Block I

Marketing Management

Understanding Marketing Management and Buyer Behavior

Block

I

UNDERSTANDING MARKETING MANAGEMENT AND BUYER BEHAVIOR

Content Development Team

Dr.Debajani Sahoo
IFHE (Deemed-to-be-University), Hyderabad

Dr. Sweta Singh
IFHE (Deemed-to-be-University), Hyderabad

Dr. Pankaj Kumar Singh
IFHE (Deemed-to-be-University), Hyderabad

Dr. Sukanya Ashokkumar
IFHE (Deemed-to-be-University), Hyderabad

Prof. R Muthu Kumar
IFHE (Deemed-to-be-University), Hyderabad

Dr. Andal Ammisetti
IFHE (Deemed-to-be-University), Hyderabad

Proofreading, Language Editing and Layout Team

Ms. Jayashree Murthy
IFHE (Deemed-to-be-University), Hyderabad

Mr. Chandrasekhar
IFHE (Deemed-to-be-University), Hyderabad

Mr. Prasad Sistla
IFHE (Deemed-to-be-University), Hyderabad

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Our E-mail id: cwfeedback@icfaiuniversity.in

Centre for Distance and Online Education (CDOE)
The ICFAI Foundation for Higher Education
(Deemed-to-be-University Under Section 3 of UGC Act, 1956)
Donthanapally, Shankarapalli Road, Hyderabad- 501203.

COURSE INTRODUCTION

Marketing management is the art and science of choosing target markets and attracting, retaining, and growing customers through creating, delivering, and communicating superior customer value. The course Marketing Management throws light on marketing and its importance. The course introduces the students to the various concepts, theories, and applications related to marketing. It helps the students to understand the importance of marketing in the conduct of business and in solving the problems that the businesses may face.

It is a foundation course that introduces the student to an understanding of both the consumer and business marketplaces and provides an introduction to the fundamental concepts of marketing, including a customer orientation, matched with attention to competition and core strengths. The strategies necessary to market goods and services are discussed from the perspective of a variety of organizational structures. This is accomplished through an analysis of external and internal factors that impact the organization, and through the development of an understanding of the strategy components collectively referred to as the marketing mix.

This course is intended to introduce students to the essentials of marketing: how firms and consumers behave and what strategies and methods marketers can use to successfully operate in today's dynamic environment and gain a competitive advantage. The course examines issues such as the marketing process, buyers and their behaviors, markets and competition, collection and use of marketing information, target marketing and positioning, and marketing mix.

BLOCK I: UNDERSTANDING MARKETING MANAGEMENT AND BUYER BEHAVIOR

The first block to the course on Marketing Management deals with the fundamental concepts related to Marketing Management. The block contains six units. The first unit talks about the basic concepts related to marketing. The second unit deals with delivering customer values and satisfaction. The third and fourth units focus on the marketing environment and marketing budgets and costs. The fifth and sixth units examine the different aspects related to consumer and organizational buying behaviors.

The first unit, *Marketing: The Development of a Concept,* introduces the concept of marketing management and the various issues related to it. Marketing involves creating an environment where exchange takes place between two parties. This unit provides a clear understanding of how the concept of marketing evolved over time and its significance for different kinds of industries.

The second unit, *Delivering Customer Values and Satisfaction,* deals with delivering value and satisfaction to the consumers and customer profitability. It is necessary that companies deliver value to their customers to satisfy both their articulated and unarticulated needs. This unit provides a clear understanding of the concept of delivering customer value and satisfaction, the importance of attracting and retaining customers, and customer profitability.

The third unit, *Marketing Environment,* discusses the various environmental forces affecting the marketing activities of the organization. The forces affecting the marketing activities of the organization can be divided into external and internal forces. The external forces can be further divided into micro and macro environments. This unit gives a detailed discussion on the macro environmental factors affecting the organization.

The fourth unit, *Marketing Budgets and Costs,* discusses about marketing budgets and costs. Proper estimation of the costs is essential for the success of a marketing plan and it helps in optimum allocation of a company's financial resources. This unit discusses about marketing cost analysis, customer profitability analysis, budgeting for the sales force, and the production process and efficiency.

The fifth unit, *Understanding Consumer Buying Behavior,* introduces the concept of buying behavior of consumers and its importance in the marketing activities of the organization. The purchase decisions of the consumers reflect their buying behavior. Studying the buying behavior of consumers help the marketers to develop long term association with them. This unit deals with the factors affecting the buying behavior of consumers and the buying decision process.

The sixth unit, *Organizational Markets and Organizational Buying Behavior,* introduces the concepts of organizational markets and organizational buying behavior. Organizational buying process is quite different from regular consumer buying process and needs specialized study by the marketers. A thorough understanding of the organizational buying behavior is necessary for the long term success of the company. This unit deals with the different issues related to organizational buying behavior.

Unit 1

Marketing: The Development of a Concept

Structure

1.1. Introduction

In this unit, we introduce you to marketing management. Marketing is vital to the functioning of any business as it generates profits that influence the growth and survival of businesses. Businesses are confronted with social, economic, and technological issues in the wake of globalization. Marketing makes the difference by converting these issues into opportunities. Marketing can be related to a product, service, or an idea.

In the post globalization era, companies and marketers are dealing with the rapid technological advancements and the resulting increase in competition through various responses and adjustments. Marketers are following new strategies like customization, target marketing, integrated marketing communication etc. to deal with the advancements in technology.

In this unit, we will discuss the concept of marketing and evolution of business through different stages of marketing. We shall then move on to discuss company, marketer responses and adjustments to technological advancements and the resulting increase in competition. Finally we would discuss the significance of marketing to various industries.

1.2. Objectives

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

- Recognize the importance of marketing for the functioning of a business
- Discuss the different stages of marketing through which businesses have passed
- Evaluate the various company, marketer responses and adjustments to advancements in technology and the resulting increase in competition
- Explain the importance of marketing to various industries

1.3.Definition of Marketing

According to American Marketing Association (AMA), the term marketing can be defined as:

"The process of planning and executing the conception, pricing, promotion, and distribution of ideas, goods, and services to create exchanges that satisfy individual and organizational goals."

A good can be termed as a physical entity that we can touch and feel. For example, watches and spectacles are goods. A service is an intangible product that is created by using both human and mechanical resources. For example, hotels provide hospitality. An idea includes issues, philosophies, and concepts. For example, an architect sells the blue print of a house to a client.

Marketing involves creating an atmosphere where an exchange takes place between a buyer and a seller. In other words, a buyer gains value by purchasing and consuming a product and the seller gains value by making a profit. However, the exchange is based on needs and wants. Therefore, marketing should be based on customers' perceptions of a need or want. The extent, to which these needs or wants are satisfied, is called utility. Marketers provide four types of utility to customers. *Form utility* relates to the conversion of raw material, to a finished product. *Time utility* involves providing products at the time required by the customers. *Place utility* involves providing products at the place required by the customer. *Possession utility* relates to permitting a customer to use the product, according to his wishes.

Activity: Identify the types of utility provided by marketers, from the following examples:

1. Sunfeast launched its Sunfeast Pasta Treat, at all major retail stores in South India.
2. Viewers can watch Cable TV channels at their convenience.
3. Lays India Ltd. offers Potato chips to customers.

Contd. .....

4. Sraindia.com offers gifts that are delivered, according to the wishes of the customers.

Answer:

Check Your Progress-1

1. _________ is the process of planning and executing the conception, pricing, promotion and distribution of ideas, goods and services to create exchanges that satisfy individual and organizational goals.
   a. Selling
   b. Manufacturing
   c. Marketing
   d. Advertising.
2. Marketers can provide four types of utility to target customers. Which of the following is **not** a form of utility offered by marketers?
   a. Form utility
   b. Time utility
   c. Place utility
   d. Position utility.
3. Marketers provide place utility to customers by providing their products at locations where the customer wants them. Which of the following services is **least** associated with place utility?
   a. Internet banking
   b. Distance learning
   c. E-Commerce
   d. Issue of driving license.
4. The extent to which needs and wants are satisfied is called as ______________.
   a. Utility
   b. Form utility
   c. Place utility
   d. Time utility.

5. To meet competition from multinational banks, Punjab National Bank adopted certain strategies in the form of providing utility. Which of the following strategies adopted by the bank focuses on time utility?
   a. Offer differential interest rates to industrial and retail customers
   b. Increase the variety of deposit schemes available
   c. Introduce ATMs to ensure customer satisfaction
   d. All of the above.

1.4. Evolution of Marketing

The concept of marketing came into focus with the Industrial Revolution. Since then, businesses have passed through three stages of marketing. Consequently, the concept of customer satisfaction also, evolved through these different stages that are discussed below.

Production Era: It began in the seventeenth century with the Industrial Revolution and continued till the late 1920s. Manufacturing was given importance, and it was assumed that all that gets produced gets sold. Product features were not a priority, and the emphasis was on faster and efficient production at low prices. For example, Henry Ford said, "You can have any color car you want, as long as it is black."

Sales Era: It spans the period from the late 1920s to the mid-1950s. With the production process gaining efficiency, competition emerged. Businesses realized the importance of selling their products using advertising, promotion, and distribution strategies.

Marketing era: It began in the mid 1950s and is evolving even at the beginning of the new millennium. It signifies the shift in businesses, from product selling to customer satisfaction. The concept of marketing management has gained importance, with the businesses focusing on customer preferences and profitability.

Marketing Concept

Marketing includes a set of activities undertaken by firms, to satisfy both customer needs and their corporate goals. The marketing concept, therefore, includes customer orientation, long-term profitability, and functional integration.

Customer orientation: Firms constantly need to change and modify their products, to satisfy the varying needs and preferences of the customer.

Long term profitability: Apart from generating profits to sustain themselves, firms should engage in detailed analyses of issues, such as market research, product development, and promotion to reap long term profits.

Functional integration: The marketing concept is not limited to the marketing department alone. Proper coordination must exist between the marketing department and departments, such as R & D, personnel, finance, and manufacturing.

Societal Marketing Concept (SMC)

Firms, in the process of offering products to please customers, fulfill societal objectives as well. Therefore, firms' marketing efforts should be directed beyond satisfying customers' needs and making a profit. The concept of SMC, seeks to achieve equilibrium between profit making objectives, customer satisfaction, and society's interest. Companies following SMC reflect the image of good corporate citizens and find favor with customers. ITC's social investments initiatives create impact across 188 districts in 25 states/union territories of India. Exhibit 1.1; ITC for a Greener Tomorrow, what ITC does in society's interest.

Exhibit 1.1: ITC For a Greener Tomorrow:

Renewable Energy & Green Building: ITC Windsor in Bengaluru recently became the first luxury hotel in the world to achieve a LEED® Zero Carbon Certification

Afforestation: ITC has also promoted bio-diversity conservation in more than 44,000 acres to revive & sustain ecosystem services and products provided by nature, and aims to enhance coverage over 250,000 acres by 2030.

Water Security:ITC has spearheaded an extensive watershed development programme bringing soil and moisture conservation to over 1.2 million acres. A focused initiative for demand side management has led to water savings of 25-40% in 7 crops,

Solid Waste Management: For more than a decade, ITC has implemented industry leading efforts in end-to-end waste management through a unique Well-being Out of Waste (WOW) programme that currently reaches 1.5 crore citizens. This programme has promoted behavioural change through large scale awareness on waste segregation in households and commercial complexes, facilitated collection in collaboration with urban local bodies and enabled viable recycling options for such post-consumer waste, including plastics.

Source: ITC Sustainability Report 2021, www.itcportal.com

Activity: Abdul Mohammed started a small readymade garments shop in 1919. At that time, he merely concentrated on making an adequate number of garments, in a cost effective manner. Through the years, the shop expanded and went on to become a retail garment house. By 2021 it had started offering customized garments, fashionable and affordable for all age groups

Elucidate the evolution of the shop, highlighting the changes in the stages of marketing.

Answer:

Check Your Progress-2

6. Businesses have gone through different phases or stages of marketing over the years. Identify the correct sequence from the following options.
   a. Production era - Product era - Sales era - Marketing era
   b. Product Era - Production Era - Sales era - Marketing Era
   c. Product Era - Production Era - Marketing Era - Sales Era
   d. Production Era - Product Era - Marketing Era - Sales Era.
7. ITC dedicated one rupee from the sale of each packet of Sunfeast for the education of physically challenged children. Which approach is the company following?
   a. Production concept
   b. Marketing concept
   c. Selling concept
   d. Societal marketing concept.
8. Sometimes, organizations need to restructure internal operations to improve coordination between departments. Which of the following terms is suitable for such integration?
   a. Marketing integration
   b. Functional integration
   c. Forward integration
   d. Supply chain integration.

9. Societal marketing is a key concept that firms adopt to ensure long-term profitability. Which of the following alternatives explains the Societal Marketing Concept in the **most** appropriate manner?
   a. Initiatives to satisfy customer needs and wants
   b. Initiatives for product promotion and distribution
   c. Initiatives to offer better quality product at minimum price
   d. Initiatives to maintain and improve societal wellbeing.
10. Which of the following statements brings out the basic difference between the marketing concept and the selling concept?
    a. Marketing focuses on profitability, whereas selling involves meeting the needs and wants of customers
    b. Marketing is more concerned with satisfying customer needs and wants, and selling is concerned with stimulating demand
    c. Marketing is more concerned with meeting the social responsibilities of the firm whereas selling is more concerned with product and profitability
    d. None of the above.
11. Which of the following statements best explains the societal marketing concept?
    a. The consumer will buy anything if it is cheap enough
    b. If a company manufactures a product of superior quality, customers by themselves will come forward to buy the product
    c. A company has an ethical obligation towards society's long term welfare
    d. A company can sell anything it produces if it is promoted aggressively.

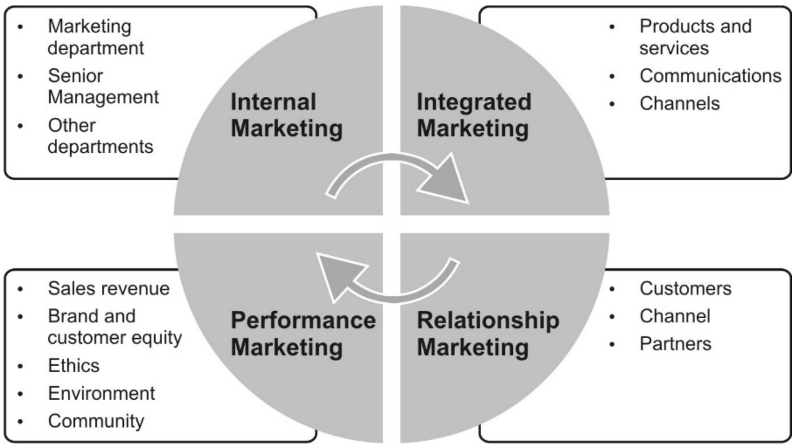
1.5. Holistic Marketing

Marketing is evolving consistently to serve customer better with a unique value proposition. Marketing function has started looking at 360 degree perspective in a holistic way to understand all the systems, processes and activities. Marketing function is not just confined to marketing department alone but all the departments are included since 'everything matters' to deliver a value proposition. Holistic marketing concept is based on planning and implementing marketing programs, and activities with breadth and interdependence. Holistic marketing looks at the solution from holistic perspective and tailors a solution to align systems, services and customer touch points, so that consumers' experience of the solution is seamless and consistent across all points.

Philip Kotler and Kevin Lane Keller define it as follows: *"A holistic marketing concept is based on the development, design and implementation of marketing* *programs, processes and activities that recognize the breadth and interdependencies. Holistic marketing recognizes that 'everything matters' with marketing and that a broad, integrated perspective is necessary to attain the best solution."*

Holistic marketing has the following four components (Exhibit 1.2):

Exhibit 1.2: Four Components of Holistic Marketing



Source: ICFAI Research Center

1. **Internal Marketing:** Internal marketing is based on the theme that employees are the internal customers of a company and their satisfaction is more important in order to meet customer satisfaction. Internal marketing takes every care to build a skilled and self-motivated workforce so that every employee properly understands the company's marketing orientation and philosophy towards customer satisfaction. Internal marketing also ensures harmony and coordination among various functions and activities within the company. Internal marketing avoids any conflicts within the marketing department or between marketing and other departments so as to influence external marketing positively. Top management plays a positive role in vertical and horizontal alignment to avoid any role conflict and implement marketing programs positively.

   For example, Apple practices internal marketing where employees are enthusiastic in Apple stores while serving customers. Apple stores are specially designed for better customer experience. Apple people are very knowledgeable and uphold Apple principles and brand. They are purposefully recruited, trained and retained to represent what Apple stands for through internal marketing.

2. **Integrated marketing:** Integrated marketing is based on the philosophy that 'whole is bigger than the sum of its parts". Integrated marketing works

on the premise that the marketers instead of focusing on individual marketing activities should make an integrated marketing program with the purpose to create, communicate and deliver value for customers. The aim of integrated marketing is to gain synergy out of all marketing activities and is possible only when an integrated approach is adopted. Integrated marketing is fundamentally about an effective integrated marketing mix executed well to derive synergy. Company communication also must be integrated through integrated marketing communications across media channels such as TV, radio, print advertising, PR events, etc.

For example, the Dove campaign for real beauty is a global integrated marketing campaign that includes ads, video, workshops, events, publication of a book, and production of a play. The integrated message behind the campaign is to celebrate the natural physical variation embodied by all women and inspire them to have confidence to be comfortable with them. The campaign featured regular women (non-models) who are beautiful in their own way and do not fit in with the idealized images of models, super models, and celebrities. Dove is the best example of consistency and integrated message.

3. **Performance marketing:** Marketing activities should be responsible not only for financial accountability but also socially responsibility. Performance marketing goes beyond sales revenue to examine the marketing scorecard and interpret what is happening to market share, customer equity, customer satisfaction, product quality etc. Performance marketing equally focuses on corporate social responsibility activities and abides by social, legal, ethical, and environmental norms while implementing marketing programs.

   For example, During the 8th edition of the Responsible Business Rankings announced during the Economic Times SDG Summit 2021, Tata Chemicals is ranked 4th amongst Indian corporates for its Sustainability and CSR practice. It is based on the study carried out by Futurescape that uses the Environmental, Social and Governance (ESG) framework. Key action themes for companies included renewable energy, water, waste, and data privacy. The company has launched multiple initiatives and projects to conserve the environment and engages with local communities toward building an ecosystem that is sustainable and eco-friendly keeping sustainability at the forefront across all of their business divisions and initiatives.

   Relationship Marketing: Relationship marketing is concerned with developing long-term relationships with various stakeholders such as employees, customers, suppliers, financial institutions, competitors, regulatory bodies and community in general. Relationship marketing is about nurturing relationships with all the stakeholders who can influence company's success or are capable of adding value to the company at any level. The traditional sales approach where the customers and company meet only during sales is no more valid in the present context and environment. Customers can go for repeat purchases only when they have strong relationship with the company. Relationship marketing focuses on Customer Relationship Management (CRM) and Partner Relationship Management (PRM) to nurture relationships over a period of time. Relationship marketing enriches and enhances the depth of relationship with all stakeholders.

For example, Pizza Hut practices Customer Relationship Management (CRM) at two levels. First, it does online survey on customer satisfaction about ordering process and what could be improved. Second level, it occurs the next day, or at least after the customer has received their order and consumed it. The second level survey deals with the delivery speed, food warmth, and other customer service related issues. Customers are encouraged to participate in survey by providing added incentives in the form of winning cash, gift cards, or free product.

Benefits of Holistic Marketing:

- Greater efficiency, consistency and alignment among marketing processes, programs and activities
- Big picture approach aligns internal and external customers better
- Everything matters facilitates synergy among all functions both marketing and non-marketing departments
- Duplication of efforts can be avoided and resources are properly utilized
- Customer gets better value proposition uninterrupted
- Holistic orientation of the company towards better brand image

1.6. Marketing 3.0

Kotler, Kartajaya and Setiawan have distinguished marketing evolution into three stages as Marketing 1.0, 2.0 and 3.0. They say many companies are oriented in Marketing 1.0 and some are oriented in Marketing 2.0. and few are treading towards Marketing 3.0. They predict that only those companies that practice Marketing 3.0 will survived in the future.

Marketing 1.0:

Marketing 1.0 took birth during industrial age where technology was the lever to market products. The products were targeted at mass market because the focus was on standardization and scaling so as to minimize production cost. Goods were offered at lower price due to economies-of-scale. The focus of Marketing 1.0 is 'Product' and is called product-centric era. Customer is targeted at 'mind' based on 'reason' to market the product.

For example, Henry Ford's Model T automobile was sold based on Marketing 1.0 strategy as follows.

"Any customer can have a car painted in any color that he wants so long as it is black"

Marketing 2.0:

Marketing 2.0 took birth during information age where the 'information technology' is the lever to market products. Today's customers are well informed and compare products based on product information. Customers can make a choice from a wide range of alternatives. The worth of a product is defined by customer because they differ in their tastes. Customer is targeted at 'mind and heart' based on 'reason and feeling'. The focus has moved away from product to customer. Marketing 2.0 is called customer era targeting mind and heart of a customer to market the product.

For example, Harley Davidson earlier marketed its two-wheeler based on experience. The marketing strategy goes much beyond functional dimension and targets the emotional dimension of customers.

- Harley riders have a saying, "If I have to explain, you wouldn't understand". Riding a Harley is totally exhilarating and you feel free as a bird.
- Marketing strategy is "You're not buying a motorcycle; you're buying a way of life!"

Marketing2.0 focuses on mind and heart of customers or functional and emotional dimension.

Marketing 3.0:

The orientation of Marketing 3.0 is different which focuses on 'values'. Customer buys a product when it adds value to his personality. Customers want to satisfy functional, emotional and spiritual dimension through purchasing a product. Marketing 3.0 seeks to satisfy the whole person: mind, heart and spirit. Customers are now looking for products and services that satisfy not only their needs but are also searching for experiences and business models that touch their human spirit. Marketing 3.0 focuses on supplying meaning in its value proposition. Customers look for a product that strives to make the world a better place.

Kotler says, "Marketing 3.0 value proposition is value-centric that builds the community as opposed to brand building of marketing 2.0". The marketing orientation of Marketing 3.0 is doing well by doing good disruptively. The value-driven marketing focuses on the triple bottom line: People, Planet and Profit in that order. In Marketing 1.0 and 2.0, the communication was one-way but in Marketing 3.0 it is multi-channel, circular, dynamic process that involves communication among marketers, customers and channel members.

Marketing 3.0 companies integrate right values into every aspect of their business, and market that mission to their customers. Marketing 3.0 companies want to live out a set of values, and these values give the companies their personality and purpose. Marketing. 3.0 companies target human spirit and meaning while marketing their products. Ola Company's mission to transition the world to sustainable mobility is an apt example for Marketing 3.0 (Exhibit 1.3).

Exhibit 1.3: Ola Electric Bikes

The tremendous customers' response for Ola S1 Electric vehicle is a clear indicator of shifting consumer preferences. On 15h August 2021, Ola Chairman and Group Executive Officer Bhavish Aggarwal introduced Ola S1 to the Indian Market. Ola launched - S1 and S1 Pro - priced at Rs 99,999 and Rs 1,29,999, respectively. The company proudly proclaims that it has bagged Rs 1100 crore in combined sales, open for 15th and 16th September 2021. The CEO, opined that climate change is a serious issue of concern and there is an urgent need to reverse it. As per some estimates 40% of air pollution is the resultant of existing two wheelers. To save planet earth from this growing air pollution, moving to EVs is inevitable.

Source: Adapted from "Ola Electric clocks sales worth Rs.1100 cr for S1 and S1 Pro Scooters" www.livemint.com, September 17, 2021

The comparison of Marketing 1.0, 2.0 and 3.0 with their product, customer and value-driven perspectives are shown in the following Table 1.1.

Table 1.1: Marketing 1.0, 2.0 and 3.0

	Marketing 1.0	**Marketing 2.0**	**Marketing 3.0**
	Product-centric Marketing	**Customer-oriented Marketing**	**Value-driven Marketing**
Objective	Sell products	Satisfy and retain the consumers	Make the World a better place
Enabling Forces	Industrial Revolution	Information Technology	New Wave Technology
How Companies see the market	Mass Buyers with Physical Needs	Smarter Consumer with Mind and Heart	Whole Human with Mind, Heart and Spirit
Key marketing concept	Product Development	Differentiation	Values

Contd. ....

