

# Marketing Management

## The Marketing Mix-I





# **Marketing Management**

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## **III**

### **THE MARKETING MIX – I**

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### BLOCK III: THE MARKETING MIX – I

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The third block to the course on Marketing Management deals with the basic concepts related to the marketing mix. The block contains five units. The first unit talks about product and different aspects of product. The second and third units focus on importance of differentiation and positioning of products in marketing and the new product development process. The fourth and fifth units deal with concepts like branding, packaging, and pricing and their importance in marketing.

Unit 11, *Product and Product Portfolio*, introduces you to the concept of product. Product forms a very important part in the marketing mix of the organization. A product can have different components like core features and associated features. Products can be classified basing on various characteristics like durability and tangibility, and usage. A product passes through different stages in its life cycle. This unit focuses on product and discusses the concepts of product personality, product classification, and product life cycle.

The unit, *Product Differentiation and Positioning*, gives an idea about product differentiation and positioning. Product differentiation and positioning are the strategies adopted by marketers to secure market share and keep an edge over the competitors. Differentiation can also be done on other basis like service, distribution channel, image, and positioning. This unit provides a clear understanding about the different kinds of differentiation adopted by the marketers and the concept of positioning.

Unit 13, *New Product Development Process*, deals with the new product development process and the intricacies involved in it. The new product development process passes through different stages. It starts with the idea generation stage and ends with commercializing the new product that was developed. This unit gives a broad view of the new product development process and the various issues related to it.

Unit 14, *Branding and Packaging*, provides the concepts related to branding and packaging. Branding, packaging, and labeling help the marketers to create an indelible image on the minds of the customers regarding their products. Brand refers to the name, term, sign, symbol or design, or a combination of all them to convey the identity of goods and services to customers. This unit deals with the different concepts related to branding, packaging, and labeling.

The fifteenth unit, *Pricing and Marketing*, looks into the concept of pricing and its importance in marketing. Pricing plays an important role in the marketing strategy of the organization as consumers give lot of importance to the price they pay for a product or service. There are various steps involved in the process of setting prices for products and services. This unit deals with the importance of pricing and its relation with the marketing strategy of a firm.



## Unit 11

# Product and Product Portfolio

### Structure

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- 11.1. Introduction
- 11.2. Objectives
- 11.3. Product Personality
- 11.4. Product Classification
- 11.5. Product Policy
- 11.6. Product Life Cycle
- 11.7. Summary
- 11.8. Glossary
- 11.9. Self-Assessment Test
- 11.10. Suggested Reading / Reference Material
- 11.11. Answers to Check Your Progress Questions

### 11.1. Introduction

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We have discussed different marketing concepts like marketing research, market segmentation, strategic planning process in marketing strategies in the previous block. We have also discussed about marketing and competitive strategies. In the current unit, we will introduce you to product and its components, the classification of product, product policy, and the product life cycle.

Product is considered to be an important element and generally the first one out of the 4Ps of marketing to start with. A marketing manager cannot decide the price of the product or promotions or distribution channel until the company has a ready product to sell. Product can be in the form of goods, services, ideas, or a combination of any of these. A product has core as well as associated features with emphasis on creating value for the customer. In the current competitive scenario, where customers have multiple options to satisfy their needs and wants, delivering highest level of customer value has become an utmost important aspect for each organization. . Theodore Levitt differentiated products into generic, expected, augmented, and potential products. A product can also be classified depending upon characteristics like durability, tangibility, and usage. The set of all the products that an organization has to offer its customers is called product mix and a product mix consists of a number of

### **Block-3: The Marketing Mix – I**

product lines. A product goes through four stages in its life cycle called introduction, growth, maturity, and decline.

In this unit, we shall first discuss about what constitutes a product, the components of a product, and the different kinds of products. We shall then move on to discuss the classification of product based on its characteristics and product policy. We shall conclude the unit by discussing the different stages of a product life cycle.

#### **11.2. Objectives**

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

- Explain as to what constitutes a product
- Identify the components of product and the basis for classifying a product
- Discuss product mix and product lines
- Analyze the different stages in a product life cycle

#### **11.3. Product Personality**

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A product consists of the following components:

*Core features:* Marketers have to explain the core features offered by the product to the customers. These are the features that satisfy the basic needs of consumers. For instance, Nokia manufactures mobile phones that consist of basic features which enable users to make and receive calls, store telephone numbers, view time and date, send SMS (SMS stands for ‘Short Message Service.’ It is a facility that enables users of mobile phones to send short text messages to another mobile phone), etc.

*Associated features:* These are the additional features offered with a product that enhance customer satisfaction. In other words, the associated features add value to the product. For instance, Nokia also manufactures mobile phones consisting of features such as an in-built camera, hands free speakerphone, e-mail, mobile Internet connectivity, and MMS (MMS stands for Multimedia Messaging Service, a technology that allows users to create, send, and receive text messages that also include an image, audio, and/or video clip. MMS messages are sent from one mobile phone to another, or to an email address.), etc.

A company’s brand name, packaging and labeling of product are important associated features of a product. For instance, many consumers might want to purchase a One Plus mobile phone as it is one of the popular brands in the mobile telephone industry.



## Unit 11: Pricing and Marketing

**Nature of the Product:** According to Theodore Levitt, a product must be differentiated depending upon the value it is providing to the customer. He differentiated products into generic, expected, augmented and potential.

*Generic product:* Products which do not come in fancy packaging and which are not branded are known as 'generic products.' However, one can find minor discrepancies between the products of two different companies. For example, steel sheets produced by TISCO are not exactly the same as the sheets produced by SAIL. Marketers enhance the features of a generic product to convert it into an expected product.

*Expected product:* Marketers try to offer products that suit the specific requirements of customers. Customer requirements can be negotiable terms and conditions of sale, advice and support for using the product, etc. It is important that marketers cater to the requirements of the customers, or the sales of generic products may suffer. For instance, vegetable vendors tend to sell vegetables to customers at a price bargained by the customer, or the customer may as well purchase vegetables from some other vendor selling for lesser price.

*Augmented product:* In a bid to differentiate their products from those of competitors, marketers add additional features to their expected products. These additional features are generally more than what customers expect from a product. Such products are known as augmented products. Hotel X-Torantoo's fitness centre of 90,000 square feet, with more than 50 Technology Artis machines, nine glass-back squash courts, four indoor tennis courts, a golf simulator and an indoor-outdoor pool on the 28<sup>th</sup> floor is a perfect example of an augmented offer in luxury hotel segment.

*Potential product:* These products include all the improvements that are possible under given technological, economic and competitive conditions. For instance Emirates in its ambition to reach and engage audiences around the world launched Oculus VR app in 2021, offering users lifesize interactive cabin interior experiences on board. The tool allows customers to navigate from one seat to another, explore onboard lounge and shower spa on the Emirates A380.

### Product Hierarchy

It is defined as an organizational chart that depicts the assortment of products offered in a given market. Product hierarchy consists of product class, product form, variations in the product form and brands. For instance, in the automobile sector the product class is the different types of vehicles available like cars, trucks, buses, two-wheelers etc. The product form can be the various models of cars, like the sports utility vehicles, family cars, etc. The variation in the product form can be cars with two doors and with four doors. Brands of cars can be Audi New A3, MG Hector and Kia Carnival.

### Block-3: The Marketing Mix – I

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#### **Check Your Progress-1**

1. ‘An organizational chart that depicts the array of products offered in a given market’; identify the concept defined here.
  - a. Product hierarchy
  - b. Product personality
  - c. Product classification
  - d. Product policy.

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#### **11.4. Product Classification**

Products can be classified depending upon characteristics such as durability and tangibility, and usage.

**Durability and tangibility:** Depending upon durability and tangibility, products can be classified into durables, non-durables and services.

*Durables:* These goods are tangible in nature and are consumed over a long period of time. For instance, products like refrigerators, washing machines, cameras, etc.

*Non-durables:* These goods are tangible in nature and are also consumed within a short period of time. For instance, FMCG goods like toothpaste, soaps, etc.

*Services:* These are intangible and perishable in nature. They can be either an independent product or an inseparable part of a product. For instance, a hair cut (independent product) and pizza delivery service by Domino’s (inseparable from product).

**Usage:** Depending upon the usage products can be classified into:

*Consumer Products:* Products purchased by consumers for family, individual or household use are known as consumer products. Consumer products can be further classified into:

**Convenience products:** The products which are bought by consumers very frequently and which are inexpensive in nature are known as convenience products. Convenience products can be further divided into staple goods and impulse goods. Staple goods can be milk, bread, newspapers, etc. Goods which are purchased by consumers during a shopping trip without a prior intention to do so are known as impulse goods. Examples can be chewing gum, magazines, etc.

**Shopping products:** For purchase of products such as refrigerators, PCs, washing machines, video cameras, etc., consumers spend time and effort prior

## Unit 11: Pricing and Marketing

to the purchase because such products have a longer period of life and are also relatively costly. Such products are known as shopping products.

**Specialty products:** These products are expensive and customers spend considerable amount of time and effort in planning prior to the purchase. Specialty goods have certain unique characteristics. Often customers are unwilling to substitute these products for other related products. Examples of specialty goods can be an original painting by Picasso, a Rolls-Royce car, etc. Also, specialty goods are sold in exclusive outlets. For instance the Swarovski crystals are available only in select outlets.

**Unsought products:** Products which are required in the face of uncertainties or problems are known as unsought goods. Customers generally do not anticipate the need for such products and purchase only when required. Examples can be umbrella, repair services, etc.

*Industrial products:* When a product is purchased not for personal consumption but for the production of another product or to facilitate certain organizational process or processes, it is known as 'industrial product'. Industrial products can be further classified into:

**Raw material:** It is the basic material used in the production process. For instance, crude oil used in oil refineries.

**Component parts:** A component is a finished product or a product that needs a little processing before becoming a part of the main product. For instance, rear view mirrors used in vehicles.

**Process material:** These products are used directly in the production process. However, they are not easily recognizable as a part of production of the final product. For example, perfume manufacturing companies use alcohol as a base for production of perfumes. However, alcohol cannot be directly identified in the final product.

**Support products:** These products only facilitate the process of production and do not become part of the final product. Support products can be further classified into:

*Capital equipment* – These are large tools and machines that are used for the production of goods or for providing services. They are generally expensive in nature. Also, these products are sometimes customized to suit the needs and specifications of the consumer.

*Accessory equipment* – Products that help in production or office activities are known as 'accessories'. These products do not become a part of the final product. Examples can be the furniture in the company, computers, etc.

