use of all distribution outlets like grocery stores, vending machines, restaurants and so on. Low priced products that appeal to a large target market are best suited for intensive distribution.

Intensive distribution coverage can be very costly as the marketer has to ensure that the product is available at all the possible outlets. Only through increasing the sales volume, can the marketer make up for the increased distribution cost.

19.6.4 Determinants of Distribution Intensity

Determining the appropriate number of distribution outlets in a geographical area is one of the most important issues in channel management. Very high distribution intensity may dilute the brand image while very low distribution intensity may limit its market coverage and cause lost sales opportunities.

The perfect distribution intensity for a product is '*the stage at which it is available widely enough to satisfy, but not exceed, target customers' needs, because over saturation increases marketing costs without providing benefits'.*

The four important determinants of distribution intensity are as given below:

Brand Strategy

Brand strategy focuses on brand positioning on the basis of quality as well as target focus. For high quality brands, the distribution intensity will be less.

Positioning on quality: A brand which is positioned on the quality platform reveals the extent to which the manufacturer tries to communicate to consumers that the brand is superior.

For those products that are not positioned on high quality, there will be a large number of retail outlets to support convenient shopping and competitive pricing for the customers. For products that are positioned on quality, the manufacturer will carefully select the retailers as their image and reputation can have an effect on the image of the brand.

Target focus: The target focus is the degree to which manufacturers focus on a small segment of the wider market. The two distribution strategies are:

- *Intensive Distribution Strategy*: If the marketer wants to target a wider market so as to reach a large and diverse customer base then it has to adopt an intensive distribution strategy which will help it in making the product available to diverse customers.
- *Selective Distribution Strategy*: On the other hand, if the marketer tries to focus on a smaller market segment, then it can go in for selective distribution intensity. The opportunity cost of lost sales on account of selective distribution may eventually force the marketer to increase the number of retail outlets in the selected area.

Channel Practices

Channel practices focus on the coordination efforts and support programs of the manufacturers.

Coordination efforts: Coordination efforts refer to the extent to which the manufacturers try to influence the activities of the retailers. The extent of coordination efforts varies from one manufacturer to another and it depends on the cost that the manufacturer intends to incur on coordinating the activities.

Those manufacturers that intend to closely coordinate the activities of retailers may choose to limit the number of retailers in a geographical area as it is not easy to closely coordinate a large number of retailers.

Support programs: These programs are the assistance provided by the manufacturers to retailers in stocking the product, in selling it, and in providing after sales services. The manufacturers support the retailers in retaining their interest in the product and assist them in their sales efforts. Such support from the manufacturer also reduces the cost of the retailers and eventually leads to the increase in distribution intensity, up to a certain limit.

Retailer Requirements

Another component that has significant effects on distribution intensity is the requirement of the retailer, which in turn, is determined by contractual limitations as well as investments made by the retailers.

Contractual limitations: In many cases, manufacturers force retailers to sign restrictive contracts and to make fairly heavy investments in support of the brand; actions which signify credible commitments on the part of the retailers.

The key aspects of contractual limitations are as given below:

- The contractual limitations that arise out of the formal agreement between the manufacturer and the retailer usually reduce the retailer's freedom.
- The contract contains terms related to the sale of goods, termination of contract, etc.
- The nature of contracts varies from extremely restrictive to moderate.
- In some manufacturer retailer relations, there will be no contract at all.
- The presence of restrictive contracts will provide manufacturers with the assurance that the brand image of their product will be upheld by the retailers. The market coverage could also be increased without the brand image being eroded.

Investments made by retailers: Retailers have to make some investments in inventory, training sales staff, etc., to sell the brand effectively. Such investments generally depend on the nature of the product to be sold and the demands made by the manufacturer.

Example

As of December, 2021[29], to invest in Bajaj Two Wheeler Franchise it costs around 40 to 50 lakhs initially which covers spare parts and interiors. If the geographical area chosen has a sales potential of 200 bikes from the starting month, then the initial amount to be paid will be around 90 lakhs to 1.4 crores for starting a franchise.