Company marketing guidelines	Product Specification	Corporate and Product Positioning	Corporate, Vision, Values
Value propositions	Functional	Functional and Emotional	Functional, Emotional and Spiritual
Interaction with consumers	One-to many Transaction	One-to-One relationship	Many-to Many Collaboration

Marketing Dynamics

Technological advancement has resulted in a dynamic market where products keep changing. The use of technology has decreased production cost per unit. However, as the same technology is used by different companies, retaining competitive advantage becomes an issue. On the other hand, customers are also benefited by advancement in technology and obtain information about various brands through the Internet. To deal with this situation, both the company and the marketers, need to make certain responses and adjustments.

Company Responses and Adjustments

- Reengineering: Restructuring business processes and related systems to improve business performance.
- Outsourcing: To reduce costs, companies can outsource non-core activities that would enable them to give greater priority to relevant areas.
- E-Commerce: The Internet can be used as a medium to buy and sell products. This can be in the form of business-to-business (B2B), business-to-customer (B2C), and customer-to-customer (C2C).
- Benchmarking: Companies should try and meet the levels of competence of the market leader.
- Suppliers: Companies should source their raw material from a limited number of suppliers, to ensure an amicable relationship and reduce problems associated with storage, economic order quantity, etc.
- Global and local markets: Companies are catering to both local and global markets.
- Decentralization: In changing times, responsibility and power has moved away from the top management, and moved down the line. Teamwork forms a part of organizational culture.

Activity: Jivha Almirahs Ltd. is a mid-cap company, specializing in the manufacture of all kinds of steel almirahs. The company has seen a decline in its sales for the last five years. What options are available to the company to improve its business performance? **Answer:**

Marketer Response and Adjustments

- *Customization:* Companies are providing customized products to customers, after understanding their needs and wants. Pizza Hut offers paneer pizzas and other local flavors to suit the Indian palate.
- *Building a good relationship with customers:* Existing customers help in marketing the products, by communicating about them to potential customers. Therefore, it is very important to maintain a good relationship with existing customers. HDFC bank gives promotional offers, such as free foreign holiday to its credit card holders.
- *Target marketing:* Different customer segments have been identified as target markets. Various media, such as the television, radio, Internet, and print media are used for marketing purposes. For example, Max New York Life, a private life insurance company, has used the Internet, television, and print media to promote its products in India.
- *Customer database:* Companies use data warehousing to create a database of their customers. Using this database, they gain knowledge about customers' preferences. They base their strategies and develop their product, in tune with the requirements of the customers. Carrefour, the global retailer, based its promotions on information obtained from data warehousing.
- *Integrated marketing communication:* Marketers can choose from a variety of options, in communicating with their customers. The options include the television and the Internet. Mobile phones are also, increasingly being used as a medium for marketing communications. Marketers need to adopt an integrated approach, to avail maximum advantage from these options.

Check Your Progress-3

12. Companies are now offering services like selling and delivering products over the Internet. What is this kind of business service known as?
    a. Outsourcing
    b. E-Commerce
    c. Reengineering
    d. Business Process Outsourcing (BPO).

13. Technological advancement is rapidly changing the marketplace and causing intense competition among firms. To cope with the changing dynamics, firms use various approaches. They are divided into company responses, and marketer responses. Which of the following is a company response?
    a. Customization
    b. Target marketing
    c. Outsourcing
    d. Integrated marketing communications.

1.7. Significance of Marketing

Marketing has emerged as an important activity for the sustenance of any organization. In the light of an ever changing market environment, the production, distribution, and consumption activities have to be aligned with the market forces. In addition, factors like customer service, quality assurance, and price competitiveness determine the success of an organization. The importance of marketing can be understood by considering three industries: airlines, banking, and education.

The Airline Industry

The success determinants in the airlines industry include: flight schedules, in-flight and airport services, fleet capacity, and route efficiency. The airline industry has the following basic characteristics:

- It is highly competitive.
- Its growth is directly proportional to economic growth.
- It offers a perishable product.
- It reflects price elasticity of demand.
- It seeks optimum utilization of flight capacity.

Marketing of Airlines

To use proper marketing tools, customer needs have to be understood on a proactive basis. Promotional activities, such as frequent flyer schemes, festival season offs, and access to club lounges, are important in building the image of an airline. Quality of service, in terms of helpful crew, establishes a competitive advantage in the airline industry.

Marketing Strategies

- Eliminate costs that do not add value, and employ the savings to provide better quality services.
- The Indigo airlines has a focus on three pillars: offering low fares, delivering a courteous and hassle-free experience, and being on-time.
- Southwest Airlines offers a robust point-to-point, non-stop route network, with a strong presence in top leisure and business markets
- With the code share agreement with Indigo, American Airlines will start non-stop flights between Delhi and New York from 31st October, and between Bangalore and Seattle from Jan 2022. Through this agreement customers travelling in American Airlines, will have access to IndiGo partner lounges, in their originating city.

The Banking Industry

Definition of Bank Marketing

"The aggregate of functions, directed at providing services to satisfy customer needs and wants, more effectively and efficiently than the competitors, keeping in view the organizational objectives of the bank."

In India, the Reserve Bank of India (RBI), regulates the banking Industry. The marketing mix of the banks is influenced by changing consumer expectations and changes in technology, in the banking sector. Therefore, these factors should be taken into account while serving both individual and corporate customers.

Banks and Marketing

Differential interest rates are charged for corporate customers and retail customers, depending on the nature of products and services availed. For retail customers, these rates may be fixed or floating interest rates, depending upon individual customer preferences. For distributing their products, banks use a variety of channels. These channels include: ATMs, Internet banking, home banking, and mobile banking. Marketing by banks involves communicating about their products, to customers. This communication is a part of promotion undertaken by banks, and may take the form of brochures and mailers. (Exhibit 1.4)

Exhibit 1.4: Marketing by Banks

Products

1. Kotak Mahindra Bank offers a unique 'Sweep-in' facility. A customer never has to worry about deficit of funds, if he links his fixed deposit to savings or current account.In case the customer has short of funds, the deficit will be covered from the fixed deposit.
2. ICICI Bank offered loans to customers against their cars, provided these were less than five years old.
3. HDFC Bank offered a unique online card called 'NetSafe' that minimized the risk arising out of online frauds. 'NetSafe', a single usage online card, contained a specified amount debited from the credit or debit card of the consumer. This card was valid for the day on which it was issued. Any unspent amount was transferred back to the customer's account. HDFC Bank also offered 'OneView' service. This service enabled customers to access account-related information on the Internet, including their accounts in other banks like ICICI Bank, Citibank, HSBC, and Standard Chartered Bank.

Value added services

1. HDFC Bank, in association with Travelex India, provided home delivery of foreign exchange, including cash and travelers' checks.
2. ICICI Bank made its banking hours 8 A.M to 8 P.M, for customer convenience. Select branches also, remained open throughout the year.

Source: Compiled from respective bank websites.

The Education Industry

Marketing in the education industry has gained importance, with the education sector opening up to the private domain. Various modes of delivering education services have emerged, with advancement in technology. These include contact programs and distance education. However, the degree of contact between the student and teacher is low, in the latter category.

Marketing of Education

In terms of marketing mix, marketing of education can be explained as follows:

Product: Educational institutions can base their services on consumer benefits, service concept, and service delivery

Place: Location of an educational institute, coupled with good infrastructure facilities, attract students

Price: In most cases, price is regulated by public policy. However, depending upon the demand for their services, a higher tuition fee can be charged by educational institutions.

Promotion: Promotion, in education services, aims at creating awareness about the courses offered by an institute. Market share in this industry can be obtained by providing facilities, such as library, laboratory, and study material.

Physical infrastructure: This refers to the tangible aspect of education services, and includes the campus, buildings, laboratories, and hostel facilities provided by an institute.

Example: US universities tried to promote their institutions, in India, through the U.S. Educational Foundation in India (USEFI)[1] that had professional education advice centers located at New Delhi, Chennai, Kolkata, and Mumbai. It also had satellite centers at Ahmedabad, Bangalore, Hyderabad, and Manipal. USEFI offered advisory and information services to potential students through initiatives, such as distributing brochures and applications, conducting information sessions and US university fairs, and providing guidance on entrance examinations like GRE and GMAT.

Marketing Strategy

The main characteristic of the educational services sector is that the nature of services provided are intangible and perishable. First, the industry service providers need clarity on the objectives of the service. Second, they need to identify the target segment and preferences of this segment, for the service. Finally, they need to design a strategy that would attract the target customers.

Scope of Marketing for Millennials in 21st Century

Marketing to millennials is completely different from traditional marketing practices. Millennials are, the generation born between 1982 and 2002 with an age range from 16 to 36 years. There are a number of characteristics that differentiate them from normal consumers. The marketing mix strategy, core concepts of marketing and marketing orientation vary with the millennials. Since this generation has access to the Internet most, so they used to be well-informed and internet savvy. Each purchase decision got supported by lots of information search, that's easily accessible to them.

Millennials are considered as multi-taskers, flexible and mobile in nature because of internet connectivity. This drives them to a different set of experiences such as ride-sharing services like Uber, food booking service like Swiggy, Foodpanda with considerable amount of buying power ($200 billion in in 2017). The marketer should target these segments through digital medium as they have strong purchasing power.

All of the marketing orientation concept (production concept, selling concept, marketing concept, societal concept and holistic concept) should work hand in hand to fulfil the need of the millennial. Traditional advertising did not work in

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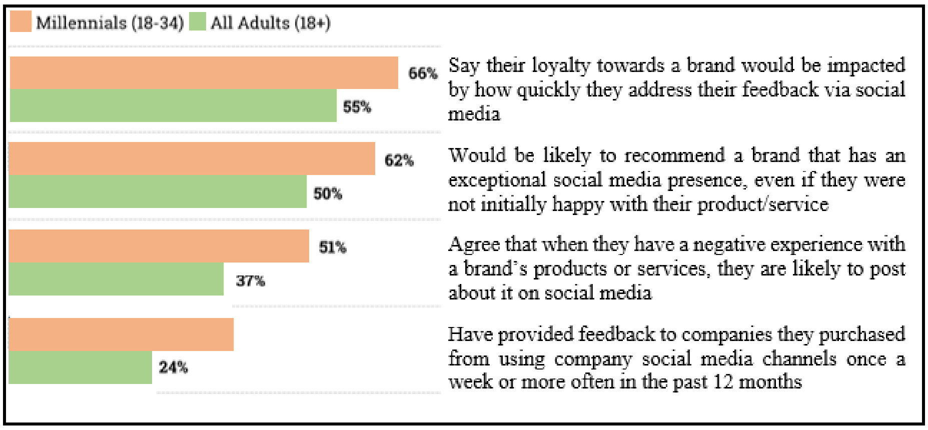
[1] The United States Educational Foundation in India (USEFI), created by a treaty on educational exchange between the Governments of India and the USA in 1950, is a bi-national organization promoting mutual understanding among Indians and Americans through higher education.

this context rather interactive advertising did wonders. Content marketing with quality content helps in building trust about the marketers' brand and its other product categories. Blogs play a vital role both in educating, building relationship and adding value to the millennials buyer. The content needs timely upgradation as per the millennial taste to engage them further. Marketers in the field of travel and hospitality work a lot in on content management to attract these groups. Millennials follow their trusted brand and develop an emotional connection with that. So marketers should develop stories on their brands to get their attention. How it makes changes in everyday life of consumer that should be prominently visible through online reviews. Positive reviews work as a phenomenon and help the consumer to at least try the brand first time. The first time buyer converts to repeat customer over the time. More online reviews can be attracted from repeat buyers by giving some attractive incentives. These online positive reviews create good brand image and goodwill for the company. The social media platform like YouTube, Facebook, Twitter etc. play vital role to make the millennium consumers to access. Marketers should promote their brands using these social media to engage with this generation, building their trust, and to increase sales.

Refer Figure 1.2 for Millennial's feedback on Social Media.

Figure 1.2: Millennials' Attitudes to Feedback on Social Media



Source: https://www.marketingcharts.com/digital/social-media-106867

Marketers should respond positively both for negative and positive reviews and thank them. It motivates the customers to share more of their experiences with marketer through these reviews. Many times it has been observed many good innovative product ideas comes from consumer reviews i.e. Nike introduced its jeans from plastic waste, power saving electronic gadgets were introduced by Samsung. Companies introduced environmentally sustainable product as a new initiative as per Millennials new requirement. Non eatable items Pineapple leaves, banana tree trunks and sugar cane bark were used by Agraloop into raw materials for clothing; P&G'

introduced orange Tide laundry detergent ; Nestle promised 100% of its packaging recyclable by 2025.

Smartphone has considered as an active device for millennials. Nielsen confirmed that 98% of millennials in age group of 18-24 and 97% of millennials aged 25-34 own and use a smartphone regularly. They used smartphones for information, online service and for online purchase. So mobile marketing will be more effective to target this segment. Research done by Google confirms that 89% of people share their positive experience with friends and relatives through their mobile phones. So mobile applications are the easiest method to reach the millennials. This initiative not only increase customer base ,but also increase customer satisfaction.

The millennials can collaborate with the company to customize their own product.It creates new opportunities for product innovations for a better world as well as create competitive advantage for the company. Nestle's Maggi brand was banned in India in the year May ,2015 for MSG content. The issue landed the company nowhere from being the market leader having 78 percent market share. The company again repositioned its brand in June 2016 and reconquered 57% of the market share. The trust campaign by the company well appreciated by the public and they introduced many more new flavors as per the customized taste of the new generations.

The buying behavior of Indians also consists of five stages starting from information search to post purchase behavior as a result of more disposable income, urban life style, and nuclear family structure etc. The media exposure in the digital platform prompt the youth to try variety of information search on new product launch. Friends and families also influence their purchase decision making. The competitors made variety offers to attract the youth towards them. The career engagement of youth at a early stage gave rising incomes with a growing economy. Easy availability of credit and debt facility increased the millennials purchasing power that made India as world's fifth largest consumer market (McKinsey report,2016).The millennials differentiated need across product categories made the market more attractive for marketer.

The culture and social factor impact the millennial decision making. As per Indian culture on Diwali or Dassera when they purchase a new item for their house, it is considered as auspicious. So many durable companies introduced attractive offers to attract the customers. Even gold also considered as an attractive investment option, and people definitely purchase gold on Dhantaras as a symbol of their cultural rituals. The Indian marriage function is also not less than any festivals with lot of spending. In different cultures they celebrate the marriage for weeks and start shopping before one year. Many researcher considered the behavior of consumer as complex and not rational. They used have hedonic and utilitarian buying depending on situations and culture. These cultural compulsions made India different from the rest of the world and made Indian as an attractive market for multinationals.

Finally, we observed that millennials have considerable purchasing power and effort for a memorable experience as well. Marketers should take advantage from this situation and build their brand reputation in consumer minds.

Marketers should design, digital strategy as per low and high involvement product for better engagement of buyers.

1.8. Summary

- Marketing is the process of planning and executing the conception, pricing, promotion, and distribution of ideas, goods, and services to create exchanges that satisfy individual and organizational goals.
- Marketing has evolved through three stages: the production era, sales era, and marketing era. The marketing concept includes customer orientation, long-term profitability, and functional integration.
- Marketing has to be dynamic, in tune with the changing environment, and especially, with the advancement in technology. Companies and marketers need to make adjustments and responses to the changing scenario. Some of these may take the form of re-engineering, outsourcing by companies, customization, and target marketing by companies.
- Marketing is vital to the survival of any organization. All other functions like production, distribution, and consumption have to be in line with market forces.

1.9.Glossary

Competition: The rivalry among sellers trying to increase sales, profits, or market share while addressing the same set of customers.

Competitive advantage: In the context of international business, the ability of a nation's industries to innovate and upgrade to the next level of technology and productivity.

Culture: The beliefs, values, and objects shared by a group and passed on to succeeding generations.

Customer orientation: A management philosophy in which the customer is central to everything the company does.

Customer service: Actions companies can take to add value to basic goods and services.

Data: The statistics, facts, and opinions that market researchers record and store.

Database: A computerized system that stores and retrieves a variety of data.

Distribution: The process of moving products from the producer to the consumer, which may involve several steps and the participation of multiple companies.

Exchange: The transfer between two or more parties of tangible or intangible items of value.

Goods: Tangible products that customers can evaluate by touching, seeing, tasting, or hearing.

Information: Data that are useful in a specific marketing situation to help marketers to make decisions.

Infrastructure: A nation's energy (gas and electric utilities), transportation, and communication systems.

Market: The customers and potential customers who want or need a product and who are willing and able to exchange something for it.

Market share: An organization's portion of the total sales in a given market, expressed as a percentage.

Marketing: The process of developing and exchanging ideas, goods, and services that satisfy customers, using the principles of pricing, promotion, and distribution.

Marketing communications: The specific use of communication applied to the problem of sending messages to a target market.

Marketing concept: The idea of maximizing long-term profitability while integrating marketing with other parts of the company and meeting customers needs and wants.

Marketing mix: The four key elements of marketing strategy: product, promotion, distribution, and price.

Marketing strategy: The overall plan for marketing a product that includes selecting and analyzing a target market and creating and maintaining a marketing mix.

Need: A felt discrepancy between your actual state and your desired state.

Perception: Reception and interpretation of sensory stimuli.

Price: The value, usually in monetary terms, that sellers ask for in exchange for the products they are offering.

Price elasticity of demand: The measure of price sensitivity, expressed as the ratio of percentage change in demand to percentage change in price.

Product: A good, service, or idea for which customers will exchange money or something else of value; a product is a bundle of features and benefits designed to meet needs of target customers.

Product development: A type of intense growth strategy that improves present products or develops new ones for the firm's current markets.

Promotion: A variety of techniques, including advertising, sales promotion, public relations, and personal selling, that are used to communicate with customers and potential customers.

Quality: A measure of how closely a product conforms to customers' needs, wants, and expectations.

Survey: A method of gathering data directly from consumers via a questionnaire.

Target market: The market you've selected as the focus of your marketing program; it covers the potential customers you think are most likely to need or want your product.

Technology: The result of applying scientific and engineering knowledge to practical problems.

Utility: The ability of a product to satisfy the customer's wants or needs.

1.10. Self-Assessment Test

1. Explain the various stages in the evolution of marketing.
2. What is the importance of marketing from the perspective of the airline industry?
3. Elucidate the difference between the marketing concept and the societal marketing concept.

1.11. Suggested Reading / Reference Material

1. Philip Kotler, Kevin Lane Keller, Alexander Chernev, Marketing Management, 16th edition Pearson 2021
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6. R Srinivasan. Case Studies in Marketing: The Indian Context. PHI Learning; 7th edition, 2018
7. Gupta Prachi, et al., Marketing Management: Indian Cases. Pearson Education; First edition, 2017
8. Warren J. Keegan. Global Marketing Management. Pearson Education; Eighth edition, 2017.

1.12. Answers to Check Your Progress Questions

Following are the answers to the Check Your Progress questions given in the Unit.

1. **(c) Marketing**

   As per the definition provided by the American Marketing Association, marketing is the process of planning and executing the conception, pricing, promotion and distribution of ideas, goods and services to create exchanges that satisfy individual and organizational goals.

2. **(d) Position utility**

   Marketers can provide four types of utility to target customers: form utility, time utility, place utility, and possession utility.

3. **(d) Issue of driving license**

   To get a driving license, an individual has to go to a specified place and complete all the requirements there. The other three options provide place utility. Place utility is obtained when a marketer provides the product at locations preferred by the customer.

4. **(a) Utility**

   Utility is the extent to which needs and wants are satisfied. The other options given are the different types of utility.

5. **(c) Introduce ATMs to ensure customer satisfaction**

   Marketers provide time utility to customers by placing their products when customers want them. An ATM enables customers to draw cash and view statements when they require them, without any restriction of time. Form utility is created when raw material is converted into a finished product. Place utility is provided when a marketer provides the product at locations preferred by the customer. Possession utility allows a buyer to use the product as he/she wishes. It is the value that a buyer obtains from the product.

6. **(a) Production era - Product era - Sales era - Marketing era**

   Over the years, businesses have gone through different stages of marketing that can be classified chronologically as production era, product era, sales era and marketing era.

7. **(d) Societal marketing Concept**

   The Societal Marketing Concept deals with the idea that firms should not only think in terms of profitability but also in terms of goodwill that can be earned from being a socially responsible company.

8. (b) Functional integration

In functional integration, all organizational activities should be well coordinated.

9. (d) Initiatives to maintain and improve societal well being

The Societal Marketing Concept is related to the idea that profitability cannot be the only objective of marketing. Marketers should also have social responsibility for the wellbeing of society at large.

10. (b) Marketing is more concerned with satisfying customer needs and wants, and selling is concerned with stimulating demand

Meeting social responsibility is associated with the societal marketing concept.

11. (c) A company has an ethical obligation towards society's long term welfare

According to the societal marketing concept, apart from determining needs, wants and interests of the target market and providing quality products, organizations must maintain and improve societal well being. It questions the adequacy of the company's marketing efforts towards addressing pressing environmental and economic problems like shortages of resources and increase in global population.

12. (b) E-Commerce

E-Commerce refers to the selling and delivering of products over the Internet.

13. (c) Outsourcing

Companies are realizing that they need to focus on activities in which they are strong and outsource the rest to other firms which have the competence. This helps organizations reduce costs, improve performance and utilize resources better. The other three options are part of marketer response to changing market dynamics.

Unit 2
Delivering Customer Values and Satisfaction

Structure

2.1. Introduction

In the earlier unit we have introduced the concept of marketing. We also discussed company, marketer responses and adjustments to technological advancements, and evolution of businesses through different phases of marketing. In this unit we will discuss how to deliver satisfaction and value to the customer.

Organizations need to adapt to the changing environment and understand the behavior of the customers. They should use technology to obtain information about the customers and they should also communicate the value of their offerings to the customers and ensure customer satisfaction. Customer satisfaction refers to the meeting of the expectations of the customer regarding a product or a service. However, a customer is concerned about the value he derives from the product or service, which is beyond mere satisfaction. Customer value refers to the benefits derived from a product in excess of the cost paid for its acquisition by the customer.

Attracting and retaining the customers is gaining importance in view of the increasing competition. Marketers use relationship marketing to retain customers which involves developing long-term association with the customers. The five approaches of increasing the bonding with the customers through relationship marketing are: basic marketing, reactive marketing, accountable marketing, and partnership marketing.

In this unit, we will first discuss the different factors influencing business performance. We shall then discuss the concept of customer satisfaction, concept of value, attracting and retaining customers, and measuring the customer profitability. We conclude the unit by discussing about relationship marketing.

2.2. Objectives

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

- Discuss the factors influencing business performance
- Explain the concept of customer satisfaction
- Discuss the concept of value
- Analyze the importance of attracting and retaining customers
- Explain the concept of customer profitability
- Assess the role of relationship marketing in building lasting relationships with customers

2.3. Business Components

It is essential to harmonize the internal and external environments of a business, for its long-term success. Arthur D. Little has identified four components of business that influence business performance: stakeholders, processes, resources, and organization.

Stakeholders

The shareholders, employees, suppliers, distributors, and customers of a business firm, constitute its stakeholders. To increase growth, the firm must cater to the needs of these stakeholders. It must fulfill the requirement of each group of stakeholders, to avoid conflicts among them. This is important as they collectively determine the success of any business.

Processes

The manner in which the flow of work occurs is called process. Each department has its own allocation of work, based on its functions. It is important that these departments work in coordination with each other so that the overall objectives of the organization are achieved. For this purpose, the work process in each department should be designed in a way to avoid conflict among the departments.

Resources

The convention in organizations was to have ownership of resources, such as electric power, buildings, and equipment. It was felt that better control would come with ownership. However, in the changing business environment, most organizations believe in having ownership of only those resources that are necessary for carrying out their core activities. The remaining resources are outsourced to reduce costs and specialize in core services.

Example: The Bharti Group, which owns the 'Airtel' brand, outsourced the management of its GSM cellular network in 3000 towns across India to Ericsson, a Swedish telecom company, in June 2005.