### Block-3: The Marketing Mix – I

*Consumable supplies* – These are the products that are consumed during the production process or delivery of a product but do not become a part of the final product. Examples can be paper, oil, etc.

*Business services* – Services such as legal services, janitor services, financial services, etc., which ensure smooth functioning of the organizational process are known as business services. The product classification model, however, is not devoid of limitations. Consumer perceptions of the product, usage of the product by the consumer, etc., can influence product classification. For instance, an umbrella may be perceived as a shopping product by one customer, while it might be an unsought product for another. Nevertheless, the product classification model serves as a guide to marketers while devising marketing strategies.

<b>Activity:</b> Classify the following products based upon -- a) their durability and tangibility, and b) their usage:		
Rexona	_____	
Knorr Soups	_____	
Apple Mobile Phones	_____	
Filmfare Magazine	_____	
Mont Blanc Pen	_____	
JK Tyres	_____	
PCs by Dell	_____	
Boston	Consulting	Group
Wrigley's	Chewing	Gum
_____	_____	_____

#### **Check Your Progress-2**

2. Based on durability and tangibility, products can be classified into three groups. Which of the following is **not** one of the groups?
- Non-durables
  - Durables
  - Intangibles
  - Services.

3. Consumer products can be further divided on the basis of purchasing habits of the consumer. Which of the following types of consumer products are usually bought with minimum thought and effort?
  - a. Convenience product
  - b. Shopping product
  - c. Specialty product
  - d. Unsought product.
4. Computers and calculators come under which category of industrial products?
  - a. Component parts
  - b. Process material
  - c. Consumable supplies
  - d. Accessory equipment.
5. Consumer products are products that are used by a customer for personal, family and household use. Match the different types of consumer products with their respective characteristics.
  - i. Convenience product
  - ii. Shopping product
  - iii. Specialty product
  - iv. Unsought product.
  - p. Product that a customer purchases when faced with a problem
  - q. Products that have unique characteristics and are costly
  - r. Product where a buyer is willing to spend time and effort in planning and making purchase decision
  - s. Product that is inexpensive and purchased frequently.
  - a. i/r, ii/s, iii/p, iv/q
  - b. i/s, ii/r, iii/q, iv/p
  - c. i/p, ii/r, iii/q, iv/s
  - d. i/s, ii/q, iii/r, iv/p.

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### **11.5. Product Policy**

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#### ***Product mix:***

A product mix consists of all the products an organization offers to its consumers for sale. It is also known as product assortment. For instance, Tata has a diversified product portfolio ranging from steel, automobiles to FMCG and personal care products, each sector is serving to the evolving consumer needs.

### Block-3: The Marketing Mix – I

**Width:** It is the total number of product lines a company carries. For instance, HUL has various product lines like, personal care, home care, food, water purifiers etc. **Length:** It is the total number of items in the mix. There is also a concept of average length of a line. This can be obtained by dividing the total length by the number of lines. Suppose, the length of a product mix for a company is 48, and number of lines is 12, so the average length of a line is 4. **Depth:** It is the assortment of sizes, colors, and variations offered in each product in the product line. If Dettol bathing soap comes in four variants (Original, Skincare, Cool and Aloe vera) and in three sizes, then Dettol bathing soap has a depth of twelve.

**Consistency:** It refers to the closeness exhibited by the product lines in the production requirements, distribution, end usage, etc. ITC's product lines are consistent in case of FMCG products as it all goes through same distribution channels.

**Activity:** What is the product length and width of P&G? What is the product depth of the brand 'Vicks' offered by P&G?

**Answer:**

**Product Mix Strategies:** Marketers use different strategies to effectively manage the product mix. Some of the product mix strategies are discussed below.

*Expansion of product mix:* It refers to increasing the number of product lines and/or the depth within the product line. A company expands its product mix by introducing products that are either related or unrelated to the current product mix. For instance, Hindustan Lever Limited (HLL) has added *Fair & Lovely Ayurvedic Care*, *Fair & Lovely BB Foundation*, *Fair & Lovely winter Fairness Cream*, *Fair & Lovely BB Cream Make-up Like Glow*, *Fair & Lovely Glow & Lovely*, *Fair & Lovely Men's Instant Brightness* under the brand name *Fair & Lovely*. Exhibit 11.1, depicts how ITC expanded its stationery product mix.

**Exhibit 11.1: ITC's Stationery Mix**

Classmate by ITC is India's favourite notebook brand for more reasons than one - its high-quality, beautifully designed notebooks, and its spirit of making learning fun for kids. The new, innovative Classmate Interaktiv series notebooks step up engagement and come with additional origami sheets and instructions, encouraging children's creativity with this exciting activity. Aimed at encouraging students to learn through "Do It Yourself" activities, these Origami notebooks will enhance their creativity and imagination through experiential learning. Apart from these interactive series, under the brand name Classmate ITC sells writing instruments, art stationery, notebooks, and geometry box. Paperkraft is an upward stretch to its stationery product line. It includes, Premium leather sleeved notebooks, Paperkraft Premium Ceramic Roller Ball Pens, Gift Box Note books, and Paperkraft signature series, which presents a complete range of premium notebooks that speak the language of professionals.

Source: [www.itcportal.com](http://www.itcportal.com).

*Contraction of product mix:* When companies eliminate the entire product line or simplify the product lines through assortments, it is known as contraction of product mix. For instance, in December 2020 Honda discontinued Civic. The decision was made as a result of the product's falling sales in the market.

*Altering existing products:* Marketers may alter their existing range of products through redesigning, improved packaging, by adding new features, etc. For instance, when Uncle Chips Pvt., Ltd., was losing the battle to the multinational potato chips brands, the company hired the services of 'Ray and Keshavan Designs' to redesign the potato chips packets for its entire product range.

*Positioning the product:* Positioning the product can be in relation to competitor's product. For instance, the TV commercials for the products *Sprite* and *Mountain Dew* are positioned directly against each other.

Positioning the product can also be in relation to the target market. For instance, the product *Emami Fair & Handsome* beauty cream is positioned as a fairness cream for men.

A product can be positioned in relation to the product class. For instance, GSK formulated various strategies and successfully transformed the positioning of the product *Horlicks* from a 'health drink' meant for the sick to a 'nutritional drink' for the young generation.

### **Block-3: The Marketing Mix – I**

Products are also positioned by price and quality. For instance, HUL's *Wheel* is positioned as a detergent that offers quality that is equivalent to a premium detergent, but at an affordable price.

*Trading up:* To enhance the company's image, marketers introduce premium priced goods to the existing range of products. Trading up also helps in improving the sales of the existing product line. For instance, Maruti Udyog Ltd., is recognized for its economy class cars, however, the company has also forayed into the executive class car segment with cars like *Baleno* and *Swift* catering to the relatively higher segments of the market.

*Trading down:* In trading down, companies introduce low priced products to the existing range of specialty products. For instance, The GLA is the smallest and cheapest Merced-Benz SUV, carrying a starting price of \$25,245.

#### ***Managing product lines***

*Product line analysis:* A company must observe the sales generated by the various products in its product line. The company must also keep an eye on the competitor's moves in relation to its product line. Such an analysis would help companies take the right decision at the right time. It is through this analysis that companies take crucial decisions like dropping a product from the existing range or adding a new product, etc.

*Product line length:* A product line length can determine the profitability of a company. A firm should carry only those many products in its product line that can maximize its profits while satisfying customer expectations. If there are lesser number of products in the product line then profits can be improved by adding more products to the product line. Suppose, Colgate started with offering toothpaste and tooth powder, but then they realised the need for hygiene products for kids also, wherein they came up with kids toothpaste as well. Similarly, some of the products can also be removed from the product line. Like, some products which are outdated or not so profitable for the company can be removed.. The product line length can be increased by line stretching and line filling, which are discussed below.

*Line stretching:* It occurs when the company tries to stretch its existing range of products either upwards or downwards. The product range can also be extended both upwards and downwards. A firm tries to stretch its product line downwards when it is positioned in the middle market and wants to introduce products at a lower price. Similarly a company tries to stretch its product line upwards when it wishes to enter the high end of the market. For instance, HLL's detergent products are available for a premium price (*Surf Excel*) as well for an affordable price range (*Wheel*). Exhibit 11.2 delineates how Titan did upward stretch with Titan Edge Mechanical brand.



**Example 11.2: Titan Premiumising its Watch Portfolio**

India's top watch maker, Titan Company Ltd., is stepping up efforts to premiumise its portfolio with the launch of its costliest watch in the non-gold category at Rs1.95 lakh under the Titan Edge Mechanical brand. The limited-edition watch, only 200 of such pieces are up for sale through the company's World of Titan and Helios Watch stores, marks a shift towards premiumization in a market that has over the years come to be replaced by smartphones that consumers now use to keep track of time. The move, said experts, also pitches Titan as more of an aspirational brand and as an offering for upscale shoppers in the country. Titan said the watch, five years in the making, is largely aimed at watch collectors, connoisseurs, and white-collar workers.

*Source: Adapted from, "Titan focuses on premiumising watch portfolio", [www.livemint.com](http://www.livemint.com) 18<sup>th</sup> Feb 2021.*

**Line filling:** When marketers add more products to their existing range of products, it is known as 'line filling'. For instance, P&G added *Rejoice* to its existing range of shampoo brands *Pantene* and *Head & Shoulders*.

**Product line modernization:** Manufacturers using outdated machinery and producing products that are not very contemporary have to adapt to the changing market conditions and modernize their product line in order to stay competitive.

**Product line pruning:** Manufacturers dispose off certain products that no longer contribute to the overall profitability of the organization. In this way, companies can optimally divert the resources spent on such products to more profit generating products.

**Reasons for line extension:** Marketers perceive line extension as a means to cater to a wide variety of customer segments. Line extensions provide something new and extra to the customers thereby helping marketers in retaining customers and in attracting new ones. Adding new products to existing product lines involves lesser costs than developing a totally new product. For example, while launching new premium phones for Indian consumers, One Plus never lost focus of price sensitive customers. The company is expected to launch One Plus 10 at 53,499, One Plus Nord LE at 33,690, One Plus Nord SE at 19,999 and One Plus Clover at 14,999 in the months of Oct-Nov 2021.

**Limitations of line extension:** The product line may become saturated due to the introduction of too many products in the line. Brand loyalty may be diluted when many products are introduced under the same brand name. Sometimes products are introduced under existing brand names even when they have the

### Block-3: The Marketing Mix – I

potential to be introduced as new ones in the market. Line proliferation distracts the attention of the R&D department from developing new products and generating new ideas.