Source: ICFAI Research Center

The key aspects of investments made by retailers are as given below:

- If the contract between the manufacturer and the retailer expires, the retailer has the choice to make use of trained sales staff to sell competitors' brands.
- If the investment made by the retailer is very high, the manufacturer is likely to have more confidence in the retailer.
- The retailer will also be considered to be highly responsive to the coordination efforts of the manufacturer. This may also prompt the manufacturers to increase the distribution intensity in a geographic area.
- The manufacturer's support to the retailer will also increase with the increase in retailer investment.

Control Variables

The three basic control variables that determine distribution intensity are:

- *Use of Distributors:* When distributors are used, distribution intensity is likely to be higher. This is because the distributors appointed by the company may again add a number of retailers under them.

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[29] https://www.franchiseindiaweb.in/bajaj-two-wheelers-dealership/ accessed on 18/2/22

- *Use of Multiple Channels:* The use of multiple channels of distribution can also increase the distribution intensity as compared to the use of a single channel for distribution.
- *Sales Volume of the Brand:* The higher sales volume of a brand can attract more retailers to the brand, thereby increasing its distribution intensity.

Activity 19.2
ChocoKing Ltd., is a newly established confectionery company based in India. The company is keen to use a distribution channel so that its products are marketed well and reach the consumers easily. Moreover, competition from already established confectionery companies is another challenge for the company. If you are the CEO of ChocoKing, what level of distribution coverage would you use? Also discuss what level of distribution intensity would be suitable for the company.
Answer:

19.7 Conflict and Control in Distribution Channels

As per Stern and Gorman, *"when a channel of distribution is viewed as a social system, the members of such channels are, by definition, caught up in a web of interdependency. The actions of behavior of any one member have consequences for the level of output (measured in terms of individual goals) achieved by the others. This dependency relationship represents the roots of conflict in channels of distribution"*.

Manufacturers try to sell their products through a wide variety of channels. When different channels try to reach the same set of customers, conflicts are bound to occur. Some conflicts can turn out to be beneficial to the organization, as they will help to eventually drive inefficient channel members out of operations.

The important causes for channel conflicts are:

- *Changes in the Channel Environment:* The starting point of any distribution channel conflict is usually the changes that take place in the channel environment or in the organization within any channel member.
- *Channel Member Perception:* When other channel members perceive that such changes may act as a stumbling block in the achievement of their objectives and goals, they may take measures to remove the cause of their dissatisfaction; and a conflict begins.

- *Targeting Other Channel Members Customers:* When channel members perceive that the action of another channel member is detrimental to the achievement of their organizational goals, a conflict arises. These types of conflicts occur when customers who are being served by one channel are targeted by another.
- *Highly Competitive Market Condition:* Some conflicts arise as a by-product of the highly competitive market condition and may be relatively harmless.

Example
Asian Paints was trying to target its competitor's (JSW) channel members and in January 2020,[30] JSW Paints filed a complaint against Asian Paints with the CCI, saying the latter had denied access to the distribution channels in the relevant market to JSW Paints by threatening and coercing such dealers through various means.

Source: ICFAI Research Center

Control of Conflicts in Distribution Channels

Channel conflict is unavoidable, but the key to effective channel management lies in understanding a conflict's foundation, its real seriousness and understanding the negative impact the channel conflict can have on the organization. As most of the channel conflicts can be really dangerous as they can even affect the fate of a good product in the market. Channel conflicts can have devastating effects on the profit aspirations of marketers.

Controlling such conflicts is necessary and the two important steps to control conflicts are: Identifying channel conflict and Avoidance of a channel collapse.

19.7.1 Identifying Channel Conflict

If conflicts are not recognized in time and if the required corrective actions are not taken. It is necessary to identify the conflicts that can prove to be dangerous.

There are basically three issues that need to be considered in identifying channel conflict which are as given below:

The Real Cause of Disagreement

Disagreements among the channel members usually lead to conflicts. When a channel member voices disagreement over another channel member, the marketer has to identify the real cause behind this complaint. The marketer has to identify the real cause behind it. The real causes of disagreement could be the following:

- Often the internal problems or inefficiencies of the channel member may be the actual cause of its declining profits.

[30] https://www.businesstoday.in/magazine/industry/story/rise-of-oligopolistic-dominance-288675-2021-02-18 accessed on 18/2/22

- Other channel members may not have any part in it at all.
- Complaining channel members failing in their business.

The marketer at this stage needs to decide whether to retain such a channel member or to go in for a new one as the channel member is likely to impact the marketer's business.