Organization

Organization culture reflects the values and attitudes of the employees. Sometimes, the culture is affected by the traits of the leader. The culture changes with a change in strategy of the organization. Organizational culture can be instilled in employees by involving them right from the beginning of a new initiative till the formulation and implementation of the same. It is essential for a company to adapt to the changes in the business environment, and mold its culture accordingly.

Example: Selling in Greece requires building a personal rapport with customers. In the US and Europe, product features gain precedence over relationships. In China, aggressive selling is not encouraged as the Chinese prefer a non-interfering attitude. In Latin America and East Asia, person to person contact is mandatory for every business transaction, and mediums, such as faxes take a back seat.

Check Your Progress-1

1. A company must identify the needs of its stake-holders and then develop strategies to satisfy them. Who among the following are considered stake-holders in a company?
   i. Customers
   ii. Shareholders
   iii. Employees
   iv. Competitors.

   a. i & ii
   b. i & iii
   c. i , ii & iii
   d. Only iv.

2. _______ refers to the combination of the values, norms, artifacts, and assumptions of the organization along with its people and their behavior.
   a. Organization policy
   b. Organizational structure
   c. Organizational culture
   d. Organizational change.

2.4. Customer Satisfaction

A customer has certain expectations when he uses a product or a service. Customer satisfaction refers to meeting these expectations. In case expectations are not met, it results in customer dissatisfaction. Exceeding expectations leads to customer delight. Delighted customers are going to be loyal customers, and help in increasing the business of the firm. Customer satisfaction may be benchmarked by investigating factors responsible for customer satisfaction, such as service response time and reliability, as well as professionalism, competence, and empathy of the service worker.

Customer satisfaction can be achieved by developing products that suit the needs of customers. Organizations should strive to provide new product offerings to customers, and improve their services to keep customers satisfied. They should continuously observe customer requirements, and modify their offerings accordingly. This would help them to achieve customer satisfaction on a continual basis.

Customer satisfaction can be measured by questionnaires and direct interviews. However, these methods cannot be considered as foolproof on account of various reasons. First, most surveys are long, complex and have a low response rate. Secondly, salesmen often manipulate surveys by including only satisfied customers in the survey or by offering discounts in return for a good rating.

Activity: Neibor Foods Ltd. (Neibor), a processed food company, wants to measure the level of customer satisfaction with regard to its packaged food products, such as pickles, cheese, and butter. Develop a questionnaire to help Neibor in assessing the customer satisfaction levels.

Answer:

Check Your Progress-2

3. Dr. Sharma purchased an X-ray machine for his clinic. A survey conducted a few months later revealed that Dr. Sharma was a satisfied customer. What can we conclude from the survey report?
   a. The quality of the X-ray machine was of global standards
   b. The actual performance of the X-ray machine matches with the expected performance

c. The actual performance of the X-ray machine is less than the expected performance
d. The actual performance of the X-ray machine is more than the expected performance.

2.5. Concept of Value

Value to a customer is the excess of benefits derived from a product or service, over and above the cost paid for its acquisition. The value increases with an increase in the benefits derived from the product/service. A high customer value results in loyal customers.

Example: To provide value to the rural segment in India, Electrolux modified the refrigerator. A water dispenser was placed on the refrigerator door to avoid opening the door many times. Another innovation was providing legs for the refrigerator, which removed the necessity of buying a stand.

Value Chain

Michael Porter proposed the value chain as a tool for identifying ways to create greater customer value. Each firm performs a set of activities like designing, producing, marketing, and delivering, which form a process. There is value addition at each level of the process. The set of activities from raw material procurement to after sales services can be termed as a value chain.

Activities can be divided into primary and support activities. Primary activities include manufacturing, shipping, warehousing, order processing, distribution, advertising, promotion, pricing, and after sales service. The support activities aid the primary activities and include procurement, hiring personnel, R&D, and infrastructure. There is a cost attached to each activity in a value chain, which is used to measure the performance of the firm. It includes a profit margin, over and above the costs so that there is a profit. Linkages among the activities should also be identified. A linkage exists when the performance or cost of one activity affects that of another and a competitive advantage may be realized by optimizing and coordinating these linked activities. Optimizing the value chain gives a competitive advantage to the company. Value chains differ for different organizations.

Activity: BPL India Ltd. (BPL) manufactures and sells a variety of consumer durables like refrigerators and washing machines. The company has departments to handle the procurement of raw materials, maintain the flow of production, keep track of market requirements, develop innovative products, and make improvisations in the existing product range. Identify the primary and support activities being carried out at BPL.

Answer:

Customer Value

The concept of customer value is as old as ancient trade practices. In early barter transactions, buyers carefully evaluated sellers' offerings; they agreed to do business only if the benefits (received products) relative to the cost (traded items) were perceived as a fair (or better) value. Thus, value is "the satisfaction of customer requirements at the lowest total cost of acquisition, ownership, and use."(Refer Exhibit 2.1)

Exhibit 2.1 Customer Value

ExxonMobil's Speedpass taps into the service dimension of saving time by creating strong relationships with users based on brand equity. A pre-programmed tiny Speedpass wand (small enough to fit on a keychain) is waved at gasoline pumps or retail cash registers to expedite transactions. Primarily used at gas stations, this radio frequency identification technology cuts about 30 seconds of precious time from typical 3½ minute service encounters.

Although this may not seem significant, in today's convenience seeking society, more than 5 million customers said it matters to them; management expects five times that number to sign on by 2006. Speedpass drivers average one additional visit per month to Mobil stations and spend about 3% more than other customers. Because Speedpass is easier to use than credit or debit cards, ExxonMobil hopes that its very loyal users will use it to buy a variety of goods and services in the near future. Speedpass is now accepted at 440 Chicagoland McDonald's restaurants and is being test-marketed at Stop and Shop Supermarkets. Drugstore chains video stores and other national partnerships are being explored. The ever-growing Speedpass database is likely to attract high-profile retailers. In turn, this expanded buying network will appeal to the next generation of Speedpass holders and thus customer value created for all participating parties.

Source: ICFAI Research Center

Importance of Customer Value

Great companies do not simply satisfy customers; they strive to delight and "wow" them. Superior customer value means continually creating business experiences that exceed customer expectations. Value is the strategic driver that global companies, as well as mom-and-pop small businesses, utilize to differentiate themselves from the pack in the minds of customers. How is it that Lexus can sell sport utility vehicles for $65,000 and Taco Bell can offer meal combinations for less than $4.00 and both are considered good values? Value is the answer—and value is defined by your customers. Companies that offer outstanding value turn buyers ("try-ers") into lifetime customers.

Providing Value-cost Balance

Firms attach many features to their products so that they generate varied benefits for their customers. These benefits add value to the products, attracting new customers and retaining the existing customers. However, firms need to keep the cost in mind while adding the product features. If this increases the cost of the product, then the value of the product compared to the competitors' products, may go down. Therefore, firms strive to reduce the product delivery cost and meet customers' expectations on a parallel basis.

Value Delivery System

Each firm has its own network for creating and delivering value. To minimize its cost structure, the firm tries to control indirect costs arising out of the value chains of its suppliers and distributors. For this purpose, it builds a relationship with other members of its network, to provide maximum benefits to the customers at a competitive price.

For example, manufacturers of micro-wave ovens (oven) can provide more value to customers by integrating the oven with a barcode scanner and a microprocessor, to determine the heating characteristics for maintaining the quality of food. Information shared between the scanner and the microprocessor can be used to control the heat of the oven. Software required for this purpose can be developed through the joint efforts of food scientists and oven engineers, to ensure that customers obtain appropriate results while heating processed food in the oven.

Check Your Progress-2

4. Value chain identifies five primary strategic activities. Which one of the following is **not** a primary strategic activity in the value chain?
   a. Procurement
   b. Operations
   c. Marketing and sales
   d. Outbound logistics.
5. Firms usually develop partnerships with suppliers, transporters, distributors, etc., so that coordination is attained, which in turn enables firms to deliver maximum value to customers. What is this set of inter-related value delivery networks of interconnected firms called?
   a. Value chain
   b. Value delivery system
   c. Value web
   d. Value structure.

2.6. Attracting and Retaining Customers

With increasing competition, customers have become very selective, and sensitive to prices. While purchasing a particular product, they can choose from a variety of brands. In this environment, firms need to build a strong relationship with the customers. Attracting and retaining customers assumes importance. The firms also need to look into the cost of losing a customer, and building structural ties.

Attracting Customers

A firm needs to continuously expand its customer base to increase sales and revenues. For this purpose, it needs the requisite skills for generating leads, qualifying the leads, and converting them into accounts. Lead generation can be done through advertisements, mailers, telemarketing, and trade shows. Lead qualification is done by checking the financial status of the customer, through personal interaction. Finally, accounts are created by presentation and subsequent negotiations.

Cost of Losing a Customer

A customer will stay loyal to a company only if the product of that company continuously meets his expectations. If a customer is dissatisfied, it may result in negative communication about the company's product, to others. This will result in the loss of existing and potential customers. To reduce such customer attrition, the retention rate must be defined and measured. The company should recognize the causes of attrition and calculate the amount of lost revenues. They should also estimate whether the cost of retaining a customer is less than future profits or not. Finally, they should give priority to the opinions of the customers to avoid losing them.

Reliance Jio with its cost leadership strategies attained highest market share in Indian markets. In order to retain its customer base, Bharti Airtel kept on implementing different marketing strategies to improve its customer experience. Exhibit 2.2, depicts the same.

Exhibit 2.2: Airtel's Customer Retention Strategies

Chief marketing officer, Mr.Shashwat Sharma of Bharti Airtel says that customer obsession is the guiding principle of Airtel. The company has built a 5G ready network. As per Opensignal, an independent mobile analytics company, Airtel's mobile network offers the best video and gaming experience in India. To enhance this experience of gamers even further, the Company has started deploying the additional 355.4 MHz spectrum it acquired in March 2021 for a sum of Rs 18,699 cr.

Airtel leads the cellular industry in introducing a wide range of solutions to simplify and improve customer experience. Airtel Wi-Fi calling, Safe Pay

Contd. .....

and One Airtel plans, all these innovative plans are meant to solve customer pain points. Airtel's world-class digital platforms – Airtel Thanks, Wynk Music and Airtel Xstream brings to customers all the digital content and Airtel services they require. Airtel's strategies to acquire and retain customers are truly exemplary.

Source: Adapted from "Airtel's new brand campaign reinforces India's preference for network quality," www.brandequity.com, June 7, 2021.

Need for Retention

According to past researches, companies lose 10% of their customers every year. It was also found that customer profit rate increases over the life time of retained customers. Therefore, it is very important to retain customers. The benefits of retaining customers are as under:

Increased revenue: A long-term customer will spend more with an increase in his income and family size.

Decrease in cost of selling: A retained customer helps in keeping the selling cost down. It costs five times more to get a new customer than to retain an existing one. Further, a loyal customer will not bother about changes in prices and is also less reactive to competitors' ads.

Advertising: A retained customer will propagate the benefits of the company's products to potential customers. Therefore, he indirectly advertises for the company.

Cross selling possibilities: A retained customer can be a potential customer for other products of the company.

In light of the above, customer suggestions and complaints should be viewed on priority basis, and the information obtained should be utilized for retention of customers.

Activity: Arthur Abraham (Abraham), sales manager of Money Mart Ltd., a financial services company is faced with a problem of high customer attrition. His team does not realize the importance of retaining customers. Therefore, he asked his team to understand the importance of attracting and retaining customers. Do you side with the concerns of Abraham? Justify your stand.

Answer:

Structural ties: Some companies provide additional services like equipment or computer links to their customers, which helps them to manage some of their functions like inventory and payroll. For example, Asian Paints India Ltd. connected all their suppliers through a supply chain management solution that enabled them to undertake stock assessment at any point of time.

Designing a Customer Retention Program

To develop an effective customer retention (CR) program, organizations can follow this five-step process:

i). **Determine your current CR rate**: It is surprising how few companies know the percentage of customers that leave (the defection rate) or the percentage of customers that they are able to retain annually (the retention rate).

ii). **Analyze the defection problem:** Step two is a three-pronged attack. First, identify disloyal customers. Second, understand why they left and third strategies need to be developed to overcome non-loyal purchasing behavior of customer. An analysis of switching motives can also provide insight here.

iii) **Establish a new CR objective:** Customer retention objectives should be based on organizational capabilities (strengths, weaknesses, resources, etc.); customer and competitive analyses; and benchmarking with the industry/sector, comparable firms, and high performing units in your company.

iv) **Invest in a targeted CR plan to enhance customer loyalty**: Targeted retention planning means that organizations should segment customers by relevant dimensions such as geography, demographic and socioeconomic variables, and other criteria in order to understand customer profiles and purchasing patterns.

V) **Evaluate the success of the CR program**: As an iterative process, the final phase in designing a solid customer retention plan is to ensure that it is working. Careful scrutiny is required to assess the program's impact on keeping existing customers. CR strategies and tactics will be closely analyzed to determine the methods that worked best and those that had little or no impact on keeping customers.

Check Your Progress-3

1. Attracting customers is not adequate unless one knows the art of keeping them. Which of the following situations will **not** arise, in a situation where the company keeps losing customers?
   a. Increase in the goodwill of the company
   b. Negative opinion about the company and its products
   c. Customers will no longer buy the products of the company
   d. Increase in sales for the competitor.

2. Attracting and retaining customers is necessary to survive in a competitive environment. Which of the following statements on this issue is **incorrect**?
   a. Listening to customer queries helps retain them

b. The company must try to attract new customers instead of retaining customers
c. Word of mouth is the strongest medium of communication and this can help in attracting customers
d. A loyal set of customers keeps the 'cost of selling' down.

3. The marketing department of Marico Industries Ltd has been planning to exert further effort to retain customers. Which one of the following is **not** a direct benefit of customer retention?
   a. Increase in revenue
   b. Decrease in cost of selling
   c. Increase in share prices
   d. Increased possibility for cross-selling.

2.7. Customer Equity

Customers are the most important asset to an organization. Recent customer equity and relationship marketing emphases demonstrate that the value of a firm lies in the longterm value of its customers rather than its brands. Customer equity is the goal of Customer Relationship Management (CRM). Customer equity is the total of discounted lifetime values of all of the firm's customers. In simple terms, the more loyal a customer, the more is the customer equity. Customer lifetime value is affected by revenue and by the cost of customer acquisition, retention, and cross-selling. Firms like Microsoft, McDonalds, and Maruti Suzuki have very high customer equity and that is why they have an amazing and sustainable competitive advantage.

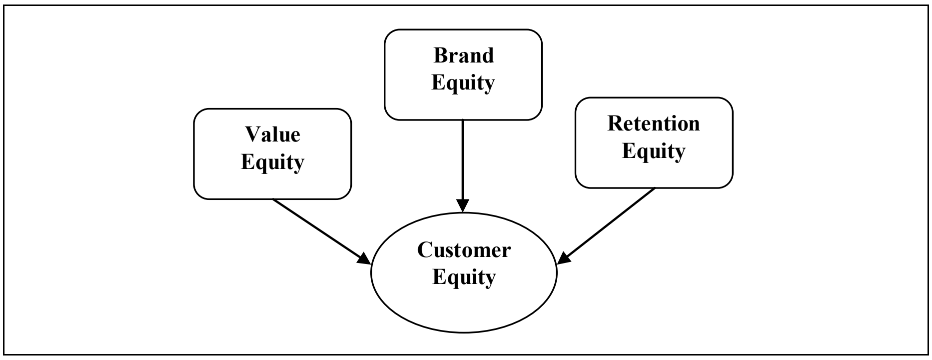
Customer equity is resultant of the following three factors (Figure 2.1):

Brand Equity: Brand equity measures how the customer feels about the firm. This includes brand awareness, brand recall and the emotional connect of a customer with the firm.

Value Equity: Value equity measures how the customer perceives the firm in terms of the product quality, price and convenience. This is parallel to the concept of "value for money".

Retention Equity: Retention equity measures the tendency of a customer to be loyal to the brand. This can be measured by the loyalty programs, its reputation etc.

Figure 2.1: Customer Equity



Source: ICFAI Research Center

2.8. Internal Marketing

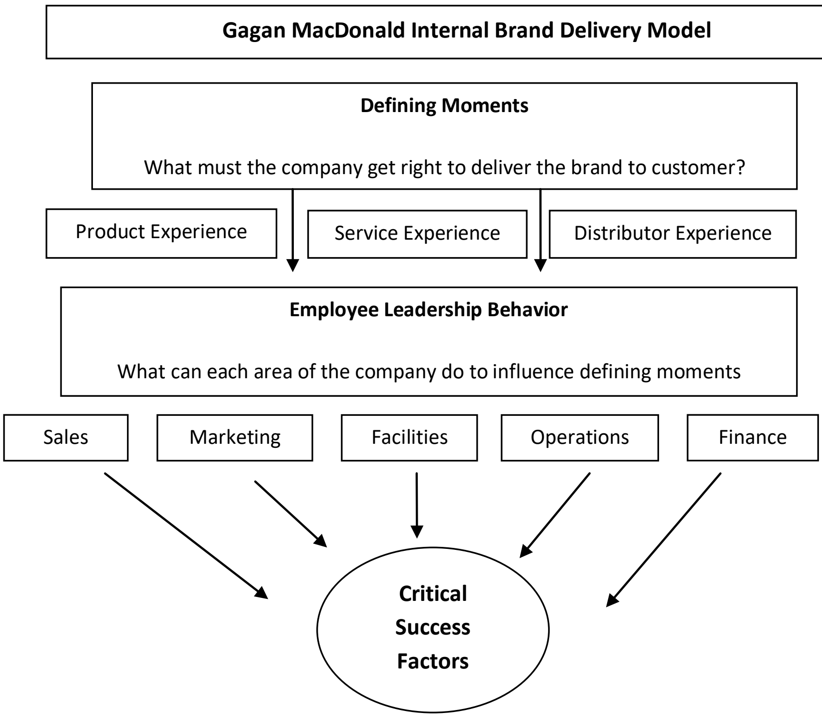
Internal marketing is inward facing marketing. Internal marketing is used by marketers to motivate all functions to satisfy customers. Employees are treated as internal marketers because they have become increasingly important for customer satisfaction. Essentially, it's your company marketing its products, services, and brand to its own employees. Where instead of "selling" to the public or potential consumers, your company instead sells to its employees. Marketers have to deliver what they promise hence employees of all departments must be aware of product promise.

Internal branding communicates the culture of the organization where employees become more customer and business focused. Internal branding not only incorporates employees but also influences channel members in brand building activities. Internal branding consists of activities and processes that help inform and inspire employees about company brand.

Gagen MacDonald is a consulting firm for internal branding and has developed a model for internal branding based on 'defining moments' of brand across stakeholders (Figure2.2). The model considers employees as the greatest brand ambassador and focuses more on brand execution. The model suggests the following guidelines for successful internal branding.

- Customer defining moments are critical.
- Equal time should be allocated for communicating brand in both ways: internal and external.
- Connect employees with the brand emotionally for better execution.
- Marketing department alone is not responsible for brand building. It is everybody's job and company-wide commitment is necessary.
- Everyone should understand the relationship between brand strategy and business strategy.

Figure 2.2: Internal Branding Model



Source: http://www.gagenmacdonald.com/communications/internal-branding/

2.9. Customer Profitability

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

To understand customer profitability, firms need to measure the profitability of individual customers. For this purpose, firms have to make a list of profitable customers and understand their company's level of dependence on these customers. They also have to identify the unprofitable customers and ascertain the amount of the company's resources being consumed by them.

Activity costing is usually used as a tool for finding out the profitable customers. Through this method, activities are first developed. Secondly, amount spent on each activity should be ascertained. Thirdly, the products, services, and customers have to be identified. Finally, the cost drivers connecting the activity costs to the organization's products, services, and customers need to be ascertained.

This analysis helps the company to take informed decisions and build customer relationship.

Check Your Progress-4

9. Activity Based Costing (ABC) helps organizations assess customer profitability. Kaplan and Cooper developed a system for activity based costing based on four steps. Arrange the steps in the correct order.
   i. Identify the organization's products, services and customers
   ii. Develop the activity dictionary
   iii. Determine how much the organization is spending on each activity
   iv. Select activity cost drivers that link activity cost to the organization's products, services and customers.

   a. i, ii, iii, iv
   b. i, iii, iv, ii
   c. iv, i, ii, iii
   d. ii, iii, i, iv.

2.10. Relationship Marketing

Relationship marketing refers to building a long-term association with customers, by understanding and catering to their needs and preferences. Relationship marketing is the key strategy to obtain the desired results of retaining more customers; getting better customers; upgrading customer relationships; and using existing customers as advocates for acquiring new customers. In relationship marketing, value is created in the relationships that companies have with their customers. Therefore, firms have to explore innovative methods of building a bond with the customers. In this context, there are five approaches:

Basic marketing: After selling the product, the customer is not contacted again. For example, generally after the sale of pulses and certain other grocery items, the customer is not contacted again.

Reactive marketing: Customer is encouraged to contact the company in the case of any problem. For example, if a consumer buys a durable like music system, he is requested to contact the company in the case of any fault.

Accountable marketing: Customer is contacted after s/he purchases the product/service, to know whether her/his expectations have been met by the product. For example, BSNL calls its customers after installing a fixed telephone line.

Proactive marketing: Customer is regularly contacted by the company with suggestions for product usage and improvement.

Partnership marketing: Companies work in tune with the customers for providing better services and improving business performance.

Relationship marketing aims at satisfying customers, to generate a loyal customer base. These customers are converted to clients by giving priority treatment. These clients become members of the company club, and are given special benefits. Subsequently, the members become advocates of the company’s product/service, propagating a positive image to potential customers. For example, the First Citizen Club of Shoppers’ Stop provides special benefits like additional discounts to the club members.

ITC Hotels, the hospitality company is very good at relationship marketing. For example Club ITC is one of India's most transparent, flexible and easy-to-use loyalty programs for over three decades. Pioneering in simple points earning and easy redemption, members of Club ITC gain access to a wide range of benefits which accelerate as they move up tiers, including free stays, room upgrades, dining experiences, spa therapies and more. ITC is voted for the best redemption ability and best customer service at the prestigious Freddie's Awards 2020 and the Best Loyalty Program at the 2019 Travel + Leisure Awards, Club ITC As a Club ITC member, gain access to a wide range of exclusive member benefits across 65+ hotels pan India with acknowledged award winning restaurants and rejuvenating wellness centers for memorable experiences and hassle-free redemption.

There are three approaches for building relations. First, offering financial benefits to customers. Secondly, providing social benefits by offering personalized services based on an understanding of individual customers’ preferences. Thirdly, establishing structural ties with the customer, in addition, to social and financial benefits.

Common reasons why companies’ CRM efforts fail:

i) **No focus:** companies are not sure what they want from their CRM program.

ii) **No change management policy**: CRM ultimately involves change: improving the relationship with the customer; altering the way the firm does business; and changing employee behaviors in the process.

iii) **No buy-in:** a huge barrier to CRM implementation is “cultural” in nature. Without involving and educating employees and supply chain partners, CRM is doomed to fail.

iv) **Business unit silos:** a lack of cross-functional planning between departments leads to difficulty in setting up CRM projects; cross-discipline teams need to be established that require the functions, particularly IT and sales, to work together.

v) **Complicated procedures:** CRM software will not magically automate already inefficient processes; companies should eliminate inefficient business processes before considering any new software solution. Poor training—technology often far outweighs the capabilities of the people using it.

Check Your Progress-5

10. 'It involves focus on transactions and building long-term, profitable customer relationships. The focus is on profitable customers, products and channels'; what is the term associated with above concept?
    a. Focus marketing
    b. Societal marketing
    c. Relationship marketing
    d. Basic marketing.
11. A company works continuously with the customer to discover ways of serving customers better and improving company performance. What is this type of marketing called?
    a. Reactive marketing
    b. Proactive marketing
    c. Partnership marketing
    d. Accountable marketing.