---

#### **Check Your Progress-3**

6. \_\_\_\_\_ is an activity where the company extends its product line beyond the current range of products.
    - a. Line stretching
    - b. Line filling
    - c. Line pruning
    - d. Line contracting.
  7. A product mix consists of all the product mix lines and categories. It has certain characteristic features. Which of the following are the characteristic features of product mix?
    - i. Product width
    - ii. Product quality
    - iii. Product consistency
    - iv. Product depth.
    - a. i, ii, iii
    - b. i, iii, iv
    - c. ii, iii, iv
    - d. i, ii, iii, iv.
  8. Marketers add higher priced, prestige products to their existing product line in an effort to increase the sales of their cheaper products and enhance the company's image. Which product mix strategy used to manage the product mix is mentioned here?
    - a. Product mix expansion
    - b. Trading up
    - c. Product positioning
    - d. Altering existing products.
  9. Which of the following is **not** a limitation associated with excess product line extension?
    - a. Weakening of product lines
    - b. Complexity in logistics
    - c. Increase in demand
    - d. Lowering of brand loyalty.
-

### 11.6. Product Life Cycle

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It is a concept, used by marketing managers to trace and analyze the customer acceptance level of the product among the four stages of product life cycle. Each product goes through these four stages in its life. They are the introduction stage, growth stage, maturity stage and decline stage. For each stage a set of effective marketing strategies are required

**Introduction:** This is the first stage in PLC. In this stage, marketers introduce the product in the market. The introduction stage is a rather difficult stage for marketers due to the following reasons:

- the expenses incurred in R&D, marketing, and launch are very high for introductory products
- the risk of a new product failure is very high

This stage is characterized by high expenses, negligible sales and zero or even negative profits.

For instance, when Lifebuoy bathing soap was introduced in the market, there were hardly any existence of packaged and branded soap. Customers use to buy loose soap from local kirana shops. At that time, Lifebuoy was in introduction stage.

*Strategies for introduction stage:* With regard to price and promotion, a marketer may adopt any of the following strategies during the introduction stage.

**Rapid skimming:** Companies may price their products very high and also promote the products at a higher level. This strategy is applied with a view to skim the market as quickly as possible. The rapid skimming strategy is useful when consumer knowledge about the product is low.

**Slow skimming:** Marketers use this strategy when the product is not new to the market and there is no threat of competition. Producers offer their products at a higher price and the products are supported by a limited promotional budget.

**Rapid penetration:** When the product is unknown to the market and the market size is relatively large, companies adopt the rapid penetration strategy. Marketers offer the product at a very low price and the product promotion budget is large. Amazon and Uber are well-known examples. They rapidly penetrated markets, brought down unit cost, and built up a loyal customer base, and created barriers for entry. Since these companies gained many customers early, they are better positioned to maximize customer life time value.

**Slow penetration:** Marketers may offer the product at lower prices and the product is supported by a limited promotional budget. The strategy is adopted

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when the product is well known to consumers and when the market is very large in size.

**Growth:** This is the second stage in PLC. In this stage, the product gains huge demand, which is followed by an increase in sales. As a result, the product delivers huge profits. However, marketers of these products face threat of competition from new companies who introduce similar products with added features. Although, the profits are at their peak initially in this stage, they gradually tend to decline towards later stages in this phase. Also, the initial increase in profits can be attributed to –

**Activity:** Hyderabad based, Organic Mantra announced its plans to introduce a new product, a 'coffee-based gutkha without the harmful tobacco'. Suggest a suitable strategy to GCMMF for introducing its new product in the market, considering the fact the company's product is in the introductory stage of PLC.

**Answer:**

- the costs incurred on promotions that are spread over large volume of output produced
- the cost per unit of product manufactured is reduced (economies of scale)

With reference to Lifebuoy soap Exhibit, when customers started to know about the product, they started to buy and consume it. This is where the company comes under growth stage

Companies resort to various strategies such as aggressive pricing, product quality optimization, distribution network optimization, etc., to sustain as well as to improve the sales of the product.

**Maturity:** By now, the market is characterized by too many players and it leads to a decline in the sales of the product. However, sales decline steadily i.e. the sales grow initially then stabilize and finally begin to decline. The company also faces competition from other players and hence invests heavily in R&D to improve the quality of the product. Nirma bathing soap was the major competitor to Lifebuoy, which made the company to land into maturity stage. There were many reasons why Nirma was able to capture the very strong market base of Lifebuoy, like, fragrance, different variants etc. Companies also

devise various marketing strategies such as increased advertising and communication to sustain the profitability of the product.(Refer Exhibit 11.3).

**Exhibit 11.3: Men's Grooming Products**

Men's personal grooming market in India is growing at a great pace and specifically the men's fairness cream category, is touching the sky. The estimated valuation of the total fairness cream market is around INR 22 billion, out of which about INR 1.86 billion accounts for men's skin fairness market only. This is a highly competitive market because several brands have entered this segment from time to time. Emami's Fair and Handsome was the first product to enter in this market, with focus on converting users of woman's fairness cream through various promotional strategies. It's one of the advertisement said: "Hey, do you apply lipstick? Then why you use women's fairness cream?". In line with this, HUL also quickly launched Fair & Lovely Menz Active, in order to milk the strength of the existing brand. Next to this, HUL launched another new product in this category "Vaseline Men Antispot Whitening Face Cream." Nivea as a major competitor in personal grooming market launched two products to compete with the new products in the market. These were Nivea for Men range, namely, Whitening Moisturizer and Multi-White Whitening Facial Form. Later, Garnier launched its Men's Power Light range with two variants namely, "fairness moisturizer and face wash" and "oil control fairness moisturizer." These were manufactured using natural ingredients. Clarins launched its product "Fatigue Fighter" and positioned it as a skin refresher that eliminates signs of stress and fatigue and makes the skin livelier. Another brand, Godrej Fairglow cream in the same category made the products available in low price range. Cavinkare's Fairever's brand in the same segment, offers single-usage and low price packs which works as a sunscreen and an anti-marks cream. Elder Pharma's FairOne Man offers fully herbal products with no side effects and is priced at a competitively lower rate. Zydus Cadila's EverYouth brand offers vast variety of products like, scrub, face wash, sunblock and moisturizer. These brands have used various renowned personalities as brand endorsers, who will provide entertainment, information, and advice about the product. Also various mediums of promotions are being used like, micro websites and social networking sites, television etc. As the competition is rising, the market is becoming crowded and the options to survive are becoming less.

*Source: Marketing Management (14e)- B Kotler, Keller, Koshy & J*

**Decline:** In the last stage of a product's life cycle, the sales and profits decline at a fast pace. The reason for decline could be the inability of the marketers to cope up with the increasing competition, advancements in technology that lead

### Block-3: The Marketing Mix – I

to introduction of better products, shift in tastes and preferences of consumers, etc. In this stage, marketers reduce the spending on the product by cutting down the promotional budget, reducing the distribution channels, etc. Marketers may also withdraw their products from the market during this stage. Sometimes, when the technology of the product becomes outdated, it lands into decline stage. Like, when touchscreen mobile phones were in the market, general button mobile phones become outdated.

Limitations of the PLC concept: Not all products undergo their life cycle in a uniform pattern, some products may quickly rise and fall, while some others may take a long time, increase in the promotional activities during the maturity or decline stage may prolong the life of the product in these stages. The product life cycle only outlines the different phases of a product but cannot help in determining the duration of each of these phases.

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#### **Check Your Progress-4**

10. The stages in the product life cycle follow which of the following sequences?
  - a. Introduction, Growth, Decline, Maturity
  - b. Introduction, Maturity, Growth, Decline
  - c. Growth, Maturity, Decline, Introduction
  - d. Introduction, Growth, Maturity, Decline.
11. Ramsay Systems has launched an external storage drive (Magic pen) that can be plugged into the USB port of a computer. In which stage of the product life cycle is magic pen likely to generate the maximum revenue for the company?
  - a. Growth stage
  - b. Introduction stage
  - c. Decline stage
  - d. Maturity stage.
12. Which of the following strategy is **not** used in the maturity stage of the product life cycle?
  - a. Reducing the number of products in a product line offered to the market
  - b. Abandoning weaker products and concentrating more on profitable products
  - c. Resorting to the introduction of fresh advertising campaigns, new packaging and product re-launches
  - d. Investing more in R&D to bring about improvements in the product and product line extensions.

## Unit 11: Pricing and Marketing

13. Match the following strategies with the respective stage of the product life cycle in which they are used.
- i. Launch the new product
  - ii. Emphasize the product's benefits in order to create a competitive niche in the market
  - iii. Abandon weaker products and concentrate more on profitable products
  - iv. Reduce investment levels.
  - p. Introduction stage
  - q. Growth stage
  - r. Maturity stage
  - s. Decline stage.
  - a. i/s, ii/r, iii/q, iv/p
  - b. i/q, ii/r, iii/s, iv/p
  - c. i/p, ii/q, iii/r, iv/s
  - d. i/p, ii/r, iii/s, iv/q.

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### 11.7. Summary

- A product is something that is offered by the marketer to satisfy the needs of the consumer. A product is made up of two components – core features and associated features.
- According to Theodore Levitt, a product must be differentiated depending upon the value it is providing to the consumers. Levitt differentiated products into generic, expected, augmented and potential products.
- Products are classified on the basis of their durability and tangibility, and usage.
- A product mix consists of all the products that a marketer offers to the consumers. Marketers adopt various product mix strategies that help them in efficiently managing their product lines.
- The product life cycle is a useful tool that helps marketers in devising appropriate marketing strategies for their products.

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### 11.8. Glossary

**Augmented products:** The expected products plus all of them added value.

**Brand loyalty:** The level of commitment that customers feel toward a given brand, as represented by their continuing purchase of that brand.

### Block-3: The Marketing Mix – I

**Brand name:** The portion of a brand that can be expressed verbally, including letters, words, or members.

**Capital equipment:** Industrial machinery, office and store equipment, or transportation vehicles that are purchased infrequently and are used to produce goods, provide a service, or support the day-to-day operation of an organization.

**Convenience products:** Relatively inexpensive products that buyers or users choose frequently with a minimum of thought and effort.

**Nondurable goods:** Goods that are used or consumed over a short period of time or after one or few uses; examples include food and office supplies.