End Users Served by the Channels

A company can attain profits, even when two different channels are serving almost the same end users. Even if the target consumers of two channels are the same, there can be differences in the timing of consumption or the value proposition offered to the customers by the two channel members.

The marketer has to carefully assess the impact by channel members on its business. If it can manage conflicts through simple strategies then the marketer can take some time to make a decision on its channel members.

Effect on Marketers' Profit

Factors like changes in the economic conditions or a shift in the preferences of consumers toward a different distribution channel may cause a decline in the profit of an existing channel member, which in turn, may cause a decline in the marketers' profit. The declining channel may be carrying a major share of the total volume distributed, but its profits and consumer preference may be declining. In such a situation, marketers may prefer to opt for a new and better distribution channel than continue to support the existing channel with declining profits.

The challenge for the manufacturer in this stage is, however, is to convince the existing channel member about a need for a change without creating a potential conflict.

19.7.2 Avoidance of a Channel Collapse

Proper consideration of the three issues just described helps a marketer to identify which types of channel conflict are really dangerous and may cause a collapse of its distribution network. If it is identified that a particular channel conflict can be really dangerous, it is time for the marketer to act.

The marketer in this stage has to decide between retaining the existing channel and going in for a new one. This decision on whether to continue with a declining distribution channel is to be taken based on the following factors:

- Cost involved in retaining the distribution volume with the channel
- Benefits of entering into a new channel
- Likely retaliatory measures from other channels if a new channel is entered into.

19.8 Managing the Channel

In any organization, distribution management is of strategic importance. This importance comes from the fact that distribution management has a significant role to play in ensuring the success of a product in the market and the fact that it can provide an opportunity for the organization to maximize profit. Proper distribution management, sales can be increased without increasing the distribution costs.

Managing distribution channels involves the following important aspects:

- *Decisions:* Decisions regarding costs arising out of transportation, warehousing, and so on.
- *Uncertainties:* Uncertainties arising out of fluctuations in the demand for the product or chances of product stock-out are some of the issues that manufacturers have to deal with in channel management. Thus, the whole channel management process involves a lot of uncertainties.
- *Complicated:* Complicated by the presence of various hidden costs.
- *Not Easy to Determine:* It is also not very easy to determine the following:
  - Most effective distribution method which will maximize profits for an organization
  - Most effective means of transportation
  - Most effective quantity to be transported
  - Storage cost and loss of profit on account of stock-out, etc.

19.8.1 Functions Associated with Distribution Management

Understanding various interrelated functions associated with distribution management can be helpful in designing and implementing effective distribution management in any organization. Making available the right products at the right time and at the right place is a key function in the distribution management process.

The important functions associated with distribution management are:

- Inventory management & order processing
- Breaking down of large assortment of homogenous stock into small lots
- Bringing together a collection of different products for selling to the customers
- Transporting products from the place of production to the place of sale
- Providing the product in a form which is suitable for consumption
- Negotiating for shelf space in the retail outlets
- Dealing with product rejections
- After sales service, communication & management of finances

19.8.2 Management of the Distribution Channel

There are various principles that can act as guidelines in the effective management of the distribution channels and in maintaining better manufacturer-distributor relationships.

Mutually Beneficial Manufacturer-distributor Relationship

A fundamental principle in the management of distribution channels is that the relationship between the producer and the distributor should be mutually beneficial.

Some important aspects to maintain mutually beneficial manufacturer-distributor relationship are:

- The producer and the distributor should both be able to give value to and receive value from the relationship, which will be good provided that both parties are able to get economic benefit out of it.
- There should not be any legal compulsion on both the parties to continue with the relationship, when it is not providing any economic benefit to them.
- The rapid changes in the economic environment of business make it less feasible to go in for long-term agreements with distributors.
- If the relationship is based on mutual benefit, it can be a long-term relationship without any contractual agreement.

Flexibility in Manufacturer-distributor Relationship

The relationship between the manufacturer and the supplier should be flexible.