2.11. Summary

- Businesses need to achieve their long-term objectives. For this purpose, they need to satisfy some of their components, namely stakeholders, processes, resources, and organization.
- Customer satisfaction is derived when the product of the company meets the customers' expectations. Therefore, companies should develop the product keeping the customers' needs in mind. Customer satisfaction can be measured by questionnaires and direct interviews.
- Value to customers is the benefits obtained from the product, over and above its cost. The set of activities from procuring raw material to after sales service is known as the value chain.
- Firms need to maintain a balance between the benefits they provide to customers and the cost of the product.
- Firms can attract new customers by advertisements, mailers, and tradeshows.
- Customers would continue to use the product only if they are satisfied with it. To avoid customer attrition, firms can identify the causes of attrition, measure retention rate, and calculate the cost of retaining a customer. A retained customer increases revenues, decreases the cost of selling, induces crosses selling, and advertises the product to potential customers.
- Firms should measure individual customer profitability by identifying number of profitable and unprofitable customers, and the dependency of the

firm on the profitable customers. For this purpose, they can use activity based costing.

- Relationship marketing means building a long-term association with the customer. This can be done by using various approaches like financial benefits, personalized service, and structural ties.
- Companies successful at practicing relationship marketing look for opportunities to add value through their business relationships, offering new features, services, or customized offerings.

2.12. Glossary

Attitude: Learned tendency to respond to objects, people, ideas, or products in a particular way.

Discounts: Direct reductions from the list price.

Distributor: A general term usually applied in organizational markets to intermediaries that perform the equivalent functions of both wholesalers and retailers.

Household: All the people who occupy a housing unit.

Income: The consumer's financial gain from all sources, usually specified over some time interval.

Opportunity cost: The value of sacrifices customers are asked to make when choosing among available alternatives.

Order processing: The systems used to receive orders, route them to appropriate supplying functions, and then arrange customer billing.

Proactive marketing: A marketing style in which organizations take steps to change the marketing environment so that it will be more conducive to their needs.

Profit margin: The amount of profit left over after expenses have been accounted for, expressed as a percentage of revenue.

Reactive marketing: A marketing style in which the marketers view environmental forces as uncontrollable and tries to adjust to them.

Relationship marketing: A strategy to build long-term customer loyalty that is based on becoming partners with customers and doing everything possible to contribute to their success.

Tariff: A tax imposed by a government on goods entering its borders.

Telemarketing: A promotional method utilizing specially trained salespeople to systematically contact a group of prospects or customers by telephone.

Trade shows: Exhibitions that feature a specific industry's products and bring together buyers and sellers for a short period of time; many industries use trade shows as forums for technical, political, and other issues as well.

Values: Beliefs about what is good or desirable.

2.13. Self-Assessment Test

1. Write a short note on the concept of customer profitability.
2. Describe the different forms of marketing that can be used to build customer relationships.

2.14. Suggested Reading / Reference Material

1. Philip Kotler, Kevin Lane Keller, Alexander Chernev, Marketing Management, 16th edition Pearson 2021
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6. V S Ramaswamy and S. Namakumari. Marketing Management: Indian Context Global Perspective. Sage Publications India Pvt Ltd; Sixth edition, 2018
7. https://hbr.org/2018/03/marketers-need-to-stop-focusing-on-loyalty-and-start-thinking-about-relevance
8. Gupta Prachi, et al., Marketing Management: Indian Cases. Pearson Education; First edition, 2017
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2.15. Answers to Check Your Progress Questions

Following are the answers to the Check Your Progress questions given in the Unit.

1. **(c) i, ii & iii**

   The stakeholders in the company are shareholders, employees, suppliers, distributors and customers.

2. **(c) Organizational culture**

   Organizational culture refers to the value, norms, artifacts, assumptions, etc., of an organization, its employees and their behavior. The culture of an organization is reflected in its interiors, the way people greet each other, the way people work, etc.

3. (b) **The actual performance of the X-ray machine matches with the expected performance**

   When the product performance matches the expected performance, the customer is satisfied; when it falls short of expectations, he is dissatisfied. In cases where the performance exceeds expectations, the customer is highly satisfied or delighted.

4. (a) **Procurement**

   Primary activities in a value chain involve buying and bringing materials into the firm (inbound logistics), manufacturing product (operations), shipping goods (which includes warehousing, order processing, scheduling, distribution etc., i.e. outbound logistics), advertising, promotion, sales force management, pricing (marketing and sales), and providing services like installation, training, repair, etc., (service). Support activities assist primary activities and include procurement, hiring personnel, R&D etc.

5. (b) **Value delivery system**

   Apart from its own value chain, a firm tries to manipulate the value chain of its suppliers, distributors, etc., because optimization of the value chain of suppliers and distributors will result in the optimization of the firms cost structure. So, with the help of its value chain and value delivery networks the firm can offer the best possible package of benefits to meet customer expectations. Therefore, a value delivery system can be defined as a set of inter-related value delivery networks of interconnected firms.

6. (a) **Increase in the goodwill of the company**

   Customers who leave a firm are dissatisfied. Most dissatisfied customers tend to spread negative word-of-mouth publicity. This erodes the goodwill of a company.

7. (b) **The company must try to attract new customers instead of retaining customers**

   Alternative ‘b’ is incorrect because acquiring a new customer costs five times more than retaining an existing one.

8. (c) **Increase in share prices**

   The benefits from customer retention are increased revenue, decrease in costs of selling, advertising, and increase in cross-selling possibilities. Customer retention when resulting in customer satisfaction could increase the goodwill of the company and be an indirect factor for increase in share prices.

9. (d) **ii, iii, i, iv**

   Kaplan and Cooper developed a system for activity based costing which can be used to measure customer profitability. It consists of four steps:

developing the activity dictionary, determining how much the organization is spending on each activity, identifying the organization's products, services and customers, and selecting activity cost drivers that link activity costs to the organization's products, services and customers.

10. (c) Relationship marketing

Relationship marketing involves focus on transactions and building long-standing, gainful customer relationships. Here, the spotlight is on profitable customers, products and channels.

11. (c) Partnership marketing

In partnership marketing, companies work with customers to provide better service to them and improve the company's performance.

Unit 3

Marketing Environment

Structure

3.1. Introduction

In the last unit, we discussed about delivering satisfaction and value to the customers. We discussed the different strategies like relationship marketing to increase the bonding with the customer. In this unit, we will discuss about the different types of competitive structures and the various forces constituting the marketing environment of a firm.

The marketing environment in which a firm operates is affected by the level of competition. The common types of competitive structures are: monopoly, oligopoly, monopolistic competition and pure competition. To survive in the various competitive structures, firms need to monitor their competitors, customers and market trends and make necessary changes to their own market strategies.

The marketing environment of the firm consists of both internal and external environments. The internal factors are more company centric which includes workers, materials, owners and machines etc. The external environment can again be divided into micro and macro environments. The task or micro environment consists of external factors that are related to business. These factors help firm in producing, promoting and distributing the products or services. The micro environment consists of suppliers, marketing intermediaries, and customers. The macro or the broad environment consists of those societal factors which mostly affect the entire society. The macro environment consists of demographic, legal, political, technological, socio-cultural, economic, and natural environments

"A company's marketing environment consists of the actors and forces outside of marketing that affect marketing management ability to build and maintain successful relationships with target customers". – Philip Kotler

In this unit, we will first discuss about competitive forces and the different types of competitive structures. We shall then discuss the various environmental factors affecting the firm.

3.2. Objectives

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

- Explain the different types of competitive structures
- Discuss the importance of monitoring competition
- Analyze the different types of macro environmental factors affecting the firm

3.3. Competitive Forces

The marketing environment is affected by the level of competition. The structure of the market determines the level of competition in an industry.

Types of competitive structures

Monopoly: In this structure, the supply and the price of a product are completely controlled by one firm, and the product does not have any close substitutes. Due to the presence of one player in the industry, entry barriers can be created to prevent competition. For example, the railways in India are controlled by the Indian government.

Oligopoly: This structure includes a few players in the market, with controlled supply of products. The industry has high entry barriers. In this market, the decision taken by one firm influences and is also influenced by the decisions taken by other firms. For example, the cement industry in India is characterized by a few large players, and at times, they can form cartels to influence the prices.

Monopolistic competition: There are many firms in this structure, and the market share is divided among them. To increase their share, firms try to differentiate their product by using various components of the marketing mix. For example, marketers may attempt to differentiate their products from those of competitors, by showing differences in product quality, prices, features, and packaging. This is very evident in the fast moving consumer goods (FMCG) industry. In fact, companies like Procter & Gamble (P&G), Hindustan Lever Limited (HLL), and Colgate offer various flavors and colors of oral hygiene products to differentiate their products from those of competitors.

Pure competition: This structure is idealistic in nature, with a large number of buyers and sellers selling homogenous products. There are no entry barriers in this structure. The agricultural sector in India comes closest to this type of market. In the agricultural sector, there are many buyers/consumers and sellers/producers (farmers). The farmers sell the same produce to all the buyers at the prevailing market price. In fact, no single producer can influence the market prices. Furthermore, entry barrier does not exist.

Monitoring competition

Firms need to assess their competitors, customers, and market trends on a regular basis. Studying the competitor strategies will aid them in critically analyzing their own market strategies. Consequently, they will not only modify their current marketing strategy, but also formulate new ones that would give them a competitive advantage.

Activity: Asha Monalika (Monalika), a celebrity in India, wants to launch her own line of cosmetics, ranging from creams to shampoos. However, before finalizing her business decision, she wanted to analyze the competitiveness of the industry, by determining the structure of the market. What are the various types of competitive market structures? Identify the type of market structure that exists in the industry that she is planning to enter. Justify your answer.

Answer:

Check Your Progress-1

1. Which one of the following is **not** a characteristic of a monopoly?
   a. Presence of a single dominant firm
   b. The dominant firm controls the price of the product/ service
   c. The dominant firm controls the entire supply of product/ service
   d. Entry barrier is low.

2. In which of the following competitive structures does a firm try to capture the market by differentiating the product from the competitors?
   a. Monopoly
   b. Oligopoly
   c. Monopolistic competition
   d. Pure competition.

3. In which type of market structure does one firm completely control the supply of products that do not have a close substitute?
   a. Monopoly
   b. Monopolistic competition
   c. Oligopoly
   d. Pure competition.

3.4. Intellectual Property Rights (IPR)

Intellectual Property Rights (IPR) is rights granted to the works that are creations of mind. These works can be inventions, literary and artistic works, designs, symbols, names and images used in commerce, a suite of software, etc.

India has already signed Trade-Related Aspects of Intellectual Property Rights (TRIPS) agreement. TRIPS agreement lays down minimum standards for promotion and enforcement of intellectual property rights in member countries which are required to promote effective and adequate protection of intellectual rights with a view to reducing distortions of and impediments to international trade.

TRIPS agreement provides for norms and standards in respect of following areas of intellectual property.

- **Patents:** Patent is an exclusive right granted for an invention. Patent provides the patent owner with the right to decide how – or whether – the invention can be used by others. In exchange for this right, the patent owner makes technical information about the invention publicly available in the published patent document.

  The Patents Act 1970 has undergone three amendments – 1999, 2002 & 2005.

  For example, Tata Motors received 98 patents in 2020. These patents predominantly relate to the megatrend of CESS (connected, electrified, sustainable and safe) automobiles. Dell had 2,826 patents issued by the U.S. Patent and Trademark Office in 2020, ranking #12 in the world.

- **Copyrights:** Copyright is a legal right that creators have over their literary and artistic works. Works covered by copyright range from books, music, paintings, sculpture and films, to computer programs, databases, advertisements, maps and technical drawings.

  For example, Microsoft has filed a copyright case against a software company in New Delhi for indulging in software piracy and counterfeiting Microsoft products for permanent injunction and damages. The case is filed under violation of the Copyright Act 1957.

- **Trade Marks:** Trademark is a sign capable of distinguishing the goods or services of one enterprise from those of other enterprises. Trademarks date back to ancient times when craftsmen used to put their signature or ‘mark’ on their products. Trade Mark Act 1999 is amended in 2010.

- **Geographical Indication (GI):** Geographical indication (GI) is a name or sign used on certain products which corresponds to a specific geographical location or origin (e.g. a town, region, or country). The use of a GI may act as a certification that the product possesses certain qualities, is made according to traditional methods, or enjoys a certain reputation, due to its geographical origin. For example, Sivakasi Crackers & Madurai Idly of Tamilnadu and Tirupathi Laddu of Andhra Pradesh, India, have GI certification.

  The Geographical Indications of Goods (Registration & Protection) Act, 1999 has come into force with effect from 15th September 2003. Ministry of Commerce and Industry (Department for Promotion of Industry and Internal Trade) vide notification G.S.R. 528(E) dated 26th August, 2020 have amended the Geographical Indications of Goods (Registration and Protection) Rules, 2002.

- **Industrial Designs:** Industrial designs refer to creative activity which result in the ornamental or formal appearance of a product and design right. It refers to a novel or original design that is accorded to the proprietor of a validly registered design. The present Industrial Designs follow New Designs Act, 2000

- **Layout Designs of Integrated Circuits:** Layout-design of integrated circuit means a layout of transistors and other circuitry elements and includes lead wires connecting such elements and expressed in any manner in semiconductor integrated circuits. SICLD (Semiconductor Integrated Circuits Layout-Design) Act 2000 is applicable for IC Layout-Design IPR applications filed at the Registry in India.

- **Protection of Undisclosed information (Trade secrets):** Trade Secret or undisclosed information is any information that is intentionally treated as secret and is capable of commercial application with an economic interest. It protects information that confers a competitive advantage to those who possess such information, provided such information is not readily available with or discernible by the competitors. They include technical data, internal processes, methodologies, survey methods , a new invention for which a patent application has not yet been filed, list of customers, process of manufacture, techniques, formulae, drawings, training material, source code, etc. Trade Secrets can be used to protect valuable “know how" that gives an enterprise a competitive advantage over its competitors.

- **Plant varieties:** A plant variety is defined as a plant group within a single botanical taxon of the lowest rank. If a person discovers and develops a new plant variety, he is called a "breeder" and he can seek protection for his new plant varieties by applying for a Grant of Protection for a Plant Variety. The grant of protection can last for 25 years (as long as you pay an annual fee) and the plant variety is his personal property.

3.5. Laws Affecting Marketing/Promotion Decisions

The legal system in India greatly influences the marketing decision of any organization. The marketing manager must adjust and organize marketing mix to cope with the laws of the land. Few of the laws that affect marketing decisions are as follows.

- **Advertising Standard Council of India (ASCI):** ASCI is not a statutory body enacted under any law. It is the code for self-regulation in Advertising.
- The Consumer Protection Act, 2019 provides a simpler and quicker access to redress of consumer grievances.
- The Emblems and Names (Prevention of Improper Use) Act, 1950
- Trade and Merchandise Marks Act, 1999, in force from Sep 2003.
- Indecent Representation of Women (Prohibition) Act, Amendment bill 2012.
- Drugs and Cosmetics (Amendment) Rules 2020.
- Prevention of Food Adulteration Act, 1986/ Food Safety and Standards Act, 2006.

Components of Marketing Environment

The marketing environment consists of both internal and external environment of the firm. Internal environment factors can be controlled by the firm and can be evolve based on the evolution or dynamics taking place in the external environment. Whereas firm do not have much control on external environmental factors. However, both the internal as well as external environmental factors are important for the organization as well as industry as a whole. Any variations happening in the marketing environment may bring several threats and opportunities for the firm. It is important for the organization to analyze the situation and work according to changes for surviving in the market for the long run.

Internal Environment

The internal environmental factor of the firm consists of all the variables which are related within the organization that impacts the organizations day to day marketing operations. These variables can be gathered beneath the 5 Ms of the organization, they are:

- Men
- Money
- Machinery
- Materials

- Markets

The internal environment consist of all the department such as manufacturing department, marketing department, finance department, operation department, human resource department, etc which directly affect the organization day to day activities.

External Environment

The external environment comprises of several variables that are external to the firm. Marketers have less or nearly no control on these factors or variables. Further, external environment is divided in to two types:

Micro Environment

The micro environment also known as task environment consists of external factors and forces that have a direct impact on the business. The components of micro environment are: suppliers, market intermediaries, customers, partners, competitors and the public. All the factors of micro environment are discussed below:

Suppliers: consist of all the parties that provide various resources and raw material which are required by the business for producing product or services. They can easily impact the net profit of an organization as the cost of the raw material and other resources could finally determine the final price of the product or services. It is important for the marketers to analyze and monitor the suppliers consistently to know the if there is any shortage in supply of raw materials and also to keep an eyes if there is any change in the price of raw material. Nowadays, marketers consider their suppliers as their partners in generating and providing value to the consumers. It has been seen that in today's scenarios suppliers are playing an important role between consumers and marketers. They are providing all the valuable information about their marketers on their web portals. Also they are sharing significant response of the consumers towards their marketers as a feedback.

Market intermediaries: consist of all the parties who are involved in promoting, selling, and distributing products or service of the business in the market. They help the business in creating connection with the consumers.

Market intermediaries are:

a. **Resellers**: they purchase the end product from companies and sell directly to the consumers. Example: wholesalers and retailers.

b. Distribution Centers: helps in storing the products of the companies. Example: warehouse.

c. Marketing Agencies: helps in promoting the company's product by creating awareness about the benefits of the product to the consumers. Example: advertising agency.

d. Financial Intermediaries: helps in providing finance to organizations for doing transactions. Example: banks, credit organizations, and insurance organizations

Customers: includes target group who purchase the product of the company for final consumption. The main purpose of the organization is to create satisfaction within the consumers towards their organization. Several research and development activities are being carried out by the organization for understanding the needs of the consumers and developing the product based on their requirement. The organization undertakes the research and development activities to analyze the needs of customers and manufacture products according to those needs.

Competitors: are those players who operate in the same market and offer similar kinds of products or services to similar target consumers. Therefore, it is important for the marketers to analyze and keep a watch on their competitor's activities or strategies as they were also having similar intention of satisfying consumers. Competition helps an organization in differentiating their product from each other for maintaining and sustaining their position in the market. It also helps companies in gaining higher market share by implementing different marketing strategies and performing more effectively and efficiently in this current scenario of cut throat competition.

Public: are those bodies or a group that has a definite or probable interest in organizations activities or those who may impact the organizations capability in serving its consumers or in achieving its goals.

Philip Kotler had found 7 kinds of public which are involved and impacts organization's decisions they are:

i. **Financial Public** – Banks, Investment Agencies, Stockholders, Debenture holders etc. are included in this type.
ii. **Media public** – Newspaper, Magazine, reporters, editors etc.
iii. **Government Public** – Lawyers, Tax consultant, Government Personnel etc.
iv. **Citizen- Action public** – minority groups, social groups, RTI activists, other social activists etc.
v. **Local public** – Neighborhood residents, community organization etc.
vi. **General Public** – General public in the country
vii. **Internal Public** – Leaders, Board of Directors, Volunteers, Managers etc.

Every single class of public will have different agenda that needs to be treated in a different way.

3.6. Macro Economic Factors

Macro-economic factors affect all the companies in an industry. They tend to have an impact upon the companies, specifically, in the long-run. By proactively adapting to changes in the macroeconomic environment, companies can gain a competitive edge.

Demographic Environment

Demography is the study of population characteristics, such as size, density, and gender. Marketers study these variables to understand the changing needs of consumers. For example, in the wake of an increasing number of working women, brands for menswear like Scullers and Allen Solly have introduced women's formal wear.

Consumer Groups

Demographic variables help in understanding and differentiating various consumer groups. Marketers develop products to suit the needs of various consumer groups. For example, Cadbury's Delite is primarily targeted at school going children who have an aversion to warm milk in summer.

Age-wise Classification

Infants: With an increase in population and average disposable incomes of people, the expenditure on infants has increased. Therefore, infants constitute an important consumer group. Therefore, marketers have developed many products like bath accessories, bedding, and sterilizing equipment that are targeted at the parents of infants.

Children (school going-teens): This group has led to an increasing market for books, clothes, school bags, and stationery items.

Young adults (19-30 years): Marketers of products like vehicles, fast food, jewelry, and clothes target this group.

Adults: Products and services related to health and security like pharmaceuticals, nutrition foods, gym equipment, and banking attract this group.

Senior citizens: Marketers concentrate on providing spiritual tours, healthcare packages, old age homes, and special products like adult diapers and hearing aids.

Other demographic variables

Women: With women increasingly taking up work outside their homes, marketers have come up with products like ready to cook foods, range of cosmetics and garments, and footwear.

Singles: This group requires products that are convenient to use like ready to cook noodles and canned juices, and leisure products like entertainment and travel.

Occupation and Literacy: This variable reflects the awareness of the customers who prefer to analyze all options before taking an informed decision.

Location: Geographical location also influences the demand for certain products. For example, the drink from Coke called 'Coolers', which consists of the juice of fruits like green mango and water melon, is more suited to heat intensive areas like Rajasthan and Chennai rather than Simla.

Cultural diversity: With globalization, people from different cultural backgrounds have settled in different cities. Marketers target customers keeping their different needs, tastes, and consumption habits in mind. For example, Tamil movies are played at theatres in Singapore, UK, and Japan where there is considerable Tamil population.

Activity: XYZ & Co., a shoe manufacturer wants to enter the African market. Accordingly, it wants to develop new products exclusively for that market. The managing director of the company wants the products to be based on the demographic variables. Discuss the demographic variables that the company should consider, before developing a product, to ensure its success in the African market.

Answer:

Political Environment

Government policies determine the trade relationship between various countries. They also influence the business decisions and marketing strategies of a firm. These factors are beyond the control of firms so they adapt to the changing policies of governments, in the different countries they operate in.

Domestic Politics

Organizations help political parties by funding elections, providing financial support to candidates, and running political advertisements. Considering the strong nexus between politicians and marketers, marketers are in a position to lobby for or against proposed laws by governments, depending upon the impact on their industry.

International Politics

MNCs influence foreign governments through their domestic governments. Trade alliances between countries increase the opportunities for marketers. Political unrest affects the strategies of marketers as they need to revamp their plans in the light of such happenings.

Economic Environment

The economic environment of a country is reflected by its Gross Domestic Product[2] (GDP). The GDP varies significantly between rich and poor countries due to factors like population growth. GDP is also sometimes the indicator of the standard of living in a country.

The concept of purchasing power parity (PPP) is helpful in comparing the incomes of different nations. As goods and services are priced differently in different nations, PPP is used to measure the buying power of the currency of a particular country, in terms of a standard international measure (generally, US

[2] It is the total monetary value of all the goods and services produced in a country during a specified period (usually, one year).

dollars). The PPP rate, therefore, helps in comparing the buying power of two countries. The higher the PPP of a country, the more buying power it enjoys.

General Economy

Economic conditions affect both companies and customers. During economic recession, companies suffer lack of sales or no sales. On the other hand, economic growth signifies an increase in revenues for companies. These fluctuations can be termed as business cycle.

Business Cycle

Business cycle has four stages:

Recovery: At this stage, an economy moves from recession or depression to growth. Employment and wage levels slowly increase, and customers have a positive attitude towards the economy. Marketers should adopt a cautious approach at this stage.

Growth: This signifies growth of the economy. Income and employment are high, with low interest and inflation rates. Customers perceive that the economy is growing, and do not anticipate any economic problems in the near future. Therefore, customers spend more to fulfill their needs. Consequently, marketers tend to expand production and distribution. They also charge higher prices for products at this stage, and incur huge expenditure to promote products to increase their revenues.

Recession: Customers are not willing to spend during this period, due to an uncertain economic future. Prices of products come down, and companies try to reduce cost by downsizing the employee base. Marketers need to concentrate on market research at this stage, to understand the customer and implement innovative promotional strategies to attract customers.

Depression: Severe recession can be termed as depression. This stage is characterized by low wages and low employment. Customers have a pessimistic view of the economy. During this stage, the government uses fiscal policy to induce fresh investments and regulate the supply of money, with a view to improve the economy of the nation.