**Premium:** An item given away with a product as part of sales promotion.

**Product life cycle:** A model that describes the stages that a product or a product category passes through, from its introduction to its removal from the market.

**Product line width:** The number of product lines in a company's product mix.

**Shopping products:** Products that are more costly and involve more risk than convenience products, to the consumer.

**Skim pricing:** A variation of value pricing for new products in which you attempt to recover a high level of profit for a limited period of time, based on the unique value that you're offering to the market.

**Specialty products:** Unique or specialized products on which buyers are willing to spend more.

#### 11.9. Self-Assessment Test

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1. A product can be differentiated based on the value it provides to its customers. How did Theodore Levitt differentiate products?
2. A product mix consists of all the products that a company offers to its customers. What are the different product mix strategies a marketer may adopt?
3. A product life cycle describes the various stages a product passes through in its life. Explain the concept of PLC.

#### 11.10. Suggested Reading/Reference Material

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1. Philip Kotler, Kevin Lane Keller, Alexander Chernev, Marketing Management, 16th edition Pearson 2021
2. Roger Kevin, Steven Hartley, Marketing: The Core, 9th edition McGrawHill 2021
3. GC Beri, Arun Kaushik, Zillur Rahman, Marketing Research 6th Edition McGrawHill 2020



## Unit 11: Pricing and Marketing

4. Callie Daum. Marketing Management Essentials You Always Wanted To Know. Vibrant Publishers; Second edition (1 January 2020)
5. Saxena, Rajan. Marketing management. McGraw-Hill Publishing Co Ltd, 2020.
6. V S Ramaswamy and S. Namakumari. Marketing Management: Indian Context Global Perspective. Sage Publications India Pvt Ltd; Sixth edition, 2018
7. R Srinivasan. Case Studies in Marketing: The Indian Context. PHI Learning; 7th edition, 2018
8. Gupta Prachi, et al., Marketing Management: Indian Cases. Pearson Education; First edition, 2017
9. Warren J. Keegan. Global Marketing Management. Pearson Education; Eighth edition, 2017.

### **11.11. Answers to Check Your Progress Questions**

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

**1. (a) Product hierarchy**

Product hierarchy can be defined as an organizational chart that depicts the array of products offered in a given market.

**2. (c) Intangibles**

Products can be classified into three groups, based on their durability and tangibility as non-durables, durables and services.

**3. (a) Convenience product**

Convenience products are relatively inexpensive and are bought frequently. These products are usually bought with minimum thought and effort.

**4. (d) Accessory equipment**

Accessories are those products that help in production or office activities. They do not become a part of the final product. For example, mechanical tools, computers, calculators, furniture, etc.

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

Convenience products are products that are relatively inexpensive and are bought frequently. Shopping products are products for which a buyer is willing to spend time and effort in planning and making purchase decisions. Specialty products are products that have one or more unique characteristics. Unsought products are products that a customer purchases when he is faced with a sudden problem.

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**6. (a) Line stretching**

Line stretching is an activity where the company extends its product line beyond the current range of products.

**7. (b) i, iii, iv**

A product mix consists of all the product mix lines and categories. It has certain characteristic features like product width, length, depth and consistency.

**8. (b) Trading up**

In a trading up strategy companies offer higher priced, prestige products to their existing product line in an effort to increase the sales of their cheaper products and enhance the company's image.

**9. (c) Increase in demand**

Line extensions rarely increase the demand of the total category. In fact, research has shown that there is no positive correlation between category growth and line extensions. All the other options are limitations of excessive product line extension.

**10. (d) Introduction, Growth, Maturity, Decline**

The four stages of product lifecycle are in sequence- Introduction, Growth, Maturity, and Decline.

**11. (a) Growth stage**

In product lifecycle, a product generates maximum revenue in the growth stage because in this stage the sales increase whereas the unit manufacturing and promotional cost falls.

**12. (a) Reducing the number of products in a product line offered to the market**

Reducing the number of products in a product line offered to the market is a strategy associated with the decline stage of the product life cycle.

**13. (c) i/p, ii/q, iii/r, iv/s**

In the slow skimming strategy that is used in the introduction stage, a new product is launched at a higher price and low promotional level. In the growth stage, the marketer gives emphasis to the product's benefits in order to create a competitive niche in the market. Marketers abandon weaker products and concentrate more on profitable products in the maturity stage of the product life cycle. In the decline stage, a marketer can maintain the firm's investment level until the market uncertainty passes by.

## Unit 12

# Product Differentiation and Positioning

### Structure

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- 12.1. Introduction
- 12.2. Objectives
- 12.3. Product Differentiation
- 12.4. Service Differentiation
- 12.5. Personnel Differentiation
- 12.6. Channel Differentiation
- 12.7. Image Differentiation
- 12.8. Positioning
- 12.9. Summary
- 12.10. Glossary
- 12.11. Self-Assessment Test
- 12.12. Suggested Reading/ Reference Material
- 12.13. Answers to Check Your Progress Questions

### 12.1. Introduction

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In the earlier unit, we introduced you to the concept of product and various issues related to it. In this unit, we shall discuss the concepts of product differentiation and product positioning.

Companies try to differentiate themselves from competitors on the basis of product, service, distribution channel, image, and positioning. Product differentiation is one of the prominently used marketing strategies of many firms. Product differentiation can be based on many factors like form, design, features, quality, durability, size, etc. Some companies differentiate themselves from competitors through services rendered in the cases where differentiation through tangible attributes is not easy. Service differentiation can be based on factors like ordering ease, delivery, installation, ease of payment, maintenance, guarantees, repair, etc. Companies also try to differentiate themselves from competitors through other kinds of differentiation like personnel differentiation, channel differentiation, and image differentiation.

Positioning refers to influencing the mind of the customers rather than bringing any changes to the product. The various positioning strategies that can be

### **Block-3: The Marketing Mix – I**

followed by marketers are: getting into the mind of the consumer, positioning of a leader, positioning of a follower, and the power of a name.

In this unit, we will first discuss the concept of differentiation and the different kinds of differentiation. We shall then discuss the concept of positioning and the various positioning strategies that can be followed by marketers.

Before studying this unit, student should recall the concepts related to product and product lines (Unit 11).

#### **12.2. Objectives**

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

- Define the concepts of product differentiation and product positioning
- List the different factors based on which product and service differentiation can be made
- Compare and contrast the different kinds of differentiation;
- Discuss the concept of positioning and the various positioning strategies available to marketers

#### **12.3. Product Differentiation**

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The scope for differentiation of products varies with the nature of the products. Some products like steel, cement, etc. have less scope for differentiation than products in the categories of consumer durables. Marketers find it tough to make a decision about product differentiation when there are many features of a product which can be used for differentiation. For example, a washing machine can be differentiated based on its capacity (3kg, 5kg, etc.) or mode of loading clothes like front loading, top loading, etc. Further, it can also be differentiated on the basis of additional features like timer, automatic drying, and various technological aspects such as interactive washing, sixth sense cleaning, etc.

Product differentiation can be based on form, design, features, quality, durability, size, reparability, etc.

##### **Product Form**

Differentiation in product form can be done based on its physical attributes like size, shape, etc. The sum total of physical attributes is the product form. iD Filter Coffee sachet in 20ml packs make 1 cup of filter coffee is a perfect finish south Indian filter coffee decoction, for those on the go.

##### **Design**

Customers prefer product designs, which reflect the functionality/usefulness of the product. Differentiation of a product design can be in the form of functionality or looks. However, it is inevitable that product designs will be

## **Unit 12: Product Differentiation and Positioning**

imitated by companies in the market. Therefore, when a company wants to differentiate its product by design, it should come up with innovative designs on a regular basis. For example, Samsung's Galaxy Z Fold 3 is latest foldable smart phone launched in 2021, has come a long way from, mere gimmicky and delicate phone to sturdy and water resistant phone.

### **Features**

The features of a product are the characteristics that allow it to perform certain functions. Companies can achieve differentiation of products by adding or removing certain features of the product. Marketing research can help in identifying the features which customers are looking for in a product. Later, the marketers can analyze the feasibility of adding those features to the product and thus gaining the acceptance of customers. Regular feedback from customers can help marketers in adding features to the product which will increase the satisfaction level of customers.

For example, In August 2021 Maruti Suzuki launched a new limited edition model called the WagonR Xtra. It is based on the VXi variant and prices start at Rs. 5.13 lakh.

### **Product Quality**

The quality of a product refers to the extent to which a product matches customers' expectations. If the characteristics are in keeping with the customer's expectations, it is perceived as a quality product. Organizations need to strive continuously for maintaining and improving the quality of products. 'The Strategic Planning Institute', a non-profit corporation which manages the Profit Impact of Market Strategy (PIMS) database of companies, found that there is a positive correlation between a product's quality and a firm's return on investment.

### **Durability**

Customers are prepared to pay a premium if a product is durable. However, the durability of a product varies with its nature and use. If the technology used in the product gets quickly outdated, customers will not be willing to pay a premium for its durability.

### **Size of Package**

Variations in the size or weight of a product can also be utilized by marketers in differentiation.

### Block-3: The Marketing Mix – I

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#### **Check Your Progress-1**

1. It is the process by which companies manufacture and design products so that customers perceive them as different from those manufactured by other companies. What is this process known as?
  - a. Product segmentation
  - b. Product positioning
  - c. Product differentiation
  - d. Product development.
2. Cavin Kare was the first to use sachets, to market its products. How did Cavin Kare differentiate the products?
  - a. On the basis of product quality
  - b. On the basis of size and weight of pack
  - c. On the basis of form
  - d. On the basis of reliability.

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#### **12.4. Service Differentiation**

Differentiation based on physical and tangible attributes is very difficult in the case of some products. In such cases, rivals can easily imitate the product's physical features. Therefore, some companies differentiate themselves from competitors through intangible attributes i.e. services. Service differentiation can be done through ordering ease, delivery, installation, ease of payment, customer training, financial arrangements, guarantees, maintenance, repair, and disposal. Both the tangible and intangible attributes of a product can be used in service differentiation.

##### **Ordering Ease**

The ease with which consumers can order products they want can be a differentiating factor used by players in the market. For instance, with the inception of online marketing, websites like amazon.com, baazee.com, etc. are enabling the consumers to order products at their convenience.

##### **Delivery**

Companies can also use the speed and care in delivering the product as a basis of differentiation. For example, Domino's Pizza claims to deliver pizzas within the fastest time possible and even has a money-back guarantee in case of failure to deliver the product within the specified time.