The five important aspects in maintaining flexibility in manufacturer-distributor relationship are:

- *New Products / New Markets:* When the manufacturer introduces new products or enters new markets, it should be able to choose the most effective distribution channel for the new product.
- *Avoid Long-Term Contracts:* In order to maintain flexibility in relationships, it is better to avoid long-term contracts. This is because long-term contracts may prove to be ineffective in the face of rapid changes in the business environment.
- *Avoid Commitments That Cannot Be Fulfilled:* It is better for the manufacturers to avoid commitments that they cannot fulfill.
- *Cost-Effective Incentives:* In their bid to increase sales, manufacturers generally provide incentives to distributors. These incentives should be designed carefully in a cost-effective manner.
- *Reasonable Guarantee:* The manufacturer should give a reasonable guarantee to help the distributor in establishing its business. This is especially important because distributors often make huge investments and they may require some sort of guarantee from the manufacturer that they will get a reasonable chance to make profits.

Maximum Control over the Distribution Network

There are different levels at which control can be obtained over the network. The four options for obtaining control are:

- *Option 1:* The manufacturer can go in for total control of the distribution channel through ownership. But this kind of vertical integration can cause problems related to the integration of the culture. The core competency of both the integrating parties may also be different.
- *Option 2:* Another option available to the manufacturer to obtain control over the distribution channel is gaining partial ownership. Even though it does not have total control over the distribution channel, the manufacturer can have maximum influence over the distribution channel through this approach.
- *Options 3 & 4:* Other options available to the manufacturer include contractual agreements and franchising.

Example

Devyani International Ltd., (DIL) is the biggest Indian franchise of US-based fast-food company Yum! Brands which own Pizza Hut, KFC etc. DIL had set up franchises through options 3 and 4 through contractual agreements and franchising. DIL is the largest KFC franchise partner in the country with more than 250 stores as of Mar '21[31].

Source: ICFAI Research Center

Adequate Incentives for Distributors

The manufacturer has to ensure that the distributors get adequate returns for their investment. It also has to ensure that adequate incentives are provided to the distributors.

At the same time, the margins provided to the distributors should not be too high or too low. The two types of margins are as given below:

- *Very High Margins:* If the margins are very high, it means that the manufacturer is paying more than is necessary for a distribution channel.
- *Very Low Margins* On the other hand, if the margins are too low, the distributor may try to exploit loopholes in the system to increase its margins. This may ultimately prove to be disastrous for the manufacturer.

<u>Check Your Progress - 4</u>

10. Which of the following is not a function of a distribution channel?
    a. Storage
    b. Physical distribution of products
    c. Management of finances
    d. Sales and after sales service
    e. Marketing

[31] http://dil-rjcorp.com/brands-kfc/ accessed on 18/2/22

19.9 International Channels

Markets are expanding across the globe. The Internet and the changes in the global environment are factors contributing to the disappearance of borders in international trade.

Determining the distribution process is a crucial decision for companies that intend to market their products internationally. Three options for international channels are:

- *Advances in Technology:* Advances in technology have made the international distribution process relatively uncomplicated as it provides numerous convenient options for distribution.
- *Choosing Logistics Providers:* An organization operating in the international environment has the option of choosing various service providers for logistics management, such as freight forwarders, air express companies, ocean carriers, and overland transportation companies. Companies like FedEx, UPS, DHL, etc., provide reliable and quick distribution services. They also provide the facility to track shipments.
- *Internet-based Distribution Channels:* In addition, there are internet-based distribution channels which can be used for creating a virtual retail store quickly and economically and sales transactions can be made online.

19.9.1 Problems with Local Channel Partners

With the growth in multinational trade, many MNCs which enter foreign markets establish tie-ups with local distributors. However, such tie-ups result in failure and usually do not last long.

The four important reasons for failure of tie-ups are:

- *Lack of Local Markets Understanding*: The reason generally attributed for such failures is the MNCs' lack of understanding local markets and their inability to differentiate between the local distributors and their home country distributors.
- *Repeated Mistakes:* Most often, the mistakes made by multinationals are repeated as they enter new foreign markets.
- *Changes in the Distribution System:* In order to be successful in distribution, these companies often try to make changes in the distribution system by trying to acquire the distributor organization or to gain distribution rights.
- Set up a Subsidiary: In some cases, they may set up a subsidiary to distribute their products.

Example

Harley Davidson entered the Indian market as Harley-Davidson India, its wholly owned subsidiary in August 2009. But in 2020[32], the company exited from the Indian market due to its failure to increase volumes and obtain cost efficiencies by leveraging local tie-ups.