Buying Power

The financial resources and the state of the economy determine the buying power of customers. Furthermore, the state of the economy depends upon the business cycle. The financial resources of customers primarily consist of 1) Income - This includes wages, rent, interest, and dividends Income may be disposable income (after tax) and discretionary income (after buying essential goods). Marketers need to assess the income levels of customers to plan their strategies; 2) Credit - This is given to customers by stores, banks, and other organizations. The extent of credit given depends upon the disposable income, interest, size of installments, and other factors. Marketers use credit as a tool to attract customers by giving them easy finance options which can be repaid through equated monthly installments (EMI). For example, automobile retailers have tied up with banks to offer car loans to customers at discounted rates; 3) Wealth – It is the accumulated money of customer groups, be it individuals or organizations. It includes inheritance, gifts, shares, property, and jewelry.

Willingness to Spend

This depends upon economic conditions and the buying power of the customer. Customers would be willing to spend more in the case of higher disposable incomes and sustained economic growth. A change in the price of rival products also affects customers' decision to spend on a particular company's product. Marketers should analyze customers' willingness to spend on their product.

Socio Cultural Forces

This refers to the lifestyles, values, and beliefs of the customers. These affect the plans of the marketers as they can pose both an opportunity and a threat to them. For example, the increase in the numbers of working women has led to the business opportunity of establishing day care centers. On the other hand, increased patronage towards super markets by customers, affects the business of the local kirana shops.

Technology

Technology refers to the use of tools to conduct tasks, effectively. Marketers should regularly apprise themselves about the latest technologies in the country.

Impact of Technology

Technology affects the elements of the marketing mix.

Product: Technology plays an important role in improving product design, and reduces the manufacturing cost.

Price: With a reduction in production cost due to the use of technology, prices of products have come down. For example, when mobile phone services were introduced, they were priced at around Rs 16 per minute. However, with use of better technology by cellular operators, the operation cost has come down. Therefore, call rates have decreased.

Promotion: The advancement in technology has opened up a number of communication channels for marketers. Today, marketers can use a variety of media like the Internet, satellite T.V., and mobile phones to communicate their message to the consumers. Furthermore, these technologies help in transmitting data quickly, giving a strategic advantage to the companies.

Advertising: Technology has revolutionized the way marketers advertise their products. Most companies depend upon advertising agencies that are able to develop creative ads in a short span of time with technological tools. These agencies use media like, print, television, radio, and entertainment to display the advertisements.

Distribution: The technological advancement in the transportation industry has helped in bringing markets closer. Companies are able to transport their goods to retailers and wholesalers faster, and in a cost effective manner. In 2020, San Diego Association of Governments (SANDAG) built an integrated platform called "Next OS" that will serve as "the brain of the entire transportation system." Next OS—central to achieving system wide optimization—will turn integrated data into insights that planners can use to better manage transportation systems and the movement of people and goods. In its fully-realized state, this platform will help to create a "mobility marketplace," nudging behaviors and creating a better real-time balance between supply and demand.

Activity: The research department of SRM Phones Ltd. has discovered a cost effective method of using technology to produce telephone instruments. What are the other benefits that the company can leverage by efficient use of technology in its business practices? Justify your answer.

Answer:

Natural Environment

The ecological balance has been disturbed by the rapid industrialization, higher consumption of fossil fuels, increasing consumerism, and rapid urbanization. This has resulted in ozone layer depletion, global warming, and other problems. The components of the natural environment are:

Resources: Companies use natural resources for the production of goods and services. However, these resources are not unlimited and have to be used judiciously.

Weather: Demand for products also depends upon the climatic conditions. For example, demand for woolen wear would be higher in north India because of long and severe winters, in comparison to south India.

Pollution: With industrialization, the presence of polluted elements has increased in the environment. To safeguard against environmental pollution, companies have created eco-friendly products like recycled paper and jute bags.

Governmental intervention: National governments follow different policies on the environment. Indian government banned the sale of shahtoosh products (sourced from Chiru, an endangered antelope species found in Tibet), across India, except in Jammu and Kashmir to save the species from extinction.

Legal Environment

Marketing activities in any country have to work within the realms of the laws of that country.. Therefore, marketers should have complete knowledge of the rules and regulations governing the industry, they are operating in. Exhibit 3.1, depicts how legal framework of a country influences a business In India, some of the regulatory agencies/acts are as under:

Exhibit 3.1: New Rules for OTT Platforms: Regulation or restriction?

The Information Technology (Intermediary Guidelines and Digital Media Ethics Code) Rules, 2021 is secondary or subordinate legislation that suppresses India's Intermediary Guidelines Rules 2011. In February 2021, this legislation issued new guidelines on digital media ethics to digital media and over the top (OTT) platforms. The I T Rules 2021 calls for setting up a three-tier grievance redressal mechanism by OTT players. The mechanism consists of an inter-ministerial committee comprising of Central government secretaries at the top. The first tier comprises of a grievance officer by OTT itself through a grievance officer, the second tier consists of institutional self-regulatory body and publishers of content and their associations, and at tier three there is an inter-department committee constituted by the Ministry of Information and Broadcast (MIB. IT Rules 2021, outlined guidelines for classification of content based on viewer's age, target audience , themes, content, tone and impact. These rules are meant to make sure that OTT platforms give due consideration to sovereignty and security of India.

While the intent of the rules is to empower users to make informed choices and curtail the problematic content, OTT players in India see them as speed breakers in the fast paced Indian OTT markets.

Source: https://www.financialexpress.com/opinion/new-rules-for-ott-platforms-regulation-or-restriction/2207205/

Consumer protection act

This Act governs all the states in India, except Jammu and Kashmir, to protect the interests of consumers. According to this act, a consumer can ask for legal assistance in case traders follow unfair trade practices, sell goods having more than one defect, charge higher prices than the fixed price, and sell goods that are harmful to health.

State regulatory agencies

State governments set up regulatory agencies that enforce laws with a view to regulate the trade practices within a state. These laws pertain to production, promotion, and sale of goods and services. These laws, therefore, regulate the activities of marketers within the state. Furthermore, these laws do not conflict with the Central government laws.

Non-government regulatory agencies

Trade associations have their own regulatory bodies that define ethical codes. They influence the marketers in a particular industry. For example, the Foreign Exchange Dealers' Association in India is a self-regulatory body, which was formed in 1958 as an association by banks that deal in foreign exchange.

Check Your Progress-2

4. Identify the statement that does **not** hold good for macro environmental forces.
   a. They influence the marketing abilities of the firm
   b. These forces have an immediate and direct effect on a company
   c. They affect all players in the industry
   d. These forces are complex in nature and interdependent.
5. The income left to consumers after tax is called _________.
   a. Disposable income
   b. Discretionary income
   c. Credit
   d. Savings.
6. Which of the following is **not** a significant characteristic of the growth stage of the business cycle?
   a. Employment rate is high
   b. Inflation rate is low
   c. Interest rates are high
   d. Income is high.
7. Which of the following is a branch of sociology that deals with the study of the characteristics of human population such as size, growth, density, distribution, gender and marital status?
   a. Psychographics
   b. Socio-cultural environment
   c. Demographics
   d. None of the above.

8. A business cycle consists of fours stages depending on a country's economic activities. Identify the correct sequence of steps in a business cycle.
   a. Growth - Depression - Recession - Recovery
   b. Growth - Recession - Depression - Recovery
   c. Depression – Recession - Growth - Recovery
   d. Recovery - Depression - Growth – Recession.
9. Which of the following statements brings out the salient difference between recession and depression?
   a. A state of intense recession is known as depression
   b. During recession the demand for the product increases whereas during depression demand decreases
   c. During recession unemployment increases whereas during depression jobs are slashed
   d. A state of intense depression is known as recession.
10. Which of the following statements are definitely **false** in the case of recession?
   a. Unemployment increases
   b. Interest rates increase
   c. Demand for products increases
   d. Price of commodities decreases.
11. In recent years there has been a considerable increase in the number of working women in India. Consequently, ITC Ltd launched a new range of ready-to-eat foodstuffs like 'chapatis' and curries. Which factor led to this decision by ITC?
   a. Economic factor
   b. Socio-cultural factor
   c. Demographic factor
   d. Technological factor.
12. The macro environmental forces include the political, economic, socio-cultural, legal, demographic, technological and natural environment. Which of the following is **not** a socio-cultural force?
   a. Lifestyles
   b. Values
   c. Beliefs
   d. Gender.

3.7. Indian Business Environment and MNCs in India

The liberalization policy of 1991 opened the gates for foreign companies to invest in certain areas of the Indian industrial sector. This led to many MNCs entering the Indian market. MNCs primarily entered India either through alliances with Indian companies or through their wholly owned subsidiaries. The MNCs invested their resources and set up manufacturing facilities in India. As a result, they generated employment opportunities in India. For example, Hyundai has set up its manufacturing plant near Chennai. As MNCs bring with them the latest technology (e.g. in the production process), they also help in developing and enhancing the skill set of people in the host country.

Check Your Progress-3

13. Identify the government policy that paved the way for the entry of MNCs into India.
    a. Removal of the MRTP Act
    b. Setting up state regulatory agencies
    c. Consumer protection act
    d. Liberalization of the economy.

3.8. Summary

- Four types of market structures determine the level of competition: monopoly, oligopoly, monopolistic competition, and pure competition. Marketers have to monitor competition by studying customer and market trends on a continuous basis.
- The demographic environment consists of consumer groups that can be divided on the basis of age (infants, children, adults, and senior citizens), sex, marital status, occupation and literacy, and location.
- The political environment includes domestic politics and international politics. Marketers try to influence political leaders and governments with a view to create a favorable trade environment for their businesses.
- The economic environment depends upon the general economy, which is governed by the business cycle. The stages in the business cycle influence the strategies of marketers. Furthermore, the buying power of the customer also affects marketing plans. This depends upon the customer's income and wealth, and credit availability. Finally, the customer's willingness to buy a product has to be observed by the marketers.
- The values, beliefs, and lifestyles of the customer have to be taken into account by any firm, for its marketing activities. Technological

advancement has improved all aspects of the marketing mix (product, price, promotion, and distribution), which has resulted in the saving of time and resources.

- The natural environment has to be taken into account for marketing products. This includes natural resources, climate, pollution, and government intervention. Marketers should abide by the laws and regulations of the countries they operate in.
- With liberalization, MNCs entered India and helped in the growth of the economy by increasing employment and providing other benefits.

3.9. Glossary

Business cycle: A predictable economic fluctuation that gives rise to four stages: prosperity, recession, depression, and recovery.

Buying power: The consumer's ability to purchase products.

Consumerism: A social, economic, and political movement that seeks to protect the safety and rights of consumers.

Dealer: Basically the same type of intermediary as a distributor, although some people distinguish dealers as those intermediaries that sell only to final customers not to other intermediaries.

Depression: A more intense from of recession in which unemployment peaks, buying power drops dramatically, and consumers lose faith in the economy.

Discretionary income: The portion of disposable income the consumer retains after paying for food, shelter, and other necessities.

Disposable income: Income the consumer retains after paying taxes.

Export: To sell goods and raw materials to another country.

Gross domestic product (GDP): A measure of the purely domestic output of a country.

Market price: The actual price at which a product sells (to consumers and organizational customers other than resellers); equal to list price minus discounts and allowances.

Marketing environment: The general atmosphere in which marketers operate and are influenced by such external elements as competitors, economics, nature, politics, regulations, technology, and society.

Marketing intermediaries: People or organizations that assists in the flow of products in a marketing channel.

Marketing plan: A formal document that details your objectives, your situation analysis, your marketing strategy, and the elements of your marketing mix.

Message: An idea that has been encoded and is capable of being transmitted.

Monopolistic competition: A competitive structure in which many marketers compete to sell similar products and in which marketing strategies typically emphasize product differentiation.

Monopoly: A competitive structure in which one marketer controls the supply of a product that has no direct substitutes.

Oligopoly: A competitive structure in which a small number of competitors control the market.

Population: The universe of people, places, or things to be investigated in a specific research study.

Pure competition: The ideal competitive structure in which many marketers compete to sell the same undifferentiated product.

Recession: The stage of the business cycle in which unemployment rises and consumer buying power drops.

Recovery: The stage of the business cycle in which the economy moves from depression or recession towards prosperity.

Retailers: Intermediaries that sell to final customers; they purchase goods from wholesalers, or in some cases, directly from producers.

Sociocultural forces: Characteristics of culture and society that influence consumer behavior.

Wholesalers: Intermediaries that perform a variety of marketing channel functions to move goods and services through the channel to retailers and organizational customers.

3.10. Self -Assessment Test

1. Discuss the impact of business cycle changes on the marketing activities of a firm.
2. How does the natural and legal environment of a country impact the marketing environment of an organization?

3.11. Suggested Reading / Reference Material

1. Philip Kotler, Kevin Lane Keller, Alexander Chernev, Marketing Management, 16th edition Pearson 2021

2. Roger Kevin, Steven Hartley, Marketing: The Core, 9th edition McGraw-Hill 2021

3. Callie Daum. Marketing Management Essentials You Always Wanted To Know. Vibrant Publishers; Second edition (1 January 2020)

4. Saxena, Rajan. Marketing management. McGraw-Hill Publishing Co Ltd, 2020.

5.. V S Ramaswamy and S. Namakumari. Marketing Management: Indian Context Global Perspective. Sage Publications India Pvt Ltd; Sixth edition, 2018

6. Gupta Prachi, et al., Marketing Management: Indian Cases. Pearson Education; First edition, 2017

7. Warren J. Keegan. Global Marketing Management. Pearson Education; Eighth edition, 2017.

8. R Srinivasan. Case Studies in Marketing: The Indian Context. PHI Learning; 7th edition, 2018

3.12. Answers to Check Your Progress Questions

Following are the answers to the Check Your Progress questions given in the Unit.

1. (d) Entry barrier is low

It is usually impossible to enter a monopolistic market as the cost of entry may be quite high.

2. (c) Monopolistic competition

In this structure, many firms compete with one another. Each firm has a relatively small market share. Marketers try to differentiate their offer from competitors by varying the marketing mix to capture the market. They strive to make their products and services unique.

3. (a) Monopoly

Common competitive structures are: monopoly, oligopoly, monopolistic competition and pure competition. Monopoly is a structure where one firm completely controls the supply of a product with no close substitute. In monopolistic competition, many firms compete with one another. Each firm has a relatively small market share. In the oligopoly structure, a few sellers control the major supply of the product. In pure competition, no single player can influence the supply or price of a product.

4. (b) These forces have an immediate and direct effect on a company

Macro environmental forces do not affect the operations of a company or its relationship with its customers and suppliers, directly and immediately. However, they affect the company in the long run. They also affect all players in the industry. The player able to anticipate changes and adapt quickly will emerge the winner.

5. **(a) Disposable income**

   The income left to consumers after tax is called disposable income. The income left after purchasing basic needs is known as discretionary income. The customers' inclination to use credit depends on their disposable income. The money left after basic expenditure is savings.

6. **(c) Interest rates are high**

   In this stage of the business cycle, the employment rate is high; interest rates are low, inflation low and income high. Consequently, customers spend more to fulfill their needs and wants.

7. **(c) Demographics**

   Demographics is a branch of sociology that studies the characteristics of the human population like size, growth, density, distribution, gender and marital status. Marketers are keenly interested in studying the demography, ethnic mix, educational levels and standard of living of different cities, regions and nations because changes in these have a bearing on the way people live, spend their money and consume.

8. **(b) Growth – Recession – Depression - Recovery**

   Fluctuations in an economy generally follow a pattern of growth, recession, depression and recovery. This pattern is known as a business cycle.

9. **(a) A state of intense recession is known as depression**

   A state of intense recession is known as depression, where the rate of unemployment is very high, wages are very low, Gross National Product (GNP) drops and customers lack confidence in the economy. Demand for products decreases during depression as well as recession. Option 'c' does not clearly distinguish between the two.

10. **(c) Demand for products increases**

    During recession there is a decrease in demand for products. In this stage of the business cycle, jobs are slashed and consequently the willingness of people to spend decreases considerably. Customers' buying decisions depend more on price as they are apprehensive about future economic conditions.

11. **(b) Socio-Cultural factor**

    Due to lifestyle changes, a socio–cultural force, Indian women spend less time cooking. This encouraged companies like ITC to launch ready-to-eat foodstuffs.

12. (d) Gender

Socio-cultural forces are attitude, norms, beliefs, values and lifestyles of individuals in a society. Gender is part of demographics.

13. (d) Liberalization of the economy

Reforms in government policies like the removal of FERA and liberalization of economy have paved the way for the entry of MNCs into India. MNCs found the vast untapped Indian market lucrative as they could invest up to 51 per cent or more in their enterprise or Joint Ventures.

Unit 4

Marketing Budgets and Costs

Structure

4.1. Introduction

The previous unit discussed the different types of competitive structures and the various forces constituting the marketing environment of the firm. In this unit, we shall discuss the different issues related to marketing budgets and costs.

The marketing costs include both the product and customer costs. Marketing costs are incurred after the product is available for sale. Costs are allocated to the marketing activities by integrating product cost and customer cost. Analysis of the marketing costs is important as they determine the profitability of each product line of a company. Like the analysis of marketing costs, the analysis of customer profitability is important to retain profitable customers.

The financial situation of a firm can be analyzed by calculating the financial ratios like liquidity ratios, debt ratios, coverage ratios etc. for at least three years. Contribution analysis is also used to determine the profitability of products, customers, distribution and market segment.

Production is an activity which converts input into output. The efficiency of production activity can be measured by economies of scale, learning effect, and experience curve.

In this unit, we will discuss the marketing cost analysis and customer profitability analysis. We shall then move on to discuss the financial situation analysis of a firm and the contribution analysis. We shall conclude the unit by discussing the budgeting process for a sales force department and the different methods to measure the efficiency of a production activity.

4.2. Objectives

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

- Explain how marketing cost analysis helps in determining the product line profitability of a company
- List the various steps in customer profitability analysis
- Discuss the budgeting process for a sales force department
- Analyze the relationship between production and efficiency

4.3. Marketing Cost Analysis

According to surveys conducted by the Domestic Commerce Division in the US, marketing costs consist of product and customer costs. Product cost includes inventory handling and advertising, and customer cost includes personnel selling, billing, and order processing. Costs could be effectively allocated to the marketing activities, by integrating product cost and customer cost. These form a base for developing budgets and controlling marketing efforts.

Importance of Marketing Cost Analysis

Marketing costs are those which occur after the product is available for sale. Furthermore, analysis of marketing costs is essential as these costs determine the profitability of each product line of a company. Marketing costs also help to estimate the profitability of customers. Shifting of marketing efforts from unprofitable to profitable activities reduces marketing costs for the company. Awareness of profitability of marketing activities helps in increasing sales.

Example: Pramati Technologies, a Hyderabad-based company, offers tools and servers that implement J2EE (Java2 Platform, Enterprise Edition) standard. In a bid to lower its marketing and advertising costs, it tied up with around 120 big vendors to promote its product along with their offerings. This helped it to save costs and have greater visibility. As a result, it gained several customers in a short-period of time.

Steps in Marketing Cost Analysis

i. Dividing all costs into fixed (those costs that do not change with a change in the volume of sales), variable costs (that change with a change in the sales volume), and semi-variable costs (fixed in the short-term, but variable in the long-term).

ii. After the costs are classified, the appropriate functional cost category has to be allocated to them. This helps to identify the trouble areas in marketing costs.

iii. Marketing cost analysis should be undertaken at regular predetermined intervals as it helps a company to control its marketing expenditure.

Full Cost Versus Contribution Margin Approach

There are two methods of allocating marketing costs. In the full cost method, both direct and indirect expenses are deducted from the gross margin (sales minus cost of goods sold) to arrive at the net income. In the contribution margin method, only direct expenses are deducted from the gross margin to arrive at the net income.

The contribution method gives an exact picture of the contribution of each product and segment towards profit and indirect costs. Therefore, it helps to analyze the efficiency of marketing activities in different sectors.

Activity: Zentex (Pvt.) Ltd. is a fertilizer manufacturing and seeds processing company. The company has launched a new variety of hybrid seeds for cotton crop. Manik Chand (Chand), the marketing manager of the company was asked by its top management to prudently handle marketing efforts. Therefore, Chand decided to conduct marketing cost analysis. What is marketing cost analysis? Discuss the steps that Chand needs to take in conducting marketing cost analysis. **Answer:**

<u>Check Your Progress-1</u>

1. What is meant by the term 'Marketing Cost'?
   a. The cost incurred in planning the marketing process
   b. The cost incurred after products are manufactured
   c. The cost incurred after products are made available for sale
   d. The cost incurred in integrating the evaluation process of the customer and product profitability.

2. There are two methods used to allocate indirect expenses in marketing cost analysis. Identify the two methods.
   i. Full cost approach
   ii. Gross margin approach
   iii. Contribution margin approach
   iv. Sales approach.
   a. i & iii
   b. i & ii
   c. ii & iv
   d. iii & iv.
3. Marketing cost can be divided into two categories. What are they?
   a. Product costs and promotional costs
   b. Product costs and packaging costs
   c. Product costs and customer costs
   d. Customer costs and promotional costs.
4. Identify the correct sequence of steps in 'Marketing Cost Analysis'.
   i. Decide on the periodicity of marketing cost analysis
   ii. Assign various marketing costs to the different divisions of the business on which they are being spent
   iii. Divide various marketing costs into fixed, variable and semi-variable costs.
   a. iii, ii, i
   b. iii, i, ii
   c. ii, i, iii
   d. i, iii, ii.
5. In the contribution margin approach, net income is calculated by deducting direct expenses from gross margin. Which of the following alternatives is definitely **not** related to Contribution Margin Approach?
   a. It highlights the behavior of costs that cannot be controlled by the firm
   b. It pinpoints the contribution of each segment towards profits and indirect fixed costs
   c. It helps marketing managers to analyze the efficacy of marketing programs
   d. It helps management to analyze the profitability of a specific marketing mix in a specific market.

4.4. Customer Profitability Analysis

Companies need to manage their customers as well as their products. Customer profitability analysis is an important tool to retain profitable customers. It is carried out with the help of customer and operational data, using analytical techniques and software technology. Software technology, such as Customer Information System (CIS), contains database of behaviors and transactions of each customer. It is used to estimate customer profitability.

Example: Standard Chartered Bank needs to analyze a large mass of customer data collected by its online transaction processing systems. Therefore, the bank has adopted SAS customized CRM solutions, which have helped it to optimize customer profitability, and implement cost control measures amongst other benefits.

Steps in Customer Profitability Analysis

Customer profitability analysis involves four steps:

Step 1: The profitability of products and services can be measured by taking into account all costs that are incurred for them. Economic profit should be derived by deducting all costs like operating expenses.

Step 2: After the economic profitability has been estimated, marketers should study the customers' purchase pattern and determine the profitability of customers. For this purpose, companies should have a customer database.

Step 3: Customer costs should be deducted from customer profitability. Certain customers may delay payments, resulting in less profitability. Therefore, an analysis into customer behavior is essential to analyze customer profitability.

Step 4: Certain overhead costs like travel expenses of top management and capital expenditure on building of the headquarters should be included to arrive at customer profitability. This is because certain big customers may be accountable for these costs.

Activity: KY Systems Ltd. is a software developing firm located in Chennai. The firm has a strong customer base of around 150 clients from various sectors of business like banks, colleges, and departmental stores. Outline the steps that the marketing department of KY Systems Ltd. needs to carry out, to estimate customer profitability.

Answer:

Financial Situation Analysis

The financial situation of a firm can be gauged by a ratio analysis of a three–year period. This period will reflect the firm's position. These ratios are divided into five categories:

1. Liquidity ratios – These ratios determine the capacity of the firm to meet its short-term liabilities. Liquidity ratios include current ratio, quick ratio, average collection period, and inventory turnover ratio.
2. Debt ratios – They help in determining the long-term liquidity of the firm. These include debt-to-equity ratio and long-term capitalization.
3. Profitability ratios – The operational efficiency of the firm can be judged by these ratios, which are related to both assets and investment. These ratios include gross profit margin, net profit margin, return on equity, and asset turnover ratio.
4. Coverage ratios – These ratios refer to the capability of a firm to service its debts. These include interest coverage ratio and cash flow coverage of interest.
5. Market-value ratios – These ratios include price/earnings ratio and dividend yield.

Shri Steel Limited.