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### **Installation**

Installation can be another basis for differentiation, especially in industrial markets where heavy equipment is purchased. Employees of a company are sent to install the equipment at the client site. Ease of installation can also help the company in capturing the market, especially when a new technology is introduced. For instance, companies make software installation easier for users by providing them with step-by-step instructions.

### **Guarantees**

Guarantees relating to product functioning and after-sales service can help the companies gain a competitive advantage. Companies differentiating their offerings through guarantees should follow certain guidelines to be efficient. They are:

- Product should be associated with an unconditional guarantee for after sales service.
- The guarantee has to be comprehensible and communicative.
- The guarantee should be reassuring about the product and meaningful to the customer.
- There should not be any problems for customers in invoking the guarantee.

### **Financial Arrangement**

Some organizations have a tie-up with financial institutions to provide loans for customers to purchase products through easy installments. For example, Kirtilal Kalidas & Co., a diamond and gold jeweler company, has a unique tie-up with 'Andhra Bank' to provide loans for the purchase of gold under the 'Swarnapurnam scheme'.

### **Customer Training**

Some companies provide training for customers or the employees of customers with regard to the usage of the product. Some companies also provide a toll-free number for online assistance to customers and also to provide information about new products and technology.

### **Maintenance and Repair**

Many companies provide after-sales services such as maintenance and repair services for their products. By providing satisfactory after sales services, companies can attract customers to make repeated purchases. Exhibit 12.1 narrates how Maruti Suzuki tries to differentiate its service to Nexa Customers.

### Block-3: The Marketing Mix – I

#### **Exhibit 12.1: Nexa's S-Assist, India's first voice enabled Virtual Car Assistant App**

On September 30<sup>th</sup> 2021, Maruti Suzuki launches AI-based virtual 'S-Assist' for NEXA customers. The scan and voice enable S-assist optimizes the application of artificial intelligence and machine learning to provide an online post purchase experience to Nexa Customers. Through this app, customers can take and upload pictures of vehicle parts. It provides easy navigation to digital copy of vehicle owner's manual and also multimedia content like DIY (Do-it-Yourself). Partho Banerjee, Senior Executive Director, Service, Maruti Suzuki, said, "digitization of car service experience and bringing ease to customer car ownership is our motto."

*Source: Adapted from, "Maruti Suzuki launches AI based virtual 'S-Assist' for NEXA customers, [www.economictimes.com](http://www.economictimes.com), September 30, 2021.*

#### **Disposal**

Differentiation can be based on disposability of products. Companies can project themselves as being environmental-friendly by using biodegradable materials like paper for packing their products. Some companies that use plastic containers to pack their products invite their customers to return the empty packs to the company and in exchange get discounts on the purchase of new products.

**Activity:** Robert is an automobile engineer and has a dealership of Runners, a four-wheeler manufacturing company. He is well versed with the technical aspects of the automobiles. Further, he has employed four expert engineers to provide after-sales service to automobiles purchased from his outlet. How can he use the expertise of his people to benefit his business? Robert also has plans to establish a new outlet in the near future. Keeping his business expansion plans in view, how should he project the image of his present outlet?

**Answer:**



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**Check Your Progress-2**

3. Marketers can differentiate their products from competitors based on the service provided for the products. Which of the following is **not** associated with ‘customer service for a product’?
  - a. Ordering ease
  - b. Delivery
  - c. Durability
  - d. Guarantees.
4. The BPL Group plans to differentiate itself from competition by way of customer service. The company plans to differentiate service on the basis of ‘how customers want to make a purchase’. What are the different options available to BPL?
  - i. Focus on ease of ordering for customers
  - ii. Focus on satisfactory performance of the product
  - iii. Focus on how well the product has been delivered to the customer
  - iv. Focus on installation service.
  - a. i, ii, iii
  - b. i, iii, iv
  - c. ii, iii, iv
  - d. i, ii, iii, iv.

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**12.5. Personnel Differentiation**

In the competitive business environment, companies try to differentiate themselves from competitors in various ways. As the technology used by companies can be acquired easily by competitors also, companies depend on regular innovation of products, strategies, and processes for differentiation. As people are an integral part of innovation, organizations can gain a competitive advantage through their personnel. Providing efficient training to staff can help organizations to have a competitive edge over rivals. Personnel differentiation has prominence in the service industry. For example, hotels and restaurants, airline companies, etc., train their employees to serve customers efficiently.

Differentiation of an organization can be based on the qualities of personnel like courteousness, competence, credibility, reliability, responsiveness, and good communication skills. People are the biggest differentiating factors in service

### Block-3: The Marketing Mix – I

industry. For example, Walt Disney once said, “you can dream, create, design, and build the most wonderful place in the world, but it requires people to make the dream a reality.” Exhibit 12.2 delineates how distinct Disney’s employees training programs are, and how they nurture their organization culture.

#### **Exhibit 12.2: Walt Disney launches “diversity and inclusion program”**

Walt Disney Corporation launched a ‘diversity and inclusion program,’ which tells employees that America was built on ‘systematic racism’. This program advocates employees to take ownership of educating themselves about structural anti-black racism. According to whistleblower documents obtained by City Journal, Disney’s new initiative is called “Reimagine Tomorrow” and includes training on so-called systemic racism, white privilege, white fragility, white saviors, microaggressions, and antiracism. Disney urges employees to reflect on the country’s racist infrastructure. Disney sponsored 21 day Racial Equity and Social Justice Challenge. Participants are encouraged to shift from “white dominant culture” to something different. Disney strongly believes that stereo types were wrong then and are wrong now.

*Source: Adapted from Disney Employee training claims U.S was founded on ‘Systematic Racism,’ <https://news.yahoo.com/disney-employee-training-claims-u-132632395.html>, May 08, 2021*

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#### **Check Your Progress-3**

5. A company gaining a strong competitive advantage through better-trained people is employing \_\_\_\_\_.
    - a. Service differentiation
    - b. Personnel differentiation
    - c. Channel differentiation
    - d. Image differentiation.
  6. United Bank of India, a nationalized bank, was all set to go in for personnel differentiation. On the basis of which of the following characteristics of employees can UBI differentiate itself?
    - i. Competence
    - ii. Courteousness
    - iii. Responsiveness
    - iv. Credibility.
    - a i, ii, iii
    - b. i, iii, iv
    - c. ii, iii, iv
    - d. i, ii, iii, iv.
-

### **12.6. Channel Differentiation**

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A firm can use a distinct distribution channel for differentiating its products from those of its competitors. Value can be added to the products of the company by channels that carry the product. Channel differentiation can be attained through the use of various distribution channels for reaching markets. When the product is made readily available to customers, it reduces their effort in the search process and makes them habitual buyers.

For example, Dell Computers replaced traditional distribution channels for distributing computers with a new distribution channel known as direct marketing. The company began to directly take orders and make sales based on telephone calls from customers. And Amway sells its health, beauty and home care products, through direct selling business model. The company has a robust online ordering system through which customers can purchase and reorder.

Online marketing firms use a different distribution channel to supply goods as and when the order is received from customers. For instance, Amazon.com ships books and other products to customers worldwide when they place an order after visiting the website on the Internet.

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#### **Check Your Progress-4**

7. Amway Corporation generated sales of U.S. \$6.4 billion in 2005. Thanks to the unique direct selling approach that saw it reaching customers directly in a personalized manner. What type of differentiation strategy did Amway adopt?
- a. Product differentiation
  - b. Personnel differentiation
  - c. Channel differentiation
  - d. Image differentiation.

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### **12.7. Image Differentiation**

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The image of a company and its brand name influence the purchase decision of many consumers. Companies spend large amounts on promoting their features, and this builds up their image. Maintaining the image is important for all sizes of organizations. Both the big and small companies need to maintain a positive image in the market for better prospects. But it takes lot of effort on the part of companies to maintain a consistent image. Companies communicate their image to customers through their management, symbols, company logo, atmosphere, events, etc.

### **Block-3: The Marketing Mix – I**

#### **Company's Management**

The actions taken by the management of a company can make or break the image of a company. For example, companies like Infosys project an image of corporate responsibility with their involvement in social services.

#### **Symbols**

Companies can enhance the image of their products by using some specific symbols such as the Star symbol of Bank of India, Air India's Maharaja, colors like blue and green by Standard Chartered Bank, red by Coca-Cola, blue by Pepsi, signature tunes by Airtel, Titan, Videocon, etc.

#### **Logos**

Logo is a sign which represents the image of a company. It could be an emblem or a graphic picture. The company projects a certain image in the market by using the logo in various promotional activities in different media.

#### **Atmosphere**

The atmosphere in terms of ambience, lighting, furnishings, building architecture, etc., at the company's headquarters also helps in creating the desired image. Companies are giving importance to creating an atmosphere that is in tune with the image they wish to portray.

#### **Events**

The image of a firm is also built up by the kind of events it sponsors. For example, MRF, a leading tire manufacturing company in India, sponsors motor sports; Lakmé Lever, the cosmetics division of Hindustan Lever Ltd., conducts fashion weeks; Filmfare, a movie magazine, organizes award functions; etc.

**Activity:** Zenox Technologies is a software developing firm providing solutions for problems related to customer database maintenance, accounting, etc. to clients from different business areas. Zenox puts the technology to best use and gives preference to providing the best service to customers. It employs the best talent in the industry and has a much-appreciated reward scheme for customers who suggest improvements to products and/or services. Help the firm to gain image differentiation by designing a logo representing its unique features.

**Answer:**

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**Check Your Progress-5**

8. Which of the following statements is definitely **false** about image differentiation?
- a. A firm can enhance the image of its products by associating it with symbols
  - b. The practices followed by the company management do not have much impact on the image of the product
  - c. The ambience, color and lighting, material and furnishings, and building architecture influence the company image
  - d. A firm can develop the required image by sponsoring events associated with that kind of image.

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**12.8. Positioning**

‘Positioning’ is a term used initially by Al Ries and Jack Trout in 1972. They were of the opinion that positioning relates more to influencing the mind of customers than doing anything to a product. Marketers and advertisers adopt various positioning strategies to give their products an edge over competitors’ products. Marketers try to position a product in such a way that it seems to possess all the characteristics that the target customers are looking for. Product positioning is done in such a way as to project that the product of a company is different from that of competitors and even different from the other products of the company. The significance of positioning increases when the company goes in for market segmentation. Rooser Reeves explained that different brands of the same company should have unique selling propositions (USP). A USP can be any special attribute of a brand e.g. its quality, service, price, value, safety provisions, customization, user friendliness, technology, etc. The promotion of products can be done based upon the USP. If the positioning on the basis of USP alone is not beneficial, marketers could use two or more attributes of the product to position it better. Companies can then promote more than one brand by positioning each brand differently. Positioning products differently in the market can help companies gain a competitive advantage.