Source: ICFAI Research Center

Guidelines to Prevent Likely Problems in International Distribution

According to David Arnold (Arnold), an assistant professor at Harvard Business School, most of the problems associated with international distribution can be avoided by overseeing the marketing strategy at the beginning in order to identify all the likely problems. According to him, it makes sense to go on with local distributors while the marketing strategy is controlled by the MNC itself.

Arnold provided six important guidelines in order to fend off the likely problems that may arise in international distribution, which are as given below:

Select Distributors Carefully

Directly contacting the target customers and asking about their favorite supplier is one good strategy to identify the most suitable distributor. With this approach, the MNC can be more market oriented than distributor-oriented in selecting the distributor. Moreover, a systematic evaluation of all the potential distributors should also be done while selecting the best distributor.

Select Distributors with a Long-term Focus

If the plan of the MNC is to introduce a revolutionary product in the market. In such situations, it is better to go in for a distributor who shows keenness in learning from the MNC’s experience and is willing to have a long-term relationship. Even if this strategy does not bring positive returns immediately, it will prove beneficial to both parties in the long term.

Build Long-term Relationships with the Distributors

Many MNCs draft an agreement with the local distributors which gives the MNC the right to buy back distribution rights after a few years, in spite of such agreements, many distributors may approach local courts eventually to stop the firms from acquiring their distribution rights.

In the local courts, chances are that the law will favor local distributors and the MNC may have to fight long legal battles. The best strategy, therefore, for the MNCs is to consider the local distributors as their partners.

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[32] https://www.bbc.com/news/business-54290245 accessed on 18/2/22

Provide Adequate Support for the Local Distributors

MNCs have to provide all the necessary support to the local distributors in the form of men, material, or money. Support from the MNC is crucial for local distributors in the early stages where there exists a high level of uncertainty.

Two key strategies to provide adequate support for local distributors are:

- Providing technical and sales training to the employees of the distributors can be a good strategy which will help the local distributors to expand the market.
- Another strategy that can be adopted by the MNC is to take minority equity stakes in the local distributor. Through this strategy, both the parties can work on the basis of shared information and the distributors will not lose control over their operations.

Control over the Localized Marketing Strategy

The marketing strategy of the MNCs should be adapted to suit the conditions of the local market. At the same time, the full control of the strategy should be with the MNC and not with the local distributors.

The important measures for exercising control over localized marketing strategy are:

- It is the MNC which should decide on which product to market, and how to position it in the market, etc.
- The MNCs can provide information to the distributors regarding the product strategies and policies.
- The MNCs can also send their own staff to work along with the local distributors to understand the changes in the tastes and preferences of the local customers.
- They can also send their higher officials to the local markets to keep an eye on the performance of the local distributors.

Ensure Adequate Information Flow

For an MNC, getting adequate and quality information from the local distributors is crucial as they may be the main or the only source of information. Information from local distributors can be related to sales revenue, the market situation, financial situation, etc.

The three important advantages of ensuring adequate information flow are:

- Such information can help the MNC to identify and strengthen its position in the foreign market.
- Information in the hands of local distributors is a source of power for them.
- Their readiness to share the required information with the MNC can have a very positive impact on the relationship between both the parties.

19.10 Summary

- A distribution channel links the manufacturer of a product with the end users i.e., the consumers.
- Organizations can have strategic distribution systems that help them to examine the current distribution system and decide on the distribution system that can be useful in the future.
- In designing a distribution channel for an organization, there are mainly three steps – identifying the functions to be performed by the distribution system, designing the channel and putting the structure into operation.
- In deciding on the kind of distribution strategy to be used, there are various considerations to be kept in mind – considerations on middlemen, customers, product, price, etc.
- Distribution intensity can be referred to in terms of the number of retail stores carrying a product in a geographical location.
- Distribution management is of strategic importance to any organization as distribution plays a crucial role in the success of the product in the market.
- In managing the distribution channels, maintaining a mutually beneficial relationship between the manufacturer and distributor is necessary.
- International distribution is gaining importance with the increase in the number of multinational companies.

19.11 Glossary

Coordination Efforts: Coordination efforts refer to the extent to which the manufacturers try to influence the activities of the retailers.