Balance Sheet as on 31st March, 20xx

Liabilities	**Rs. in Crores**	**Assets**	**Rs. in Crores**
Share Capital	1,974	Non-current Assets (Net Fixed Assets)	1,41,280
Reserves & Surplus	89,293		
		Current Assets:	
Long-term debt	44,455	Inventory	8,604
Short-term bank loan	18,458	Receivables	3,863
Current Liabilities	10,856	Cash & Bank	1,672
		Other current assets	9,617
	1,65,036		**1,65,036**

Contribution Analysis

It determines the profitability of products, customers, distribution, and market segment. Contribution margin is equal to sales minus the variable costs. It represents the money available for covering fixed costs. Sometimes, limited factor contribution margin is calculated, which includes per factor contribution. This analysis is a useful input for business strategies.

Check Your Progress-4

6. The failure to measure customer profitability can have an adverse effect on business. Which of the following helps marketers undertake customer profitability analysis?
   i. Customer and operational data
   ii. Market potential
   iii. Use of specialized analytical techniques
   iv. Advanced software technology.

   a. i & iii
   b. i & iv
   c. i, ii & iv
   d. i, iii & iv.
7. There are five major categories of ratios that help analyze the financial performance of a firm. Identify the alternative that is definitely **not** a financial ratio.
   a. Liquidity ratio
   b. Customer value ratio
   c. Market value ratio
   d. Profitability ratio.
8. The contribution margin represents the amount of money available for covering fixed costs. Choose the correct formula used to calculate the contribution margin.
   a. CM = Sales – Fixed Cost
   b. CM = Sales – Cost of goods sold
   c. CM = Sales – Variable Cost
   d. CM = Sales – Indirect Cost.

9. Managers need certain yardsticks to analyze the financial condition and performance of a company. What is the common term for such yardsticks?
   a. Liquidity ratio
   b. Debt ratio
   c. Profitability ratio
   d. Financial ratio.

4.5. Budgeting for the Sales Force Department

The sales budget includes various costs incurred by the sales personnel during the course of their operations. For this purpose, the sales manager has to analyze the spending patterns of salespersons. This can be figured by determining the expenditure per sales call and the number of sales calls per month. Furthermore, regular expenses like salaries and commissions, and contingency expenses should be taken into account. The manager should chalk out detailed plans and attempt to make the budget more realistic. Exhibit 4.1 given below delineates how sales automation can help organizations in reducing the cost of sales.

Exhibit 1: Sales Automation: The key to Boosting Revenue and Reducing Costs

Cross-functional research by the McKinsey Global Institute (MGI) indicates that approximately a third of sales and sales operations tasks can be easily automated with today's technology. And the company opines that through sales automation, companies can reduce cost of sales, by lessening time spent on administrative tasks and reporting. According to the research firm, 50% of the order management, 43% of pricing and quotation, 40% of post sales activities, 29% of sales strategy and planning, 25% of structural support, and 13% of lead identification and qualification are highly automatable. Sales is one of the most promising functions in terms of automation potential. McKinsey says that an advanced-industries company applied automation to streamlining its bid process and could drastically reduce the proposal time from three weeks to two hours. And it also proclaims that sales automation processes through ERP, resulted in higher customer satisfaction and a 5 percent uplift in revenue. Other examples of the benefits of automation include an overall cost reduction of 10 to 15 percent and a reduction of order processing time—from confirmed order until confirmed delivery—from two or three days to one or two hours.

Source: Adapted from "Sales Automation: The key to boosting revenue and reducing costs" By Manu Bangla, Gul Cruz, Isabel Huber, Philipp Landauer, and Varun Sunku, www.mckinsey.com , May 13, 2020

4.6. Production and Efficiency

The production process converts input into output. The production process involves three types of changes. Change in form refers to the change from raw material to the finished product, change in space means transportation of the material, and change in time refers to the storage of goods. Efficiency of the production process increases with time as the workers and the management gain experience.

Learning Effect and Experience Curve

Learning effect is a concept which was introduced in 1935. According to this concept, the time taken for producing goods decreases over time as the labor gains experience in producing that product. For example, a new typist may find it difficult to give error free documents while maintaining the time-limits. Over a period of time, as he/she gains experience in typing, error free documents are generated in minimum time.

The experience curve shows that with an increase in the number of units produced, the firm gains experience in the production process. This experience helps to reduce production costs, considerably. It helps the firms to achieve economies of scale.

Economies of Scale

This refers to decrease in the average cost with an increase in production numbers. This is because when production increases, the fixed cost spreads over a large number of units, bringing economies of scale. However, beyond a certain point the average cost starts increasing, causing diseconomies of scale. Economies of scale may be internal economies of scale or external economies of scale.

Example: Economies of scale are applicable to the electronics industry, among other industries. The cost of an ordinary pocket calculator cannot be brought below $50 if limited numbers like 200 pieces are produced at a time. However, as they are produced in large numbers, calculators can be produced at a very low cost. Due to economies of scale, pocket calculators are priced below $5 per piece.

Check Your Progress-5

10. _________ is a function that transforms input into output. Identify it.

   a. Contribution
   b. Budgeting
   c. Production
   d. Development.

11. Economy of scale refers to ___________
    a. A decrease in average cost incurred in production of goods in large numbers
    b. A decrease in fixed costs incurred in production of goods in large numbers
    c. An increase in variable costs incurred in production of goods in large numbers
    d. An increase in average costs incurred in production of goods in large numbers.
12. Which one of the following is **not** true about experience curve?
    a. As the firm makes more and more products, it gains experience
    b. Experience reduces production costs
    c. Experience curve helps the firm price its products lower than competitors
    d. When a product is in the maturity stage of its life cycle, the experience curve gives the greatest benefits to organizations.
13. Which of the following statements is definitely **false** about the 'Learning Effect'?
    a. Production time decreases due to the learning effect
    b. Learning effect is a function that reduces the number of labor hours needed to produce a unit of a product as the workers gain experience over a period of time
    c. Learning Effect was introduced in 1935
    d. As the firm manufactures more and more products, it gains experience in production methods over a period of time.
14. What does the term diseconomy of scale mean?
    a. A decrease in average cost incurred in the production of goods in large numbers
    b. After reaching a certain point, average cost starts decreasing at a faster rate with increasing production
    c. After reaching a certain point, average cost starts increasing with rising production
    d. An increase in average cost incurred in the production of goods in large numbers.

4.7. Summary

- Marketing cost analysis is very important for a company as it gives an idea about the profitability of each product. For this purpose, costs should be classified as fixed and variable, and then, assigned to various divisions. This analysis should be done on a periodic basis.
- Understanding customer profitability aids businesses. Customer profitability analysis involves four steps. They are: ascertaining economic profit, observing customers to determine their profitability, deducting customer specific costs, and deducting overheads costs.
- Ratio analysis helps to determine a firm's financial situation. Contribution analysis helps to determine profitability at the segment, customer, product, and distribution levels.
- Budgeting for sales force department includes spending patterns of sales persons, in addition to regular costs like salaries and commissions.
- Production transforms input into output. The learning effect signifies that the production time decreases over time with experience. The experience curve of a firm refers to efficiency in production methods over a span of time.

4.8. Glossary

Fixed costs: The portion of a company's production and marketing costs that remains constant regardless of the level of production.

Marketing cost analysis: Examining marketing costs, their sources, why they are incurred, their size, and their change over time.

Product line: A group of closely related product items.

Variable costs: The portion of a company's production and marketing costs that are dependent on the level of production.

4.9. Self -Assessment Test

1. How does contribution analysis help a firm in taking marketing decisions? Explain with an example.
2. Explain the concepts of learning effect, experience curve, and economies of scale in relation to production.

4.10. Suggested Reading/Reference Material

1. Philip Kotler, Kevin Lane Keller, Alexander Chernev, Marketing Management, 16th edition Pearson 2021
2. Roger Kevin, Steven Hartley, Marketing: The Core, 9th edition McGraw-Hill 2021
3. Callie Daum. Marketing Management Essentials You Always Wanted To Know. Vibrant Publishers; Second edition (1 January 2020)
4. https://www.mckinsey.com/business-functions/marketing-and-sales/our-insights/sales-automation-the-key-to-boosting-revenue-and-reducing-costs, May 2020
5. Saxena, Rajan. Marketing management. McGraw-Hill Publishing Co Ltd, 2019.
6. V S Ramaswamy. and S. Namakumari. Marketing Management: Indian Context Global Perspective.. Sage Publications India Pvt Ltd; Sixth edition, 2018
7. Gupta Prachi, et al., Marketing Management: Indian Cases. Pearson Education; First edition, 2017
8. Warren J. Keegan. Global Marketing Management. Pearson Education; Eighth edition, 2017.

4.11. Answers to Check Your Progress Questions

Following are the answers to the Check Your Progress questions given in the Unit.

1. (c) The cost incurred after products are made available for sale

Marketing costs are costs incurred after products are made available for sale. As marketing costs are not recorded in inventory costs, they often remain hidden.

2. (a) i & iii

The two methods used are full cost approach and contribution margin approach. In the former, net income is calculated by deducting direct and indirect expenses from gross margin. In the contribution margin approach, net income is calculated by deducting direct expenses from gross margin.

3. (c) Product costs and customer costs

Marketing costs can be divided into two categories: one closely associated with product costs and the other with customer costs.

4. **(a) iii, ii, i**

   The first step in marketing cost analysis is to divide various costs into fixed, variable and semi-variable costs. After classification of marketing costs, they can be assigned to different divisions of the business on which they are being spent. The final step is to decide on the periodicity of marketing cost analysis because periodical analysis helps a company check and control its marketing expenses.

5. **a) It highlights the behavior of costs that cannot be controlled by the firm**

   The contribution margin approach highlights the behavior of controllable costs and not costs that cannot be controlled by the firm. The approach highlights the contribution of each segment towards profits and indirect fixed costs. This technique helps marketing managers analyze the efficiency of marketing programs and profits accrued on different products, segments, distribution channels, types and number of customers and so on. The approach also helps the management to assess the profitability of a specific marketing mix in a specific area and also determine whether an action is required to change it.

6. **(d) i, iii & iv**

   Customer profitability analysis is carried out with the help of customer and operational data by using specialized analytical techniques and advanced software technology.

7. **(b) Customer value ratio**

   The five major categories of ratios are Liquidity Ratio, Debt Ratio, Profitability Ratio, Coverage Ratio and Market Value Ratio.

8. **(c) CM = Sales – Variable Cost**

   The contribution margin is equal to sales minus variable costs. It represents the amount of money available for covering fixed costs. Net income refers to the contribution margin minus fixed costs.

9. **(d) Financial ratio**

   Financial ratios are used to measure the financial condition of a firm. All the other options are categories of financial ratios.

10. (c) Production

Production is the process by which input/ raw material is converted into output/ finished goods.

11. (a) A decrease in average costs incurred in production of goods in large numbers

Economy of scale refers to decrease in average costs incurred in production of goods in large numbers.

12. (d) When a product is in the maturity stage of its life cycle, the experience curve gives the greatest benefits to organizations

Option 'd' is not true as the experience curve provides the greatest benefits to organizations when a product is in the early stage of its life cycle. This concept states that as the firm makes more and more products, it gains experience in production methods over a period of time. This experience reduces production costs. The experience curve coupled with economy of scale gives the firm the strategic advantage of pricing its products lower than that of its competitors.

13. (d) As the firm manufactures more and more products, it gains experience in production methods over a period of time

Option'd' describes the experience curve and not the learning effect. The experience curve states that as the firm makes more and more products, it gains experience in production methods over a period of time.

14. (c) After reaching a certain point, average cost starts increasing with rising production

Economy of scale refers to a decrease in average cost incurred in goods production in large numbers. However, after reaching a point, average cost starts increasing. When average cost increases with a rise in production volume, it is called diseconomy of scale. Organizations should always avoid the condition of diseconomy of scale.

Unit 5

Understanding Consumer Buying Behavior

Structure

5.1. Introduction

In the previous unit, we discussed about marketing budgets and costs. We also discussed the importance of analyzing marketing costs and customer profitability. In this unit, we introduce you to the concept of consumer buying behavior and various issues related to it.

Customers take decisions regarding consumption of various goods and services based on the resources available with them. The purchase decisions made by customers reflect their buying behavior. Several factors like cultural, social, personal, and psychological affect the consumer buying behavior. The buying decision involves selecting one option from the given set of alternatives. While taking buying decision individuals play different roles like initiator, influencer, decider, buyer, user, maintainer, and disposer. Individuals also exhibit different types of buying behavior when taking a buying decision like extensive problem solving behavior, routinized buying behavior, and variety seeking behavior.

In this unit, we shall first discuss the various factors affecting the consumer buying behavior. We shall then discuss the different buying roles played and buying behaviors exhibited by the individuals while taking a buying decision. Finally, we shall discuss the different stages of the buying decision process passed by customer before buying a product.

Before studying this unit, student should recall the concepts of customer satisfaction, customer value, and relationship marketing (Unit 2).

5.2. Objectives

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

- Discuss the factors influencing the buying behavior
- List the various buying roles played by individuals when making a buying decision
- Analyze the different kinds of buying behavior exhibited by the customer
- Identify the various stages of buying decision process

5.3. Factors Influencing Consumer Buying Behavior

Marketers need to understand the factors affecting consumer buying behavior so that they can align their strategies to suit the needs of consumers. The factors influencing consumer buying behavior are: cultural, social, personal, and psychological.

Cultural Factors

Culture

This refers to the set of attitudes, values, and beliefs associated with a category of customers. Customers' perceptions influence their buying behavior. Therefore, international marketers need to take into account the diverse cultures across the world, while designing their strategies.

Example: In India, McDonald's has focused on innovative products and has changed its menu to suit the tastes of local consumers. It launched India-specific items, such as McVeggie™ burger, McAloo Tikki™ burger, Veg. Pizza McPuff™ and Chicken McGrill™ burger. Taking into account Indian preferences and sensibilities, the company does not offer pork and beef items at its outlets in India. On the other hand, it offers egg-less sandwich sauces to vegetarian customers, and vegetarian items are prepared at a separate counter at its outlets.

Subculture

Within a culture, there may be subcultures that contain similar habits, attitudes, and beliefs. Marketing mix needs to be altered according to the requirements of subcultures in a particular area. Advertising strategy is also influenced by subcultures. For example, a sari manufacturer may like to advertise his Kanjeevaram silk sarees more in Chennai than in Delhi, due to cultural preferences.

Social Class

This divides a society into different social structures based on status. There are primarily four categories of social class.

Upper class: This class consists of customers who possess large amount of wealth and buy from exclusive branded stores.

Upper middle class: These customers are well-educated and hold good positions in various organizations. They prefer goods appropriate to their social status. For example, malls like Shoppers' Stop and Lifestyle cater to such customers.

Middle class: These customers, usually, work at the middle and junior levels in organizations. They want value for money. Advertisements of products like 'Tide,' are targeted at such customers.

Lower class: These customers are primarily blue-collared workers with little or no education. They have no savings.

Social Factors

The social factors refer to family, friends, and colleagues. They influence the buying pattern of customers. Friends fall under the informal group, and this group has an effective influence on the buying decisions of customers.

Reference Groups

A customer's buying decision depends upon the reference group the customer belongs to. In this context, there are two types of reference groups, primary and secondary.

Primary reference group: This can be further divided into four categories. They are:

Membership reference group: Individuals hold membership to certain groups where they frequently interact with other members of the group. These interactions directly influence their buying decisions.

Aspiration reference group: An individual wants to be part of that group and tries to incorporate the attitudes and buying behavior of that group.

Disclaimant reference group: In this case, although an individual is a member of a particular group, the individual does not want to copy the actions of the group. Therefore, his buying behavior will not be influenced by this group.

Avoidance group: In this case, an individual neither holds membership to a particular group nor likes the values and beliefs of the group.

Secondary reference group: These may be religious groups, trade unions, or professional associations. Each of these groups has opinion leaders who influence the buying behavior of its members. For example, Max New York Life distributed its products in rural areas through gram sahayaks like teachers and social workers who were opinion leaders in villages.

Family

Family members influence the buying decisions of each other, significantly. In India, parents decide for their children and spouses decide for each other. For example, a working woman influences the eating patterns of her family. Marketers need to adjust the marketing mix elements depending upon the key influencer of their product in the family. The roles of husband and wife have also changed over time, which have to be reflected in the marketing strategies. For example, a commercial on television shows a man putting his baby to sleep.

> **Activity:** An advertising agency needs to design an advertisement for air coolers. To influence individuals' decision making, the ad agency wants to involve social factors that affect the buying patterns of customers. Discuss the various social factors that the ad agency must consider in order to design an effective advertisement. Justify your answer.
>
> **Answer:**

Personal Factors

These refer to age and life cycle stages, occupation and financial status, and life style.

Age and Lifecycle Changes

People may be at different stages of their life cycle based on whether they are single, married couples, couples with children, or senior citizens. At each stage, their buying behavior varies as they have different preferences. Therefore, marketers should keep in mind the stages in the life cycle of their customers. For example, LIC's children's plans and housing loans are targeted at young, married couples, while pension plans are targeted at the older generation.

Occupation and Financial Status

Occupation and financial status have a bearing on the buying behavior of an individual. For example, a top executive of an organization would purchase branded clothes and footwear, according to his status in the organization. Actresses pay particular attention to their looks, and spend more on cosmetics.

Life Style

Life style depends upon the work life, social groups, and interests of an individual.

Psychological Factors

These take the form of motivation, perceptions, beliefs, and attitudes.

Motivation

Needs governs the motivation levels of individuals. Maslow's hierarchy of needs classify needs into physiological, security, social, self-esteem, and self-actualization categories. Fulfillment of one need leads to the other needs. However, needs should be distinguished from wants. For example, clothes are a need, but branded wear is a want. Therefore, marketers should create wants in customers and inculcate in them, the desire to fulfill these wants.

Perceptions

It is a process by which customers understand certain stimuli and convert them into their thoughts. These perceptions are based on their needs, wants, and experiences. For example, individuals' opinion may differ with regard to services in a particular restaurant, based on their experiences at that restaurant.

The basic senses of touch, smell, and hearing influence a customer's perception of a product. The risk factor in a product also affects customers' decision to purchase that product. Therefore, marketers should employ suitable strategies to alleviate customer fears and apprehensions. The right product mix can be arrived at by understanding customer perceptions. For example, Maggie Atta noodles is being positioned as an alternative to regular dinner, to neutralize consumers' perception of the product as a breakfast item.

Beliefs and Attitudes

An individual's thought about a particular product reflects his belief. Customer attitudes also affect buying behavior. These attitudes may emerge from customers' interactions with other groups, and past product experiences. Marketers should aim at neutralizing negative attitudes, and alter their product mix to suit the needs and preferences of customers. For example, although Coke was positioned as a drink for youngsters when it entered the Indian market, it was later repositioned as a drink for the whole family. This was done to tap the wider Indian market. As a part of this strategy, Coca Cola's ads featured family members having Coke on various occasions.

Activity: In August 2020, Diva Cosmetics introduced its new product '*Recova,'* a 30-night skin repair formula. According to the company, the skin care product, which is targeted at older women helps in rejuvenating skin that gets dull with age. Assume that you are given the task of devising a marketing strategy for *Recova.* Which personal and psychological factors would you consider while drafting the strategy? Justify your answer.

Answer:

<u>Check Your Progress-1</u>

1. Consumer buying behavior is affected by various factors that determine the product and brand preferences of consumers. Which of the following factors does **not** exert a significant influence on consumer buying behavior?
   a. Cultural influence on consumers
   b. Social influence on consumers
   c. Geographical location of producers
   d. Psychological factors.

2. Identify the term commonly used to indicate the set of rules, values, beliefs, behavior and concepts that is common to and binds together the members of a society.
   a. Social norms
   b. Culture
   c. Sub-culture
   d. Ethics.
3. Social factor is an important determinant of customer buying behavior. Identify the alternative which is **not** a social factor.
   a. Family
   b. Reference group
   c. Attitude
   d. Consumer action group.
4. Reference groups can be of two types: primary reference group and secondary reference group. Religious groups are associated with which reference group?
   a. Membership reference group
   b. Secondary reference group
   c. Disclaimant reference group
   d. Avoidance group.
5. Which of the following concepts is directly related to how individuals make decisions on spending available resources on consumption of related items?
   a. Marketing research
   b. Strategic planning
   c. Organizational buying behavior
   d. Consumer buying behavior.
6. Pantaloons offered a 'Set Mundu' (traditional dress) free on the purchase of two trousers during the Onam season in different cities of Kerala. Which factor might have influenced Pantaloons to undertake such a promotion?
   a. Psychological factor
   b. Social factors
   c. Cultural factors
   d. Personal factors.
7. Social class, which is a distinctive feature of every society in the world, can be subdivided into certain distinct categories. Identify the option that lists the classifications that are applicable in most countries.
   a. Upper class -Upper middle class - Lower middle class - Less affluent class
   b. Upper class - Middle class - Lower class

   c. Upper class - Middle class - Lower Middle class - Lower class
   d. Upper class - Upper Middle class - Middle class - Lower class.
8. Match the following social classes with their respective lifestyle and spending behavior.
   i. Upper class
   ii. Upper middle class
   iii. Middle class
   iv. Lower class.
   p. These people lead a conservative lifestyle and spend moderately
   q. They buy expensive products and patronize branded exclusive shops for luxury items
   r. They tend to live in the present and hardly save
s. This class consists of well-educated and highly successful and status conscious people.
   a. i/s, ii/q, iii/p, iv/r
   b. i/q, ii/s, iii/p, iv/r
   c. i/r, ii/s, iii/q, iv/p
   d. i/p, ii/s, iii/q, iv/r.
9. Identify the alternative that is **not** a characteristic of secondary reference group.
   a. It includes religious groups, professional association and trade unions
   b. The member comes into regular and informal contact with the group
   c. It has its own set of reference leaders
   d. None of the above.

5.4. Indian Consumer

Consumer market in India till now was classified based on a pyramid: a very small affluent class with an appetite for luxury and high-end goods and services at the top, a middle-class at the center and a huge economically disadvantaged class at the bottom. This pyramid structure of the Indian market is slowly disintegrated and being replaced by a diamond – a relatively large affluent class at the top, a huge middle class at the center and a small economically disadvantaged class at the bottom end. The diamond represents increasing volume and value across all classes of Indian consumer market.

The liberalization and economic growth has enhanced employment and business opportunities and in turn increased disposable incomes. With the growth of economy, benefits trickle down to the bottom of the pyramid. More number of people is moving up from the bottom of the pyramid to join the middle class. India experiences 54% of youth under 25 years of age. The demand for more urbane lifestyle, rising aspirations for a better life among the bottom of the pyramid, and increasing and trickling down of income etc. have reshaped Indian consumer.

The emerging features of Indian consumer are as follows.

- **Higher aspirations of bottom of the pyramid**: The movement of bottom of the pyramid into middle class segment has increased demand for more products. The penetration of media and infrastructure has pushed the rural India to urbanized lifestyle and fuelled the latent desire for improved living standards.
- **Demand for more choices in products**: Indian consumer has become pickier while purchasing products. Increased disposable income, more awareness about variety of products, innovation in product and packaging etc. have changed the landscape of Indian market. Consumers are demanding global standards with local tastes. For example, International fast food chains have started to Indianize their Pizzas and burgers to attract customers.
- **Priority for Packaged Goods:** The innovation in packaging has fuelled more demand in rural areas for products available in small sachets such as edible oil and shampoos. FMCG companies have penetrated more into rural areas with the help of small packages or sachets. Rural people also wanted to emulate the life style of urban people who prefer packaged goods.
- **Customer choice for Branded Goods:** The youth with more disposable income like to lead a sophisticated lifestyle hence show interest for branded goods. The neo-middle class consumer goes beyond the utility aspect of the product and displays more association with the brand. There is a shift from generic goods to branded goods. The Indian affluent class has always shown loyalty for branded goods and this will continue in future.
- **Customer priority for Super markets:** Urbanization, brand-consciousness, younger segment etc. influence customers to take organized retail route. The organized retail format promises consumers better quality and better shelf-life for products due to their excellent storage facilities and anti-tampering checks. Indian consumers are also looking for shopping experience in hypermarts and departmental stores where they explore choices and touch and feel products.