In the book *Positioning: The Battle for your Mind*, Al Ries and Jack Trout discussed various positioning strategies. Some of them are:

**Getting into the Mind of the Consumer**

Getting into the mind of the consumer is easy for the first mover in the market. Consumers tend to remember more of the features of a product that is new to the market than of similar products introduced later. However, if subsequent

### Block-3: The Marketing Mix – I

products can be positioned uniquely, then they can get into the minds of consumers.

For instance, Starbucks has positioned itself based on the best customer experience promise. Volkswagen positioned itself as a most reliable and permanent company. And Walmart portrays itself as one-stop store that offers everything under a single roof, right from tires to food.

**Activity:** Freshton is the food division of Incurrent Corporation (Incurrent). Freshton has launched a new product in its packed-food segment. The newly launched cheese brand 'Fresheese', needs to be positioned appropriately to maintain the market position of Incurrent in general and Freshton in particular. If you are the marketing manager of Freshton, how would you plan a promotional campaign for positioning 'Fresheese' in the minds of customers as a product of high quality product with exceptional freshness?

**Answer:**

#### Positioning of a Leader

It is traditionally believed that the number one company in any industry has a market share which is normally double that of its immediate follower. Some companies may be leaders in a market because they are the 'first' or early entrants in the market rather than due to their marketing strategies. In some instances, companies may fail to introduce products in other categories, in spite of being the leader in one product category. To maintain the leading position, market leaders need to position their products intelligently in the consumers' mind. Market leaders should adopt the strategy of introducing multiple brands to satisfy the changing needs of consumers. This would cost the leader less than repositioning the existing brands in the market.

#### Positioning of a Follower

When the company is not the first entrant in the market, it can position its product based upon some unique feature which other marketers have not already claimed as their USP.

## **Unit 12: Product Differentiation and Positioning**

Marketers sometimes try to reposition their products due to saturation of the markets due to competition or because the target markets no longer seem to be profitable.

### **The Power of a Name**

Positioning of a product is easy when it has a suitable name. For example, names like Nacho Chips, Mr. White, Head & Shoulders, etc. suggest the utility of the product and have greater recall value among customers. Therefore, the name of the product plays a significant role in positioning the product. On the other hand, condensing the name of a company into a series of initials may not be always beneficial for a company as it could lead to confusion among customers about the company's business.

### **Pitfalls in Positioning**

Positioning without proper planning makes it difficult for companies to gain a competitive advantage. The possible pitfalls in positioning a product are given here.

- Positioning is sometimes done based on obvious aspects of a product, and this becomes too predictable. Companies should resort to changes in positioning strategies when they sense that the aspects of positioning have lost significance.
- Companies may sometimes emphasize technology that is to be acquired in future, ignoring present capabilities and advantages while positioning their products.
- Under positioning may happen if marketers do not have powerful positioning ideas and they pass on the task of finding these ideas to the creative department. Positioning statements may then not convey what they ought to.
- Over positioning would be a pitfall in positioning when companies initially project products as being of a premium brand. Customers may get a narrow view of the brand and may perceive it to be high priced even if it is made available in different price ranges. For example, certain branded jewelry makers positioned their products in the premium range and later started offering their products in different price ranges and eventually they had to lose sales that could have accrued through purchases made by high income customers.
- Positioning can be efficient when an 'outside-in' strategy is adopted rather than 'inside-out' thinking. Companies may sometimes position products based on what is happening inside the organization, ignoring the thoughts of customers and other stakeholders about the company.

### **Block-3: The Marketing Mix – I**

- Positioning is sometimes done to achieve short-term sales and profits, overlooking the long-term gains to the company.
- Confused positioning can be a pitfall in positioning. Marketers may confuse customers if they alter the positioning strategies of their established brands. For instance, Pepsi once introduced a clear Pepsi with the name Crystal Pepsi. Consumers thought that if it was not brown, then it could not be a cola. As a result, the product failed in the market.
- Doubtful positioning is a phenomenon in which companies try to create brand awareness even before positioning the brand clearly in the market. For example, many of the dot com companies spent heavily on television advertising, without themselves being clear about what they were selling.
- Positioning the products based on wrong attributes or attributes that customers are not interested in may result in the failure of products.

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#### **Check Your Progress-5**

9. It is a positioning approach where a manager tries to develop the positioning strategy based on what customers and other stakeholders think about the company. Identify the strategy.
    - a. Insider strategy
    - b. Inside-out strategy
    - c. Out-of-the-firm strategy
    - d. Outside-in strategy.
  10. Identify the term used for ‘the act of designing a company’s offering and image to occupy a distinctive place in the target consumer’s mind.’
    - a. Positioning
    - b. Promotion
    - c. Marketing
    - d. Differentiation.
  11. A company is said to be over positioning when it gives customers \_\_\_\_\_.
    - a. A very narrow image of the company's brand
    - b. A very broad image of the company's brand
    - c. A confused view of the company’s brand
    - d. None of the above.
-



## Unit 12: Product Differentiation and Positioning

### 12.9. Summary

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- Differentiation is a strategy that firms adopt in an attempt to provide superior value to their customers. Marketers highlight the differentiation aspects to make customers perceive the products as being different from those of competitors.
- Product differentiation can be based on form, quality, price, size, design, and other features.
- Service differentiation can be used for competitive advantage by providing ordering ease, delivery, installation, ease of payment, customer training, financial arrangements, guarantees, maintenance, repair, and disposal in a manner different from that of competitors.
- Personnel differentiation can help companies to gain an edge over rivals. By training the staff according to organizational objectives, companies can gain market share.
- Channel differentiation is a strategy in which a distribution channel is used for differentiating the products and services of a company.
- Image differentiation can be beneficial to companies when appropriate symbols, logos, and events are used and the company's management helps in building up the image.
- Positioning is influencing the perception of customers to think about a company's product as being different from their competitors' products and also other products of the same company.

### 12.10. Glossary

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**Direct marketing:** All the activities in which producers or intermediaries communicate directly and individually with target customers.

**Direct selling:** Selling that utilizes direct, face-to-face contact between buyer and seller.

**Guarantee:** An assurance, written or implied, that a product is as represented and will perform satisfactorily.

**Product position:** How the product is perceived by consumers, particularly in relation to how competing products are perceived.

**Reliability:** One of the aspects of the scientific method, requiring repeated studies to produce the same result every time.

**Return on investment (ROI):** A measure of profitability; specifically the ratio of profits to overall investment.

### **Block-3: The Marketing Mix – I**

#### **12.11. Self-Assessment Test**

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- 1) Achieving a competitive advantage is very important for companies to survive in the tough competitive market and they have to differentiate themselves from their competitors to do this. Discuss various differentiation strategies adopted by companies to have competitive advantage in the market.
- 2) Can positioning be beneficial to companies in gaining market share? Justify your answer.

#### **12.12. Suggested Reading / Reference Material**

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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. GC Beri, Arun Kaushik, Zillur Rahman, Marketing Research 6th Edition McGraw-Hill 2020
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5. Saxena, Rajan. Marketing management. McGraw-Hill Publishing Co Ltd, 2020.
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7. R Srinivasan. Case Studies in Marketing: The Indian Context. PHI Learning; 7th edition, 2018
8. Gupta Prachi, et al., Marketing Management: Indian Cases. Pearson Education; First edition, 2017
9. Warren J. Keegan. Global Marketing Management. Pearson Education; Eighth edition, 2017.

**12.13. Answers to Check Your Progress Questions**

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

**1. (c) Product differentiation**

Product differentiation is the process by which companies manufacture and design products so that customers perceive them as different from those manufactured by other companies.

**2. (b) On the basis of size and weight of pack**

A product can be differentiated on the basis of form, features, quality, durability, reliability, reparability, style and design. Firms also differentiate their products on the basis of the size and weight of the pack. Cavin Kare followed this packaging differentiation.

**3. (c) Durability**

Customer service can include anything from ease of ordering, delivery, installation, easy payment, financial arrangements, customer training, guarantees, maintenance, repair and disposal. Products are expected to perform satisfactorily during their useful life. This is called durability of the product.

**4. (b) i, iii, iv**

Customer service can include anything from ease of ordering, delivery, installation, easy payment, financial arrangements, customer training, guarantees, maintenance, repair and disposal. Satisfactory performance of products during their useful life is called product durability.

**5. (b) Personnel differentiation**

In personnel differentiation a company derives competitive advantage over rivals by hiring good human resources and providing better training to staff.

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

It is the people or employees in an organization who can provide sustainable advantages. Important characteristics can be competence, courteousness, credibility, reliability, responsiveness and good communication skills.

**7. (c) Channel differentiation**

Companies can achieve distinct differentiation for their products on the basis of the distribution channels they use. A firm's choice of a

### **Block-3: The Marketing Mix – I**

distribution channel, its coverage, expertise and performance helps differentiation from competitors.

**8. (b) The practices followed by the company management do not have much impact on the image of the product**

The practices followed by the management can enhance or hamper the image of a company. For example, when the management follows ethical practices, it projects an ethical image of the organization. Hence, option 'b' is incorrect.

**9. (d) Outside-in strategy**

Outside-in strategy is a positioning strategy where a manager tries to develop positioning for a product based on what customers and other stakeholders think about the company.

**10. (a) Positioning**

Positioning refers to the activities undertaken by a marketer to create and maintain the concept of value in the minds of customers for the company brand as against competitors' brands.

**11. (a) A very narrow image of the company's brand**

Just as under positioning of a brand is a possibility, there is also scope for over positioning a brand. Here, buyers may have a very narrow image of the company brand. Over positioning is usually seen in cases where the firm initially promotes its brand as premium.

## Unit 13

# New Product Development

### Structure

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- 13.1. Introduction
- 13.2. Objectives
- 13.3. Challenges in New Product Development
- 13.4. Organizing the Product Development Process
- 13.5. Stages of New Product Development
- 13.6. Summary
- 13.7. Glossary
- 13.8. Self-Assessment Test
- 13.9. Suggested Reading / Reference Material
- 13.10. Answers to Check Your Progress Questions

### 13.1. Introduction

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In the previous two units, we have introduced you to product and the concepts of product differentiation and positioning. In the current unit, we will discuss the new product development process and the various intricacies involved in it.