Channel Conflicts: As per Stern and Gorman, when a channel of distribution is viewed as a social system, the members of such channels are, by definition, caught up in a web of interdependency. The actions of behavior of any one member have consequences for the level of output (measured in terms of individual goals) achieved by the others. This dependency relationship represents the roots of conflict in channels of distribution.

Distribution Channel: A distribution channel can be defined as an organized network of different agencies, which in combination carry out all the activities necessary to connect manufacturers to consumers, for achieving the marketing objectives. The distribution channel links the manufacturers with the ultimate users of the product, i.e. the consumers.

Distribution Intensity: Distribution coverage is measured in terms of distribution intensity, which can be defined as ‘the level of availability – intensive, selective, or exclusive – selected for a particular product by the marketer. It is defined as the number of intermediaries used by a manufacturer within its trade areas.

Inventory Management: Inventory management is a function associated with distribution management. It involves ensuring that reorder is done in appropriate quantities and at the appropriate time, so that there are no stock-out problems.

Order processing: Order processing is a distribution management function. It involves preparation and placement of orders.

Target Focus: The target focus is the degree to which manufacturers focus on a small segment of the wider market.

19.12 Self-Assessment Test

1. Describe in brief the issues in marketing decisions and issues in channel relations.
2. Explain various types of distribution channels.
3. Describe various considerations to be taken care of while designing a distribution channel.
4. Define distribution intensity. Describe the levels of distribution intensity.
5. Describe various channel conflicts in distribution channels and the need for their control.

19.13 Suggested Readings / Reference Material

1. Crawford and DeBenedetto. Irwin, "New Products Management", 12th edition, by McGraw-Hill, 2021.
2. Cravens, David W, "Strategic Marketing", 10th ed., ebook, McGraw Hill/Irwin, 2021.
3. O. C. Ferrell, Michael Hartline, Bryan W. Hochstein, "Marketing Strategy", 2021, Cengage South-Western.
4. Alexander Chernev, Philip Kotler, Musadiq A. Sahaf, "Strategic Marketing Management", "Strategic Marketing: Making Decisions for Strategic Advantages", PHI Learning, 2019.
5. Alexander Chernev, Philip Kotler, "Strategic Marketing Management", Cerebellum Press, 2018.

19.14 Answers to Check Your Progress Questions

1. (c) Manufacturers to consumers

A distribution channel can be defined as an organized network of different agencies, which in combination carry out all the activities necessary to connect manufacturers to consumers, for achieving the marketing objectives.

2. (b) Formulating marketing objectives

Strategic distribution management encompasses three issues – Analyzing the present distribution system, deciding the future distribution system and revamping the existing one, and creating the new distribution system. While all options state the various aspects of strategic distribution management, formulating marketing objectives is done at the outset.

3. (d) Marketing decisions and relationship between channel partners

Factors affecting the marketing decisions and the relationship between channel partners have to be considered while designing a distribution strategy.

4. (c) Pay-scale

The distribution strategy of an organization is influenced by the decisions taken in other areas of marketing like product, price, and promotion apart from place – the four Ps of marketing. Hence option 'c' is correct.

5. (c) High-end

Channel power issues can originate at the back-end, at the middle level, or at the front-end of the distribution channel. They do not originate at the high-end.

6. (a) Bottom-level channel

There are various types of distribution channels, depending on the number of intermediary levels that exist between the producer and the final user. For consumer markets, the various levels of channels possible are zero, one, two, and three levels. Bottom-level channel is not a type of distribution channel for consumer markets.

7. (d) Non-integrated logistics systems

The requirements for setting up a flexible distribution channel are: Critical but infrequent customer requirements, cooperative arrangements with other channels, integrated logistics systems. Hence non-integrated logistics systems do not fit here.

8. (c) Segmentation considerations

The considerations that need to be kept in mind while designing a distribution channel are: Middlemen considerations, customer considerations, product considerations, and price considerations. Hence option 'c' is correct.

9. (c) Supplier outsources work to subcontractors

Financial position of the distributor, good reputation within the industry, willingness of distributors to invest in information technology and flexibility are considerations for an organization in choosing its intermediaries. However, while choosing suppliers the information that the supplier outsources work to subcontractors may not be viewed positively. There is a need to further probe into the matter.

10. (e) Marketing

The functions of a distribution channel are – Storage, physical distribution of products, management of finances, sales and after sales service. Marketing is not a function of the distribution channel.

Strategic Marketing Management

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