5.5. Buying Decisions

Taking a decision involves choosing one option from a set of given alternatives. Customers have the right to select from among a variety of brands or products.

Buying Roles

The buying decision depends upon various roles played by the members of a family. Sometimes, the buyer and the user may be two different individuals. For example, parents buy candy or chocolates for their children. Here, parents are the buyers, but the ultimate users or consumers are the children. Therefore, marketers should be clear about the buying roles of individuals. The various buying roles of individuals are:

i. Initiator – A person who initiates the idea of buying a product.
ii. Influencer – A person whose views affect the buying decision. In the case of costlier products, more significance is attached to the purchase decision, and there will be more number of influencers.
iii. Decider – A person who takes the final decision on the purchase.
iv. Buyer – A person who actually buys the product.
v. User – A person who actually uses the product.
vi. Maintainer – A person who repairs or services the product.
vii. Disposer – A person who disposes the product.

Example: For purchasing an air conditioner for the house, the initiator may be anyone in the family who feels the maximum need for the product. The influencers could be the husband, wife, friends, office colleagues, or any other reference group. The decider would be the husband/wife who would buy the product. The entire family would use the product that would be maintained by the company which manufactures the product. Disposal would be ultimately done by the husband/wife.

Activity: Identify the buying roles of individuals in each of the following situations:

- Purchasing a house by a family of four members (father, mother, 30–year-old son, and 18–year-old daughter).
- A little girl asking her mother to buy her a doll.
- A college-going boy in a family, intending to buy a two-wheeler.
- An 18-year-old boy shopping along with his dad on the occasion of his birthday.
- A lady on a buying spree with her husband as he promised to take her for shopping on the occasion of Diwali.
- A couple with a child, buying napkins for their kid.

Answer:

Buying behavior

There are differences in buying behavior depending upon customers' perceived differences about brands, and involvement in buying. Furthermore, the product type also influences buying behavior. We shall examine three kinds of buying behavior.

Extensive problem solving behavior: This is displayed when purchasing an expensive product. The buyer develops a belief about the product, and his attitude regarding the purchase decision is based upon this belief. He makes a planned decision after evaluating all available alternatives to the product. To secure such behavior, marketers should clearly explain the distinct features of their product and use promotions for increasing visibility of their brand. For example, this sort of behavior is seen when individuals are involved in buying a music system.

Routinized buying behavior: This sort of buying behavior is displayed by individuals for low cost regular purchases. Here, customers continue to buy familiar brands, and product features do not assume significance. Decisions are made fast, and the customer is not much involved in decision making. For example, buying monthly groceries is a routine activity, where there is low involvement of the buyer with regard to decision making.

Variety seeking behavior: For certain products, customers seek differentiation, and evaluate the product during consumption. For example, some customers prefer to switch brands for shampoos.

Impulse buying is a term that is used when customers take immediate decisions, based on instinct. Products that are bought on impulse are often marketed at a low price or at a discount. For example, Bru offered its Cappuccino coffee mix in sachets, at a low price. These were displayed prominently at the cash counters of well-known departmental stores, to prompt impulse buying.

Check Your Progress-3

10. What term is used to denote a person who chooses where, when, why and how to buy a product?
    a. Maintainer
    b. Decider
    c. Buyer
    d. User.
11. Consumer buying behavior is based on the degree of buyer involvement and the degree of differences an individual perceives among brands. In which of the following types of buying behavior do customers spend the **least** time in purchase decisions before buying the product?
    a. Routine-buying behavior
    b. Variety-seeking behavior

c. Extensive problem-solving buying behavior
d. Impulse buying behavior.

12. Extensive problem-solving buying behavior is a three stage process exhibited when the customer buys non-routine and expensive items. Select the alternative that gives the correct arrangement of steps.
    i. Buyer makes a well-planned decision
    ii. Attitudes are shaped around the belief
    iii. Buyer develops a belief about the product.

    a. i, ii, iii
    b. i, iii, ii
    c. ii, iii, i
    d. iii, ii, i.

5.6. Indian Rural Vs. Urban Consumer

Rural consumer is growing at a faster rate than urban consumer in terms of consumption of goods and services. More companies are expanding their base in India's rural markets because there is a positive change in business environment. The growth of rural consumers due to better earning potential along with infrastructure support have changed the landscape of rural markets. Exhibit 5.1, explains how companies design their products for urban population.

Exhibit 5.1:CavinKare launches BIKERS for urban male

Venkatesh Vijayaraghavan, CEO & Director FMCG, CavinKare, told news persons that Indian Men's grooming category, is projected to be more than $1.2 billion by 2024. By 2026 this industry is expected to grow at 2.5 times. Mr.Venkatesh opined that urban male consumers are showing increased inclination towards personal grooming products. To cater to that segment, after thorough research CavinKare launched specific product under the brand name BIKER's. To satiate the needs of urban male the company has come up with beard cream, shower gel and 2-in-1 shampoo conditioners. Of the three variants of the shampoo, the helmet damage repair shampoo is first of its kind for helmet wearers, and other two include, anti-dandruff and strong and bouncy. CavinKare is very positive about the response from urban market.

Source: Adpted from, "CavinKare enters men's grooming market with launch of new-brand Bikers" www.businessstandard.com, 21st September 2021

The five buying roles of consumers such as initiator, influencer, decider, buyer and user differ between an urban consumer and rural consumer. The different buying roles can be seen in the following Table 5.1.

Table 5.1:

Buying Roles of Urban and Rural Consumers

Buying Role	Urban Consumer	Rural Consumer
Initiator	**Young Man** He feels the need to commute to office or college and initiates the process	**Son (majority cases), father (in some cases)** In majority of cases, son studying in nearby town/ college expresses the need for a powered vehicle (in few cases father feels the need to commute) and initiates the process
Influencer	**Friends, colleagues** Evaluates models on TV and print ads; asks friends and colleagues, who influence the decision.	**Friends, Urban relatives** Asks friends and especially urban relatives to suggest brands, who influence the decision
Decider	**The Young man** He decides since he pays	**Father** Father decides since he finances
Buyer	**The Young man** He goes to a dealer and buys	**Son, relatives, friends** Son along with his friends and relatives go to dealer and buys
User	**The Young man**	**Son and Father**

Source: *http://shodhganga.inflibnet.ac.in/bitstream/10603/9162/8/08_chapter%203.pdf, p.111*

Consumer profile of product adoption differs between urban and rural consumer as shown in Table 5.2.

Table 5.2:

Type of Consumer	Urban Consumer	Rural Consumer
Innovator	Young, public-school educated, affluent, in business, fun loving, party goer, credit-card holder	Young progressive farmer (plans crop rotation, new crops), urban exposure (friends, relatives, children in school/college), kisan credit card, additional income (part-time service, agent) *Contd. ....*

Type of Consumer	Urban Consumer	Rural Consumer
Early Adopter	Young, educated, affluent, employed in MNC, with exposure to media, credit-card holder	Rich farmer, high disposable income, urban exposure (children in school/college), high social status, conscious evaluator, kisan credit card
Early Majority	Young, educated, married, disposable income, self-employed/in service	Mediocre farmer, member of cooperative society, ready for kisan credit card, willing to adopt technology product
Late Majority	Middle aged, in service/self-employed, opts for consumer schemes	Member of cooperative society, hesitates to take agri-loan, adopts only time-tested technology / product after approval from opinion leader
Laggard	Middle aged, in service, shops in neighborhood	Marginal farmers using traditional forms of cultivation

***Source**: http://shodhganga.inflibnet.ac.in/bitstream/10603/9162/8/08_chapter%203.pdf, p.117*

5.7. Buying Decision Process

There are five stages before a customer actually purchases a product. Although frequently purchased products with low customer involvement may not pass through all the five stages, the more expensive products go through all the stages. These are: recognizing the problem, searching for information, evaluation of alternatives, purchase decision, and post purchase behavior.

5.7.1 Problem Recognition

At this stage, a customer has an unsatisfied need that he wishes to fulfill. The trigger for this dissatisfaction may be external or internal. External triggers are from advertisement or product packaging and internal triggers can be from within a person. Marketers try to create needs in customers, and fulfill those needs through their products. For example, marketers of fairness creams create a need to look fair and, then, aim at satisfying this need through their products.

5.7.2 Information Search

Once the need for the product is established, the customer gathers all information pertaining to the product. For this purpose, he may use personal sources (family, friends), commercial sources (print media, television), public sources (articles in newspapers and journals), and experiential sources (Free trials). Usually, customers' awareness level increases after gathering information, which helps them to evaluate the product.

5.7.3 Evaluation of Alternatives

At this stage, the customer evaluates the various alternatives available to him, based on the information gathered by him. However, evaluation will differ depending upon the level of customer involvement. In the case of low involvement products, limited analysis is done by the customer.

5.7.4 Purchase Decision

The evaluation of alternatives will aid the customer in taking a decision. Purchase decisions can also be influenced by: seller and location of the store, size of the product, time of purchase, price of the product, delivery and warranty period, payment methods, and service mechanisms.

5.7.5 Post Purchase Behavior

A customer evaluates a product after consuming it. If he is satisfied, it results in repeat purchase and a positive image of the product. This is essential as dissatisfaction may lead to negative word of mouth by the customer about the product, leading to a negative image about the product in people's minds.

Post purchase satisfaction: Customer satisfaction occurs if the product performance is in line with customer expectations. Customer delight occurs if the satisfaction of the customer exceeds his/her expectations. Marketers should aim at delighting the customer by adding features and improving product performance.

Post purchase dissonance: If a customer feels that competitors' products have better features than the product he has purchased, it leads to dissatisfaction in the customer with regard to his purchase decision. In this case, marketers' should provide reassurance to the customer about the product.

Post purchase use and disposal: Marketers should note the use of the product by customers. Sometimes, customers discover new uses for a product. This may result in enhanced utility of the product.

Many companies encourage reuse or recycling of their products as a means of disposal. For example, companies like Chrysler Corporation and General Motors saved millions of dollars by using reusable containers in their business processes.

Check Your Progress

13. Customers gather information from different sources when making purchase decisions. Identify the alternative that is a source for gathering information for a customer.
    a. Personal source
    b. Commercial source
    c. Public source
    d. All of the above.

14. Post-purchase behavior is the behavior of the customer after product purchase. Single out the situation **not** associated with post-purchase behavior.
    a. Repeat purchase
    b. Evaluating the store location
    c. Talking favorably of the product
    d. Talking negatively of the product.

5.8. Cognitive Dissonance

Cognitive dissonance is a psychological state that happens in a customer during the post-purchase evaluation, the final stage of consumer buying process. At this stage customer spends evaluating a purchase after using the product. A positive evaluation leads to repeat purchase and eventually, loyalty. A negative evaluation or strong feeling of doubt increases the potential that the customer will select an alternative product the next time, or seek to return the product for a refund where that's possible.

Products that involve a high level of commitment contain a greater risk for dissonance. Examples of products with high levels of commitment include automobiles, real estate and leisure vacations. Consumers may also experience dissonance prior to making a purchase when they come across ads with different promises.

Post purchase follow-up with feedback mechanisms can help companies to minimize cognitive dissonance among customers. Companies can offer incentives to repeat the purchase so as to minimize remorse and enhance customer loyalty.

For example, many customers had booked Tata- Nano car before release based on low-price. After the purchase, they felt the car was not suitable for their requirements. They developed cognitive dissonance about that particular brand after couple of burning cases in the news. To reduce cognitive dissonance, Tata Motors developed many advertisements to confirm their purchase decision with interviews of 'satisfied customers' with happy faces. The ads also gave quality assurance to customers to reduce cognitive dissonance.

Exhibit 5.2 presenta a caselet on segmentation strategy.

Exhibit 5.2 Segmentation Strategy

NEXA-Whether Maruti's entry in Luxury Segment was a good Strategy?

Introduction

Maruti Suzuki is considered as the **largest car manufacturer company in India**. It dominated the indian automobile industry with more than 50 percent market share

Contd. .....

with some of its popular car brands such as , Ertiga, Wagon R, Alto, Swift, Celerio, Swift Dzire, Alto 800, etc[3].

Till 2015 Maruti Suzuki ruled the Indian automobile industry by providing affordable cars,but over the years many multinational players such as Toyota,Hyundai,Honda,Nissan, Fiat, Ford entered Indian market with high end cars for higher income people.The nuclear family structure and more disposable income changed the consumer demand for high designed ,good featured costly cars. Consumers perceived Maruti as a brand for low and middle class family.Maruti was not able to attract high end consumers with its existing brand positioning strategy. After proper market research they concluded that the Maruti's existing popular retail channel is not sufficiently equipped to change the existing mindset of the Indian people. Finally in 2015 Maruti Suzuki launched NEXA, a new dealership layout for its premium cars segment and started selling its high end models such as Baleno, S-Cross, Ciaz and Ignis through NEXA outlets. S-Cross was the first car sold through NEXA outlets. Nexa , the new retail network from Maruti Suzuki mainly accommodates the high-end consumers who have gone beyond their first cars and are searching for an experience. Maruti tries to offers a high level of sophistication , pampering ,exclusiveness and listening to the consumer through their new retail chain.

Nexa was the new marketing concept from Maruti for its new positioning through brand building. It wants to change the general public image on Maruti Suzuki as a passenger car manufacturer. It left no stone unturned by providing a better customer experience; both in terms of better vehicles , better models for luxury segment and better services.Nexa targeted well travelled, digitally savvy consumers , those who seek a world class experience from their new car. The products sold on Nexa were completely different , unique and not sold in the mainstream existing showrooms. It was a biggest risk taken by Maruti in 2015 by Nexa.The big challenge for the marketing manager was whether the strategy would work.

Company History

Maruti Udyog started in the year 1970 as Surya Ram Maruti Technical Services Private Limited as the perfect automobile player in India considering the upcoming demand of Indian consumers. In 1971, it was registered under the Indian Companies Act and was approved by India’s Late Prime Minister Indira Gandhi’s Cabinet for manufacturing cars at an affordable price. Sanjay Gandhi, son of late Prime Minister Indira Gandhi became its first MD, with an aim to start the revolution in Indian automobile industry. Till 1975 company didn’t produce any car because of lack of experience, design,and no links with any established automobile company . In 1981, after the death of Sanjay Gandhi, Maruti Udyog Ltd. came into existence with the hard work of industrialist V. Krishnamurthy. In 1982, a Joint Venture contract was signed with, Suzuki Motors, the Japanese automobile

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[3] “Maruti Suzuki India – History, Company Profile”http://www.autonewsreporter.com,accessed on 30th March,2020.

manufacturer. . Dr. V. Krishnamurthy was nominated as the first Chairman and CEO of the newly formed Maruti Suzuki. India's first affordable car, Maruti 800 with 796 cc was released in 1983 . First Customer Mr. Harpal Singh was delivered with Maruti 800 by Prime Minister Mrs. Indira Gandhi in December 1983.

Local production started in December 1983 in the Gurgaon plant. Maruti was considered to be the most influential car ever.Over the years Maruti Suzuki started exporting to European countries . In 1989, the Company introduced Maruti 1000 , India's very first sedan. Maruti Suzuki India Ltd became India's largest passenger car company having over 50 per cent of the domestic car market. The company introduced a full range of cars such as; Maruti Alto ; stylish hatchback Ritz, A-star, Swift, Wagon R, Estillo and sedans DZire, SX4 and Sports Utility vehicle Grand Vitara etc. over the years.

The company diversified the business into manufacturing, purchase and sale of motor vehicles and spare parts (automobiles). It also involved activities like facilitation of pre-owned car sales, fleet management and car financing. They extended their manufacturing unit as the demand increased. The company has nine subsidiary companies, namely Maruti Insurance Business Agency Ltd, Maruti Insurance Distribution Services Ltd, Maruti Insurance Agency Solutions Ltd, Maruti Insurance Agency Network Ltd, Maruti Insurance Agency Services Ltd, Maruti Insurance Agency Logistics Ltd, True Value Solutions Ltd, Maruti Insurance Broker Ltd and J J Impex (Delhi) Pvt Ltd[4].

Maruti Product Portfolio in India

Maruti became a coglomorate and diversified its business into different product lines such as:

Sales network**:** Maruti Suzuki has about 2000 outlets across the city that caters to every need of the customers like timely servicing,repair.

NEXA**:** NEXA , the premium outlet specialy designed for luxury Maruti customers. Maruti Suzuki S-Cross was the first car to be released through NEXA and the company plans to introduce many more models in the future. Currently, Maruti Suzuki sells Baleno, Baleno RS, S-Cross, Ciaz, Vitara brezza, and Ignis through it.

Maruti Insurance and Finance**:** Maruti Suzuki provides vehicular insurance and financial services through multiple companies that it has tied up with. Some of the clients include the ABN AMRO Bank, HDFC, ICICI, Kotak Mahindra, Bajaj Allianz, New India Insurance and Royal Sundaram, etc.

Maruti TrueValue**:** A one-stop shop for all Maruti and Suzuki vehicles. Customers would be able to inquire, buy, sell and also exchange the company vehicles or other brands as well. As of now, TrueValue has over 1200 outlets throughout multiple cities in the country.

Contd….

[4] https://economictimes.indiatimes.com/maruti-suzuki-vehicles-dominate-top-10-selling-list/articleshow/61109514.cms?from=mdr, accessed on October 17,2017

Maruti Driving School:Maruti also gone for backward integration and ventured in to driving school in their outlets.They recruited trained professionals to give training to customers on driving skill.

Future Ahead

According to the Society of Indian Automobile Manufacturers (SIAM), in the April 2019-January 2020 period, Maruti Suzuki sold a total of 12,04,404 units of passenger vehicles with 50.59% market share[5].Analysts were quite happy with the Nexa strategy introduced by Maruti to tap the high end customers. As competition is hotting up with the entry of Kia Motors and MG Motorin 2020, while China's Great Wall Motors and Haima Automobiles is also set to enter the market in the coming days.Now the question arose as to how Maruti would compete with all these multinationals.

Experts were worried about what Maruti would need to do to defend its market position.What differentiated Maruti from others-Whether more stand-out models, especially in the SUVs segment, new experience through service for customers?Maruti MD,Ayukawa said, "We have to develop new models but car business is not only about products. It is also about how you take care of your customers." Adding to that he confirms Maruti give significance to customer relationship. Selling a car is not the end of the business,rather taking care of customers after finishing selling of the vehicle is crucial. The main reason why a customer selects Maruti is because of the convenience of having a lot of dealers, sales and service points and affordable service and repairing charges.Customers don't wait long for spare parts if something happens to their cars. As India is an emerging economy and customers are getting upgraded from poor to middle class, so a bright future is waiting ahead for Maruti.

5.9. Summary

- Cultural, social, personal, and psychological factors influence the buying behavior of consumers.
- Cultural factors include the values, beliefs, and social class of people. Social factors consist of friends, family, and other reference groups of an individual. Personal factors refer to age, occupation, and life style. Psychological factors include motivation, perceptions, beliefs, and attitudes.
- Each person takes a number of purchase decisions that involve selecting one option from the given alternatives. The varying buying roles of persons influence their buying decision. The buying roles may be that of initiator, influencer, decider, buyer, user, maintainer, or disposer. Buying behavior

[5] "Maruti Suzuki will not just defend market share but also charge at competition, says CEO Kenichi Ayukawa", https://www.livemint.com/,accessed on 30th March,2020

may be classified into extensive problem solving behavior, routinized buying behavior, and variety seeking behavior.

- The buying decision process involves five stages. They are: problem recognition, searching for information, evaluation of alternatives, purchase decision, and post purchase behavior.

5.10. Glossary

Consumer buying behavior: Deciding what goods or services to buy and then obtaining them.

Involvement: The degree of personal importance or relevance a decision has for a consumer.

Reference group: A group that has an influence on a particular consumer.

Social class: Stratified groups in society made up of people with similar values, life-styles, interests, and behaviors.

Subculture: A group of people who share beliefs, values, and customs different from those of the larger culture.

Warranty: A statement specifying what the producer of a product will do to compensate the buyer if the product does not live up to its promised level of performance.

Word of mouth: Transmission of consumer information from person to person.

5.11. Self-Assessment Test

1. Compare and contrast the various kinds of buying behavior with regard to price and customer involvement during the purchase of different products.
2. What are the steps in the buying decision process? Explain the steps with the help of an example.

5.12. Suggested Reading / Reference Material

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6. R Srinivasan. Case Studies in Marketing: The Indian Context. PHI Learning; 7th edition, 2018
7. Leon G., Schiffman, Joseph Wisenblit, S.Ramesh Kumar Consumer Behavior | Twelfth Edition Pearson 2018
8. John Deighton, What We Really Know About Consumer Behavior, 2011, www.hbr.org

5.13. Answers to Check Your Progress Questions

Following are the answers to the Check Your Progress questions given in the Unit.

1. (c) Geographical location of producers

Alternatives a, b, d are factors related to customer buying behavior whereas 'c' is related to organizational buying behavior.

2. (b) Culture

Culture is a set of rules, values, beliefs, behavior and concepts that is common to and binds together the members of a society. It is usually passed on from one generation to the other.

3. (c) Attitude

Family, reference group and consumer action groups come under social factors. Attitude is part of psychological factors.

4. (b) Secondary reference group

Secondary groups include religious groups, professional associations and trade unions with which customer interaction is formal and infrequent. All the other options are types of primary reference groups.

5. (d) Consumer buying behavior

Consumer buying behavior is the study of how individuals make decisions to spend available resources on consumption of related items.

6. (c) Cultural factors

The cultural factors that influence consumer buying behavior include the culture, subculture and social class of the buyer. Culture is considered as a set of rules, values, beliefs, behavior and concepts that is common to and binds together the members of a society. It is usually passed on from one generation to the other. The 'set mundu' is the traditional dress that women in Kerala wear as part of the Onam festival. The dress is part of the culture of Kerala.

7. (b) **Upper class - Middle class - Lower class**

   Social class can be clearly divided into Upper class, Middle class and Lower class. The socio-economic classification like lower middle, upper middle etc varies from country to country.

8. (b) **i/q, ii/s, iii/p, iv/r**

   The upper class consists of people who are rich and possess considerable wealth. They tend to buy expensive products and patronize branded exclusive shops for snob and luxury goods. The upper middle class consists of well-educated people holding top class positions in middle size firms, or successful professionals. They have a strong drive for success and indulge in shopping for goods that speak of their social status.

   Middle class consists of white collar workers. These people have a conservative lifestyle and spend moderately. They live in apartments or reasonably smaller houses and buy products, which give more value for money. The lower class consists of blue collar workers. Due to their low income levels, these people tend to live in the present rather than save for the future.

9. (b) **The member comes into regular and informal contact with group members**

   Reference groups can be of two types: primary reference group and secondary reference group. In membership reference group (a type of primary reference group), the member comes into regular and informal contact with group members.

10. (b) **Decider**

    A decider is a person who decides where, when, why and how to buy the product. The decider makes the final decision about the contemplated purchase. A buyer is a person who actually purchases the product. A user actually uses the product. A maintainer is one who repairs or services the product.

11. (d) **Impulse buying behavior**

    Impulse buying is a situation where customers do not make any purchase decision before buying the product. It is an on-the-spot decision based on the instinct to buy. In extensive problem-solving buying behavior, consumers indulge in buying expensive, infrequently purchased and unfamiliar products. Consumers gather a lot of data regarding various brands available in the product category. In routine behavior, customers buy low-cost, regularly purchased/routine products. They do not make significant efforts to gather much information about the product. In variety-seeking behavior, consumers are not very brand conscious and often switch brands.

12. (d) iii, ii, i

Extensive problem-solving consumer behavior is a three-stage process. At first the buyer develops a belief about the product. Attitudes are shaped around that belief. The buyer then makes a well-planned decision.

13. (d) All of the above

All the options are information sources for customers. Information sources for a customer include personal sources, commercial sources, public sources and experiential sources.

14. (b) Evaluating the store location

Post-Purchase Behavior may lead to a repeat purchase, positive or negative publicity of the product, return of product, etc. However, alternative ‘b’, i.e. evaluating store location, takes place in the purchase decision stage.

Unit 6

Organizational Markets and Organizational Buying Behavior

Structure

6.1. Introduction

In the previous unit, we discussed the concept of consumer buying behavior. In this unit we will discuss the organizational markets, the organizational buying behavior and the various issues related to it.