Marketers need to constantly innovate and come up with new products or improved versions of the existing products to meet the demands of modern customers. The development of new products is fraught with risks and should be done with lot of care. Companies deploy people/entities like product managers, product committees, product departments, and product venture teams for new product development process. A product goes through a number of stages of development before it is introduced into the market. These stages are: idea generation, screening, concept testing and business analysis, product development, test marketing, and commercialization.

In this unit we will first discuss the need for developing new products and the intricacies involved in the new product development process. We shall then discuss how to organize the new product development process and the different stages of the new product development process.

## Block-3: The Marketing Mix – I

### 13.2. Objectives

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

- Analyze the challenges involved in new product development
- Explain how to organize the product development process
- Discuss the different stages in the new product development process

### 13.3. Challenges in New Product Development

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According to Booz, Allen and Hamilton, a leading consulting firm, new products can be categorized as:

- *New to the world products* – These are products that create a new market and which have not been introduced earlier. Exhibit 13.1, talks about Dropbox's new launch, Dropbox Capture, aimed at alleviating the communication woes of increasingly distributed workforce, during this Covid 19 pandemic, with particular focus on video communication.
- *New product lines* – It implies that companies enter an established market with the help of new products.
- *Additions to existing lines* – Introducing products with slight variations in size, color, etc., to the existing product line.
- *Improvement and revision of existing products*- These include improved versions of the existing products that offer improved performance.
- *Repositioning* - Targeting the existing products into new markets or newer market segments. Exhibit 13.2, delineates how Spotify repositioned its offerings in response to revenue losses it had to face due to Covid-19 pandemic.
- *Cost reduction*- Introducing new products that provide the same benefits at a lower cost.

#### Exhibit 13. 1: Dropnox Capture

Asynchronous communication — communication that isn't in real time — is widely regarded as a key cornerstone of remote work. It enables teams spread across multiple locations and time zones to stay connected without having to be online at the same time. Email is one of the best examples of this, but it's not ideal for every situation — which is where video comes into play. The Zoom boom is well-documented, of course,

*Contd. ....*

but so is Zoom fatigue — people get burned out having to participate in live video calls all the time. That's why Dropbox has lifted the lid on Dropbox Capture, a visual communication tool that lets anyone on a team share explainer videos or messages as if they were in the room.

Using Dropbox Capture, users can create short videos, including sharing their screen as part of a presentation. It's about bringing context that would be difficult to convey via email — without having to schedule more virtual meetings.

Source: <https://venturebeat.com/2021/09/28/dropbox-capture-brings-video-messaging-to-the-distributed-workforce/>

Developing new products is essential for marketers. However, it is also accompanied by a lot of risk. The fate of the new product in the market is unpredictable. For instance, GoogleGlass launched in 2012 had to be officially ended in 2015 after years of disappointing sales. Between a sky-high price, issues around privacy, and cultural backlash, this wearable product just didn't connect.

It is also possible that wrong marketing strategies adopted by companies to promote their new product can lead to a product's failure. For instance, New Coke introduced by Coca-Cola Company to replace its core brand 'Coke' tasted bitter failure. Research conducted by the company indicated that customers were unwilling to accept 'New Coke' as a substitute for the original Coke.

The process of new product development must be taken up with utmost care, or it can have serious repercussions on the company's image and performance in the market. Studies have indicated that almost 33 to 60 percent of new products either fail in the market or after the company has invested substantial amount of resources in its development.

#### **Exhibit 13.2: Spotify's Repositioning Strategy During Covid 19 Pandemic**

Spotify might seem like a brand well-positioned to thrive in a pandemic — it's digital, remote, and provides stressed or struggling customers with a welcome escape. But, unlike Apple Music, Spotify relies heavily on revenue from the advertisements served to its many free listeners. Before the pandemic company estimated the advertising revenue would grow faster than its free user base. In reality, the Swedish company had to struggle as the pandemic hit advertisers cut their budgets.

This required a pivot towards a more successful model for the market — one that has already proven profitable with brands like Netflix. Spotify recognized the need to reposition its offerings.

*Contd. ....*

### Block-3: The Marketing Mix – I

One pivot Spotify made in response was to offer original content like podcasts and Spotify Originals. They put enormous effort into curated playlists (from internal experts, external experts, AI, and celebrities).

This strategy positioned Spotify as a tastemaker and content creator, not just a music provider. The platform saw artists and users upload more than 150000 podcasts in just one month. Exclusive celebrity podcast deals and artist-curated playlists exploded. Subscriptions are doing well — and so is Spotify.

Source: <https://hbr.org/2020/07/how-businesses-have-successfully-pivoted-during-the-pandemic>

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#### **Check Your Progress-1**

1. Product innovation is a major component of the product policy of a firm. Booz, Allen and Hamilton have categorized new products using many methods. Match the following with their respective explanations.
  - i. New product lines
  - ii. Cost reduction
  - iii. Repositioning
  - iv. New to the world products.
  - p. Helps in targeting the existing products to newer market segments
  - q. Products not yet introduced and expected to create a new market
  - r. Helps in targeting the new products in an established market
  - s. Introducing new products that provide the same benefits at a comparatively lower cost.
  - a. i/r, ii/p, iii/s, iv/q
  - b. i/r, ii/s, iii/p, iv/q
  - c. i/s, ii/r, iii/p, iv/q
  - d. i/q, ii/s, iii/p, iv/r.

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#### **13.4. Organizing the Product Development Process**

In general, companies organize their product development process with the help of the following people/ entities:

##### **Product Managers**

A product manager describes the product for development, drafts a business strategy for the product and also takes the responsibility for implementing the business strategy.



### Product Committees

Organizations may also appoint high-level management committees responsible for reviewing and approving proposals for new product development.

### Product Departments

Organizations may set up a separate product department specifically meant for product innovation and development.

### Product Venture Teams

Organizations may set up a team consisting of members from various departments. This team is then given the responsibility of developing a new product for a specific business.

## 13.5. Stages of New Product Development

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### Idea Generation

Companies require ideas for developing new products or improving the existing products. Idea generation is a process, wherein companies search for ideas for new product development. Companies can get new ideas from various sources like customers, dealers, in-company resources, advertising agencies and external research consultants. For example, Samsung R&D Institute Poland (SRPOL) is one of the largest international software R&D centers in Poland. It closely collaborates with local start-ups, universities and research institutions. The mission of the AI Team at SRPOL is the creation of the AI-based features, tools and services capable of facilitating and enriching human lives. It mainly focuses on the Natural Language processing (NLP) and Audio Intelligence areas. It is known for many different specialties, including recommendation systems, indoor positioning, visual analytics and augmented reality (AR).

### Idea Screening

In the 'idea generation' process, marketers search for numerous ideas for new product development. However, it is not possible for companies to implement all the ideas. Also, all the ideas generated may not be commercially feasible. Therefore, in the next stage i.e., 'idea screening' stage, marketers sift through the ideas generated in the first stage and select the ideas that are commercially viable. For this, companies are required to follow a systematic process. The criteria for filtering the ideas can be market size, technical capabilities, potential competition, compatibility with the known customer needs, etc.

Depending upon the feasibility, ideas can be segregated into prospective ideas (worth implementing) and marginal ideas and rejects. In idea screening stage, companies may commit to drop error and go error. Drop error occurs when a company rejects a good idea. Go error occurs when a company selects a poor idea.

### Block-3: The Marketing Mix – I

#### Concept Testing and Analysis

Once a product idea is approved, it is sent for concept testing. This is one of the most crucial stages in the process of new product development. Often, marketers take into consideration the company's preferences and capabilities and tend to overlook the customer requirements and features of the product offerings that can satisfy those requirements better than the competitors. This in turn leads to the failure of the product in the market.

Concept testing involves presenting the product idea to external sources for evaluation and feedback. Consumer survey is a popular way of evaluating the viability of a product idea.

*Business analysis:* It is the first in-depth financial analysis of the product concept. Companies draft a plan for developing, producing and marketing the new product.

*Total sales estimation:* It includes first time sales, replacement sales and repeat sales. A graph representing first time sales rises in the beginning, peaks and later approaches zero. The sales for occasionally purchased products such as cars are influenced by factors such as obsolescence, etc.

*Estimating costs and profits:* Any company estimates the costs to be incurred on the new product with regard to R&D, manufacturing, marketing, etc., and also estimates the profit that is required to be earned by it to set off the costs incurred. Marketers adopt techniques like break even analysis, risk analysis, etc., for this purpose.

**Activity:** Geo-Cola, a soft drink manufacturing company is planning to introduce 'Rimjhim' a strawberry flavored soft drink product in India. The company wants to test the market feasibility of this new product in the Indian soft drink market. How should the company go about testing the feasibility of its new product?

**Answer:**

#### Product Development

In this stage, the actual development of the product takes place. Companies try to produce the product at a low cost to offer it to the consumers at competitive prices. A working model or prototype of the product consisting of the proposed features is then produced by the R&D department. The product protocol contains various details regarding the specifications of the product and serves

## Unit 13: New Product Development

as a guide to the engineers for developing the prototype. It also lays down the different roles of individuals in various departments in the new product development process.

*Product testing:* After developing the prototype, marketers test it for feasibility and functionality. Product testing can be conducted by involving the employees of the organization or people who volunteer to test the product. Product testing is useful in gathering first impressions about the product, customer experiences, customer expectations, etc. Product testing can be conducted in any of the following ways:

- Alpha testing: Conducted on a group of target audience (employees) from the company.
- Beta testing: Carried out at customer site.
- Gamma testing: Carried out on a long-term basis, where the customer uses the product extensively.

### Test Marketing

In this stage, the product is introduced in certain selected regions or cities. The various methods for test marketing include sales wave research, simulated test marketing, controlled test marketing, etc. Companies incur expenses in the form of manufacturing, advertising, distribution, promotion, etc. Test marketing is the ultimate test for a new product as it enables the companies to analyze the customer acceptance level for the new product.

### Commercialization

In the commercialization stage, the product is launched in the market. Depending upon the results obtained from test marketing, marketers take crucial marketing decisions such as the distribution strategy, promotional campaign, etc. Companies are often required to spend huge amounts on marketing of a new product.

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### Check Your Progress-2

2. Colgate Palmolive wants to introduce a toothpaste brand in the market. The company plans to undertake product testing to evaluate feedback from users. The company selects a group of target audience from within its employees for this exercise. What type of product testing method is being used by company?
  - a. Beta testing
  - b. Gamma testing
  - c. Alpha testing
  - d. None of the above.