Organizational buying involves a more systematic decision making process than consumer buying. Unlike consumer buying, organizational buying has three kinds of buying situations like new task, modified rebuy, and straight rebuy. The organizational markets are classified as producer's markets, resellers markets, government markets and institutional markets.

Organizational buying is influenced by various factors like environmental, organizational, social and personal factors. Different categories of people called initiators, influencers, users, deciders, approvers, buyers, and gatekeepers are involved in organizational buying with each of them playing a different role in making a purchase decision.

In this unit, we shall introduce you to the concept of organizational buying behavior and the different kinds of organizational markets. We shall then move on to discuss the various factors influencing the organizational buying and the different participants in organizational buying. We would be concluding the unit by discussing the various stages that the organizational buying process passes through.

6.2. Objectives

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

- Discuss the concept of organizational buying
- Explain the different types of organizational markets
- Analyze the various factors influencing organizational buying
- List the different stages in the organizational buying process

6.3. Concept of Organizational Buying

Organizational buying differs from consumer buying, in involving more systematic decision making. The organizational purchases include a range of items from routine stationery to complex machinery. The manager’s time and involvement in the purchase decision would be more for items like equipment and less for items like stationery.

Differences between organizational markets and consumer markets

Basis	**Organization**	**Consumer**
Time of purchase process	More	Less
Number of buyers	Few	Large
Quantity of products	Higher	Lower
Segmentation	Purchasing approaches, situational factors, operating variables	Geographic, demographic, psychographic

Types of organizational buying situations and situational factors

There are three kinds of organizational buying situations. They are new task, modified rebuy, and straight rebuy.

New task: This involves purchasing a good for the first time.

Modified rebuy: The purchase manager buys the same goods as earlier, but with slight modifications in specification, delivery schedule, and other aspects. This involves more interaction between the buyer and the supplier, but less than that in a new task.

Straight rebuy: This involves purchasing a product, regularly. Therefore, there are no changes in the agreement between the approved supplier and the organization.

Another buying situation is known as system buying, where the organization has one supplier for its raw material requirements.

Activity: Given below are a few buying situations:

a. ABC Ltd., usually, buys computers from Nevi Computers Ltd. However, this time they want to order for PCs with a slightly different configuration and delivery schedule.

b. Surya & Co., a consultancy firm, buys its stationery from Penpals Ltd., once in six months.

c. Weaver Textiles Ltd. (Weaver) is a textile mill situated in Mumbai. As a part of its expansion plans, Weaver wants to purchase more raw materials. However, the textile mill wants to directly purchase cotton from farmers, rather than buy it from intermediaries, which is the usual practice.

d. Zentel Manufacturing Ltd. (Zentel), a manufacturing unit requires cardboard boxes for packaging its products. Xint Ltd. supplies cardboard boxes to Zentel, every month.

Identify the buying situation in each of the above cases and specify the differences among the various kinds of organizational buying situations.

Answer:

Organizational markets in India

Industrial markets in India can be classified into the following three categories:

Chemical and Pharmaceutical sector

In the chemical industry, goods are sold in mass quantities to organizational buyers. There is opportunity for growth in specialty chemicals. The pharmaceutical market offers good growth prospects, with global companies consolidating their position through mergers and acquisitions. There are also opportunities in the biotechnology and genetics area.

Energy and natural resources

With the depletion of natural resources, companies are looking at resource options like natural gases. Industrial markets have extended to sub-sectors like coal and lignite, forest and timber, and crude oil and precious metals.

Industrial and automotive sector

With economic growth, there has been an increase in activities related to the industrial structure as well as the infrastructural sector. The entry of multinational companies into the Indian automobile sector has increased the competition in the industry. However, multinational corporations also source their raw material from local companies, and sub-segment companies involved in ball bearings, heavy engineering, machine tools and tool rooms, and semi conductors are benefited.

Check Your Progress-1

1. The concept of organizational buying is quite different from that of consumer buying. Identify the alternative which is definitely **not** a characteristic of organizational buying.
   a. It involves thorough and deep analysis
   b. The purchase manager's experience influences the decision-making process
   c. It involves an unsystematic decision-making process
   d. Managers deal with personnel with varied responsibilities, before actually buying a product.
2. Which of the following is **no**t a type organizational buying situation?
   a. New task
   b. Modified rebuy
   c. Automatic rebuy
   d. Straight rebuy.

6.4. Dimensions of Organizational Buying

Organizational buying can extend from small nuts to big machinery. In an organization, the purchase decision, specifically, in the case of complex and expensive goods is taken after consultation with various members. Here, buying decisions are taken through techniques like 'material requirement planning' and

'Just-in-time management'. Under material requirement planning, the production schedule is based on forecasting. This schedule forms the basis for ordering raw material. Under the just-in-time method, minimum inventory levels are maintained and raw materials are purchased on the basis of customer demand.

Example: To reduce the supply chain inventory, Maruti Udyog Ltd. (MUL), introduced a Delivery Instruction system through which vendors received advance notice about the company's schedule. Through this measure, the company ensured that vendors supplied goods on time. This helped in reducing holding costs and prevented wastage for the company. The company shifted from monthly to daily schedules to meet the fluctuation in demand. This also helped in meeting the competition. These schedules were supplemented by an electronic card system provided to the vendors. The company sent an indent card to its vendors whenever there was a need for replenishment. Therefore, the vendors were clear about supplies and built up inventory only upto the required level. This procedure marked a transition to the 'Just-in-Time' concept, at MUL. The benefits became evident when JK Industries, a supplier to MUL, had a remarkable reduction in tire inventory. Cost of raw materials influence the profitability of a firm. The quality of raw materials is upheld by reverse marketing, where the organization specifies the quality norms to be followed by suppliers. Suppliers get suggestions from the organization on quality levels and timely delivery as the production process depends upon the procurement of raw material. Other factors during purchase include negotiations for a better price and checking a sample before purchase. The selection of a supplier depends upon his ability to deliver quality products on schedule. Geographical location also plays an important role as proximity to the supplier helps, when the material needs to be delivered within a short period of intimation.

Fluctuations in demand affect the amount of raw materials required by organizations. Demand may be classified into four categories as below:

Inelastic demand – A change in the price of raw material does not affect the demand for the product.

Derived demand – Derived demand is based on consumers' demand for the products produced by an organization. Demand for raw material depends upon customers' demand for the organization's final product.

Joint demand – Demand for a particular product is affected by the demand for a related product. Joint demand arises when two or more products have to be consumed together, to satisfy consumer needs or wants. These products include DVD players and DVDs, car and fuel, and cotton and textiles. The increase or decrease in the demand of a product has a similar effect on the demand of its complementary product.

Fluctuating demand – This depends upon the changing demand of the end customers.

Check Your Progress-2

3. Like consumer markets, organizational markets too have some demand characteristics. Identify the demand characteristic **not** related with organizational markets.
   a. Fluctuating demand
   b. Joint demand
   c. Derived demand
   d. Elastic demand.
4. ________ is a method for maintaining minimum inventory of raw materials and finished goods.
   a. Material requirement planning
   b. Supply management orientation
   c. Just-in-time
   d. Value analysis.

6.5. Classification of Organizational Markets

Organizational markets consist of producers, resellers, governments, and institutions. We shall discuss each of these in detail.

Producers' markets

Producer markets can be divided into original equipment manufacturers (OEM), industrial dealers, and users.

OEM – OEMs buy industrial products to include them in their final products. For example, Maruti buys steering wheels from Sona Koyo Steering Systems Ltd. for its cars.

Industrial dealers – They purchase the product and sell them to customers without making changes. They operate as dealers for intermediary goods in the industrial markets.

Users – Users buy goods that help them in the production of final goods, but do not become a constituent of the final product. For example, tools like welding machines and gas cutters are bought by various organizations, but such tools do not form a part of the final product.

Resellers markets

Resellers buy products and sell them for monetary gain. Resellers consist of wholesalers and retailers. In reseller markets, buyers can influence the producers to modify the product and enhance product features to meet the competition. Resellers also negotiate with producers to get bulk discounts that affect their price for the product. For example, Spearhead Infotech systems, a Mumbai based company offering message solutions, offered bulk discounts to its resellers on its new product, Spearmail.

Example: Maxtor Corporation, announced its partner program called Maxtor VIP partner program in India, to improve relations with resellers. As part of the program, the channel partners receive new product information and news, technical support, special promotions, and a secured private website containing sales and marketing tools, such as downloadable logos and images. This program is aimed at helping resellers and other channel partners to provide better customer support.

Government markets

The government is a large buyer of goods and services for its various departments, at all levels. Industrial marketers should understand the government's purchase procedures. They should also have an idea about the rules and regulations governing the purchases. All purchases undertaken by the government are by way of tenders, in the organized market. The government also buys from the unorganized market and cooperative societies as part of its social obligation. Marketing, promotion, and advertising strategies do not assume importance when selling to governments. Instead, a marketer should obtain complete information about the requirement of a particular department and project himself as the best supplier.

Institutional markets

These markets consist of both government and private organizations. Marketers need to target each segment in a customized manner. Individual needs of such organizations should be met through specific strategies. These markets include non-profit organizations like schools, colleges, universities, and hospitals. These organizations require products like furniture, surgical equipment, books, and beds.

Activity: Shahjahan runs a furniture shop. Until now it has been a small-scale business, targeted at retail buyers only. Recently, Shahjahan mooted a plan to supply furniture to schools located in his locality, and certain government offices. Should he change his approach while selling goods to these potential customers? If yes, what should be the approach? Justify your answer.

Contd. .....

Answer:

Check Your Progress-3

5. The producer market can be divided into three segments. Identify the correct combination of segments.
   a. OEM, Industrial dealers, Individual users
   b. OEM, Industrial dealers, Industrial users
   c. OEM, Retailers, Individual users
   d. OEM, Retailers, Industrial users.
6. Resellers are a major category in organizational markets. Reseller markets have two key players. Identify them.
   a. Industrial traders and industrial dealers
   b. OEMs and industrial dealers
   c. Wholesalers and retailers
   d. Wholesalers and industrial dealers.
7. A marketer trying to cater to the needs of customers must adopt marketing strategies that suit both government and private commercial markets. What is the term used for both government and private commercial markets?
   a. Producer market
   b. Reseller market
   c. Governmental market
   d. Institutional markets.

6.6. Factors Influencing Organizational Buying

Traditionally, marketers believed that economic factors like cost of the product or impulse purchase of managers affect organizational buying. However, this view lacks an overall perspective of the organizational purchase process. The factors affecting organizational buying include environmental, organizational, social, and personal factors.

Environmental Factors

The purchase process can get affected by climatic conditions, location, or ecological concerns. Legal factors, such as laws enacted by the government affect the purchase process. Economic factors like the general market situation, growth rate, and unemployment rate also influence the buying process. The other influencers are technology and political environment.

Organizational Factors

The purchase decision taken by an organization reflects the procedures, rules, and purchase policy of the organization. Four aspects of an organization influence its purchase process. These are: individual and collective responsibilities, work flow, current and future technologies, and employees.

Social Factors

Marketers should identify the roles of all members involved in the purchase process of an organization. They should then interpret and analyze the relationships among these members and their relation with external individuals. Based on these factors, marketers can plan effective strategies.

Personal Factors

Individuals who take purchase decisions in an organization play an important role in the organizational buying process. Individuals' perceptions, attitudes, and knowledge about the product influence their purchase decisions. Therefore, the marketer should take these personal factors into account before approaching an organization.

Check Your Progress-4

8. Organizational buying is influenced by a number of factors. Pick the alternative that is **not** a primary factor influencing organizational buying.
   a. Environmental factors
   b. Lifestyle factors
   c. Social factors
   d. Personal factors.
9. Information on laws governing the organization and industry are part of which factor influencing buying behavior?
   a. Environmental factor
   b. Organizational factor
   c. Social factor
   d. Personal factor.

6.7. Participants in Organizational Buying

Each individual involved in a purchase decision, plays a different role. Marketers stand to benefit from an understanding of these roles. These roles can be classified into seven categories.

Initiators: They identify the need for the product. The initiator may be an employee of the organization, a supplier, or an end user of the product. For example, an accountant who requests the purchase department of an organization to purchase latest accounting software to improve organizational performance acts as the initiator as well as the end user.

Influencers: A person who can affect the purchase decision, due to requisite knowledge about the product and various options available, is known as influencer. For example, to install software for payroll processing, both technical and HR personnel would be influencers.

Users: Users are the persons who use the product or service. They may also be initiators or influencers. In the above example, the HR personnel are both influencers and users.

Deciders: They choose the best available option and have the requisite power to do so. However, different individuals in an organization have decision-making authority for different purchases, depending upon the nature and type of product to be purchased.

Approvers: These are a group of persons within an organization who approve the purchase process and necessity of buying a product.

Buyers: They select the most suitable vendor for supplies. Sometimes, they are involved in negotiations and setting standards for the product. In the case of high value items, they need to prepare and present a list of potential vendors to the top management.

Gatekeepers: They control the flow of information in an organization. Marketers need to be tactful in handling these persons, to gain access to the decision makers in the organization.

Activity: Texturn India Ltd., supplies machinery to textile companies. What major roles does the salesperson need to identify in an organization, to get business?

Answer:

Check Your Progress-5

10. During the organizational buying process, a panel of senior managers evaluates the need to purchase a product or service and approves the proposed decision. Who plays this role in the buying process?
    a. Initiator
    b. Influencer
    c. Approver
    d. Gatekeeper.
11. The people who decide on product requirements or on suppliers are known as __.
    a. Deciders
    b. Approvers
    c. Gatekeepers
    d. Influencers.

6.8. Procurement Process

Product managers of organizations, usually, have a good knowledge about suppliers. They facilitate the procurement process by identifying the appropriate suppliers. However, technical and legal factors should also be taken into account by companies, during purchase. Efficiency in procurement is achieved through techniques like material requirement planning and just-in-time management.

Buying

The purchasing department has assumed great significance in recent times. Organizations have realized that strategic decisions pertaining to the purchase process play an important role in enhancing the profits of an organization. The purchase department needs to ensure that suppliers maintain certain quality standards. Organizations are also focusing on building long-term relations with suppliers.

Supply Management Orientation

This refers to an organization's efforts to improve its supply chain, right from the suppliers to the customer. Through this, the organization can achieve better quality and supply of raw material, which will affect the quality and supply of the final product. The distributors would also have an edge in the market by supplying good quality products. Supply management orientation enables the company to improve its value in the entire value chain. Exhibit 6.1, explains the success story of India's best supply chain, Asian Paints.

Exhibit 6.1: India's Best Supply Chain

Asian Paints has 8 factories and 143 company warehouses, which directly ship paint to hardware stores. Since the company works directly with dealers, the company need a sense of the demand, and depends on a collaborative approach between the sales and supply chain teams to forecast demand as accurately as possible. The Asian Paints fulfillment network ensures that in larger cities and towns, if a dealer orders items in the morning, they will get a delivery the same day. In the largest cities, they can make two deliveries a day. Asian Paints was able to successfully launch a direct to dealer model, and over the last decade, technology has simplified a unified ordering experience. Since 1999, Asian Paints has run a very integrated planning system with forecasts, production, and fulfillment. The Covid-19 pandemic has been challenging for supply chain around the globe. The Asian Paints' supply chain was able to remain adaptive, turning the pandemic into new opportunities for expanded services and new products.

Source: Adapted from, "India's Best Supply Chain"www.forbes.com, May 2021

Check Your Progress-6

12. What efforts are made by an organization to improve its overall value chain starting from the supplier's supplier to the customer's customer?

a. Materials requirement planning

b. Just-in-time approach

c. Supply management orientation

d. Procurement.

6.9. Stages of Buying

Most buying processes in organizations go through certain stages. A typical organizational buying process usually consists of nine stages. They are:

Problem Recognition

The first step in the purchase process is the identification of the problem. This identification may be done by persons internal to the organization like employees or top management, or external persons like suppliers. Then, the demand for raw material arises. Problem identification may also be done by suppliers in the case of technological advancements or other such instances.

General Need Recognition

This refers to specifying the quality of the product to be purchased. In routine purchases, there will be a standard procedure. However, in the case of complex products, technical persons as well as end users need to be consulted to reach to a final decision with regard to procuring the product.

Product Specification

Here, the firm starts negotiating with the suppliers and gives the technical specifications of the product. It also explores alternate means of producing the product at a lower cost. In this stage, suppliers should maintain close contact with the buyers in the firm, to gain advantage.

Searching for Potential Suppliers

At this stage, the buyers start searching for potential suppliers through directories, Internet, and other mediums. After finalizing the list of suppliers, the firm analyzes each supplier based on factors like specifications, quality standards, and delivery schedules laid down by its purchase department.

Value Analysis

The purchase manager has to analyze the value and quality conditions given by the users of the product. These specifications have to be compared with the specifications of the product that is supplied by the vendors. He has to ensure that each product or component of the product being supplied creates value addition without compromising on quality. This would help him to cut irrelevant costs.

Vendor Analysis

It is not merely sufficient for vendors to supply quality products. They should also supply goods on time as this has a direct impact on the production process. Delay in the supply of goods will delay the production process and lead to losses for the organization. So the supplier should be responsible in his dealings with the organization.

Order Routine Specification

The company has to specify the quantity of product, delivery schedule, details of warranty and service contracts. The purchase is said to be complete when the users are satisfied with the quality and quantity of the purchased products. Subsequently, the purchase department initiates the payment process.

Multiple Sourcing

Organizations often source their requirements from a number of suppliers in order to get the latest information about products and services as well as reduce their reliance on one supplier.

Performance Review

The buyer evaluates the performance of the supplier's product as well as services delivered, throughout the life of the product. This evaluation is undertaken at periodic intervals to prevent any lapses in the production schedule. Techniques like weighted score methods are used to evaluate the performance of suppliers.

Check Your Progress-7

13. It is a process wherein an organization depends on several different suppliers for purchase of goods and services. What is the process referred to here?
    a. Multiple sourcing
    b. Supply management orientation
    c. Vendor analysis
    d. None of the above.
14. The technique to reduce cost and improve performance of equipment, production process, etc., as part of the buying process, is called _______________.
    a. Vendor analysis
    b. Value analysis
    c. Supplier analysis
    d. Performance review.

6.10. Summary

- Organizational buying ranges from the purchase of small routine items to complex machinery. It is different from consumer buying as it involves more systematic decision making.
- There are three kinds of buying situations in organizations. New task refers to first time purchases; modified rebuy refers to repeat purchase with changes in product specifications; straight rebuy means repeat purchase on existing terms and conditions. There are three sectors of organizational markets in India – Chemical and pharmaceuticals, energy and natural resources, and industrial and automotive sectors.
- Organizational buying is undertaken after consultation with the relevant members of the department concerned. Buying decisions are taken through techniques like just-in-time inventory and material requirements planning. Organizations ensure that the required quality, price, and delivery schedule is met by the vendors. Organizational buying also depends on the kind of demand for the product – inelastic, derived, joint or fluctuating demand.
- Organizational markets can be categorized into: producers markets – buy raw material to convert them into finished goods; resellers markets – sell

goods for monetary gain; government markets - purchase for requirement of various government departments; institutional markets – combination of government and private markets like schools and universities.

- Many factors influence organizational buying apart from the cost of the product. These are environmental, organizational, social, and personal factors.
- Different roles are played by individuals in the organization buying process. These are the roles of initiators, influencers, users, deciders, approvers, buyers, and gatekeepers.
- Buying of raw materials has assumed importance in organizations. Suppliers need to be aware of the appropriate quality standards, and buyers need to maintain strong relationships with suppliers. Supply management orientation can help organizations to improve their value in the entire value chain.
- Organization buying can be classified into nine stages. They are problem recognition, general need recognition, product specification, searching for potential suppliers, value and vendor analysis, order routine specification, multiple sourcing, and performance review.

6.11. Glossary

Derived demand: The fact that the demand for organizational products is driven by the demand for consumer products.

Government market: Federal, state, local, and foreign governments that buy goods and services.

Industrial product: A product bought for use in the production of other products or in a business's operations.

Inelastic demand: A price-demand relationship in which a decrease in prices decreases total revenue.

Logo: A unique symbol that represents a specific firm or organization, or a brand name written in a distinctive type style.

Multinational corporation: A corporation that has operations in more than one country, exploits the countries differences to enhance competitive advantage, and operates primarily from a domestic perspective.

Organizational buying process: The steps that organizations go through to purchase goods and services.

Organizational market: Group that buys goods and services for use in its operations, for resale, or as raw materials or components for other products.

Prospects: Consumers or organizations that are potential customers.

Resellers: Establishments in the organizational market that help move goods and services from producers to consumers.

Sample: a portion of a population that represents the whole in a research study.

Straight rebuy: An organizational buying situation in which the purchaser automatically reorders the same item from the same supplier.

Value analysis: A comparison of the cost of a potential purchase and the benefits it promises.

Vendor analysis: Formal evaluation of suppliers.

6.12. Self-Assessment Test

1. According to the traditional view, only the cost of the products that the organization ought to buy influences the organizational buying process. What are the other factors that influence organizational buying?
2. Outline the various stages of the organizational buying process.

6.13. Suggested Reading/Reference Material

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6. R Srinivasan. Case Studies in Marketing: The Indian Context. PHI Learning; 7th edition, 2018
7. Leon G., Schiffman, Joseph Wisenblit, S.Ramesh Kumar Consumer Behavior | Twelfth Edition Pearson 2018
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6.14. Answers to Check Your Progress Questions

Following are the answers to the Check Your Progress questions given in the Unit.

1. **(c) It involves an unsystematic decision making process**

   While the buying decisions of individual customers are made relatively easily and quickly, usually without any systematic decision-making process, organizational buying involves thorough and deep analysis. In organizational buying, managers deal with personnel with varied responsibilities, before actually buying a product. The purchasing manager's experience in organizational buying affects the buying process in organizations.

2. (c) **Automatic rebuy**

   The three different types of organizational buying situation are new task, modified rebuy and straight rebuy.

3. (d) **Elastic demand**

   Organizational demand characteristics include: Inelastic demand, Derived demand, Joint demand and Fluctuating demand.

4. (c) **Just-in-Time**

   Just-in-Time is a technique that helps maintain a bare minimum inventory of raw materials and finished goods. On the other hand, MRP deals with material requirement and supply management. Supply Management orientation involves effort on the organization's part to improve the overall value chain of the organization. Value analysis is a step in the organizational buying process.

5. (b) **OEM, Industrial dealers, Industrial users**

   Producer markets are further divided into original equipment manufacturers (OEM), industrial dealers and industrial users.

6. (c) **Wholesalers and Retailers**

   Industrial dealers and OEMs are players in the producer market. Wholesalers and retailers form a part of the reseller market.

7. (d) **Institutional markets**

   Institutional markets are a combination of government and private organizations.

8. (b) **Lifestyle factors**

   The four major factors influencing organizational buying are environmental, organizational, social and personal factors.

9. (a) **Environmental factor**

   Environmental factors influence the purchase process in the form of climatic conditions, geographical location and ecological concerns. Other environmental factors such as legal, political, economic, technological and cultural factors too affect the purchase process. Legal factors influence the purchase process by providing information on laws governing the organization and industry.

10. (c) Approver

Approvers are those who authorize the purchase process before it is actually implemented by buyers in the organization. Usually, a panel consisting of senior managers evaluates the need to purchase the product or service and approves the decision.

11. (a) Deciders

Deciders are those with sufficient power to choose the best alternative among available options regarding the purchase. These are the people who actually take the decision whether to buy a particular product or service or not.

12. (c) Supply management orientation

Supply management orientation involves efforts by an organization to improve the overall value chain starting from the supplier's supplier to the customer's customer.

13. (a) Multiple sourcing

In multiple sourcing, an organization depends on several different suppliers for purchase of goods and services.

14. (b) Value analysis

Value analysis uses various techniques to reduce cost and improve performance of equipment, production process, etc. Whenever a purchase process is initiated, the manager first analyzes the value and quality specification given by the users of the product. These specifications are then compared with the product supplied by suppliers.

Marketing Management

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Unit 28	Green and Sustainable Marketing
Unit 29	Marketing Analytics