### Block-3: The Marketing Mix – I

3. Which stage in the new product development process deals with evaluating a new project's sales, costs, and profit projections to determine whether they satisfy the company's objectives?
  - a. Concept testing and analysis
  - b. Idea generation
  - c. Test marketing
  - d. Product development.
4. Which of the following is the last stage in the new product development process?
  - a. Idea generation
  - b. Test marketing
  - c. Commercialization
  - d. Product development.
5. The development of new products is carried out in different stages. Which step comes after concept testing and business analysis?
  - a. Commercialization
  - b. Idea generation
  - c. Product development
  - d. Idea screening.
6. The profitability of the newly developed product is estimated using various financial tools. Which is the simplest method of estimating the quantity of sales required to equal costs?
  - a. Risk analysis
  - b. Beta testing
  - c. Break-even analysis
  - d. Alpha testing.
7. Nokia wants to introduce new handsets in the market. The company wishes to lay greater emphasis on idea screening. What is the main purpose of idea screening?
  - a. Filter out less commercially viable ideas so as to reduce them to a manageable few
  - b. Submit the idea for an external evaluation to get market feedback
  - c. To develop, produce and market the new product
  - d. To measure the profitability of the new product.

### Unit 13: New Product Development

8. Samsung Electronics wants to introduce a new DVD player in the market. The company therefore develops a working prototype of the DVD player to make known all the important attributes that are expected in the product. At which stage of new product development does the company develop this working model?
  - a. Concept testing and analysis
  - b. Test marketing
  - c. Idea screening
  - d. Product development.
9. Business analysis is one of the important stages in the new product development process because it involves estimating the investment required to develop the product and the expected sales. What variables constitute the total estimated sales of a product?
  - a. First-time sales
  - b. Replacement sales
  - c. Repeat sales
  - d. All of the above.
10. New product development process of a company is composed of many stages. One such stage is idea screening, which filters the less viable ideas from a large number of ideas. However, while screening the ideas, the company might commit two types of errors. One such error is drop error. Identify the correct definition of drop error.
  - a. It occurs when a company rejects a good idea
  - b. It occurs when a company selects a poor idea
  - c. It occurs when a company rejects a poor idea
  - d. It occurs when a company selects a good idea.
11. Identify the correct sequence of stages in the new product development process?
  - a. Idea generation - Concept testing and business analysis - Idea screening - Product development - Test marketing - Commercialization
  - b. Idea screening - Idea generation - Concept testing and business analysis - Product development - Test marketing - Commercialization
  - c. Idea generation - Idea screening - Concept testing and business analysis - Test marketing - Product development - Commercialization
  - d. Idea generation - Idea screening - Concept testing and business analysis - Product development - Test marketing – Commercialization.

### Block-3: The Marketing Mix – I

12. P&G wants to launch a new soap. The company conducts a survey and compares customer needs and thoughts with parameters like market size, technical capabilities, potential competition, etc. Which stage of new product development is P&G executing?
- Concept testing and analysis
  - Test marketing
  - Idea generation
  - Idea screening.
13. Match the different stages of the new product development process of a company with their salient features.
- |                      |   |
|----------------------|---|
| i. Commercialization | p. Collects a large number of ideas   |
| ii. Idea generation  | q. Product is introduced in a few selected cities   |
| iii. Idea screening  | r. Determines the changes that are required in the marketing mix before entering the market |
| iv. Test marketing.  | s. Filters the less viable ideas.   |
- i/p, ii/r, iii/s, iv/q
  - i/r, ii/p, iii/q, iv/s
  - i/r, ii/p, iii/s, iv/q
  - i/q, ii/p, iii/s, iv/r.
14. A leading pharmaceutical company, Dr. Reddys Laboratories Ltd., wants to introduce a new drug in the market for diabetic patients. The company administers the drug extensively to diabetic patients so as to assess its performance. Which type of product testing is the company undertaking?
- Gamma testing
  - Beta testing
  - Alpha testing
  - Both alpha & beta testing.
-

### 13.6. Summary

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- New product development is essential for the survival and continual success of companies in today's competitive business environment.
- Companies may face many difficulties while developing new products.
- New product development process can be organized with the help of product managers, product committees, product departments or product venture teams.
- The process of new product development includes various stages such as idea generation, idea screening, concept testing and analysis, product development, test marketing and, commercialization.

### 13.7. Glossary

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**Commercialization:** The part of the product development process in which the new product is launched beyond the test markets into the full target market and is supported by the preferred marketing mix.

**Concept testing:** A type of marketing research in which marketers describe a new product and ask consumers to react to the concept.

**Idea generation:** Searching for new product ideas that will help firms achieve their objectives.

**Simulated test marketing:** A forecasting method that gathers data for predicting a product's likely market performance by marketing it in artificial settings.

### 13.8. Self-Assessment Test

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1. Explain in detail the stages involved in new product development.

### 13.9. Suggested Reading / Reference Material

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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
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5. Saxena, Rajan. Marketing management. McGraw-Hill Publishing Co Ltd, 2020.
6. “How Businesses have successfully pivoted during the pandemic” by Mauro F.Guillen,, [www.hbr.org](http://www.hbr.org), July 07, 2020
7. V S Ramaswamy and S. Namakumari. Marketing Management: Indian Context Global Perspective. Sage Publications India Pvt Ltd; Sixth edition, 2018

#### 13.10. Answers to Check Your Progress Questions

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

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

New product lines target the sales of new products in an established market. Introducing new low cost products helps the customer gain the same benefits of competitor products at a comparatively lower cost. Repositioning helps the marketer sell existing products in newer market segments. ‘New to the world’ products are products not yet introduced and that are expected to create a new market.

**2. (c) Alpha testing**

In alpha testing, a target audience is selected from among the employees of the company. Beta and gamma testing are done on customers and not the employees of the company.

**3. (a) Concept testing and analysis**

Concept testing stage in the new-product development process deals with evaluating a new project’s sales, costs, and profit projections to determine whether they satisfy the company’s objectives. In the test marketing stage, the product is introduced in a few cities to provide an insight into consumer responses and traders’ acceptance level. In the product development stage, a detailed technical analysis is conducted to know whether a product can be produced at costs low enough to make the final price attractive to consumers. In the idea generation stage, companies look for new ideas to improve the performance of their existing products and/or to design new products.

**4. (c) Commercialization**

The series of stages in new product development are (a) idea generation, (b) screening, (c) concept testing and business analysis, (d) product development, (e) test marketing, and (f) commercialization. The commercialization stage helps marketers decide the changes that are needed in the marketing mix before entering the market.



**5. (c) Product development**

After completing the first three stages of the development of a new product, idea generation, idea screening, concept testing and business analysis, the fourth stage is product development. This stage involves a detailed technical analysis that attempts to gauge whether a product can be produced at costs low enough to make the final price attractive to the customers.

**6. (c) Break-even analysis**

Break-even analysis is the simplest way of estimating costs and profits. It calculates the number of units of a product a company needs to sell to break even with the given price and cost structure. Risk analysis is the most complex method of estimating profits. Alpha and beta testing are used in the product testing stage of new product development.

**7. (a) Filter out the less commercially viable ideas so as to reduce them to a manageable few**

In the idea generation stage of new product development, a large number of ideas for generating new products or improving the existing ones are collected. The main purpose of the idea screening stage is to filter out less commercially viable ideas, so as to reduce them to a manageable few. Submitting the idea for an external evaluation to get market feedback, measuring the profitability of the new product and developing, producing and marketing the new product are done in the concept testing and analysis stage.

**8. (d) Product development**

After the completion of concept testing and business evaluation, a company develops a working model of the product in the product development stage to reveal all the tangible and intangible attributes of the product.

**9. (d) All of the above**

Total estimated sales are a sum of the estimated first-time sales, replacement sales and repeat sales.

**10. (a) It occurs when a company rejects a good idea**

A drop error occurs when a company rejects a good idea. A go error occurs when a company selects a poor idea.

### **Block-3: The Marketing Mix – I**

**11. (d) Idea generation - Idea screening - Concept testing and business analysis - Product development - Test marketing - Commercialization**

The correct sequence of stages in the new product development process is idea generation, idea screening, concept testing and business analysis, product development, test marketing, and commercialization.

**12. (d) Idea screening**

After collecting number of ideas in the idea generation stage, the company has to filter out those that are not commercially viable in the idea screening stage. In this stage the number of ideas is reduced to a manageable few that deserve further attention for development.

**13. (c) i/r, ii/p, iii/s, iv/q**

In the commercialization stage, the changes that are required in the marketing mix before entering the market are determined. Idea generation stage involves collection of a large number of ideas. Idea screening stage helps eliminate less viable ideas. In the test marketing stage the product is introduced in a few select cities.

**14. (a) Gamma testing**

Gamma testing is carried out on a long-term basis where the customer uses the product extensively. This type of testing is usually done in the pharmaceutical industry.

## Unit 14

# Branding and Packaging

### Structure

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- 14.1. Introduction
- 14.2. Objectives
- 14.3. Brand as a Concept and its Significance
- 14.4. Types of Brands and their Challenges
- 14.5. Brand Equity
- 14.6. Brand Equity Models
- 14.7. Brand Equity Measurement
- 14.8. Brand Sponsorship
- 14.9. Brand Strategy Decision
- 14.10. New Developments in Brand Management
- 14.11. Packaging and its Importance in Marketing
- 14.12. Innovations in Packaging
- 14.13. Labeling
- 14.14. Summary
- 14.15. Glossary
- 14.16. Self-Assessment Test
- 14.17. Suggested Reading / Reference Material
- 14.18. Answers to Check Your Progress Questions

### **14.1. Introduction**

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In the previous unit, we have discussed the new product development process and the various intricacies involved in it. In this unit we will introduce you to the concept of brand and the various other issues related to it. We shall also discuss the importance of packaging and labeling in marketing.

Companies use branding to attract customers to buy their products and services. Brand is the name, term, sign, symbol, design or a combination of these used by companies to convey the identity of its goods and services to customers. A brand conveys different levels of meanings to customers like attributes, benefits, values, culture, personality, etc. Companies practice different brand strategies like line extension, brand extension, brand rejuvenation, brand re-launch, brand proliferation etc. to deliver the value associated with a brand to the customer.

### **Block-3: The Marketing Mix – I**

Brand equity refers to the combination of assets and liabilities related to a brand that may affect its value in the market. It depends upon factors like awareness of the customers, quality perception, loyalty, patents, and trademarks.

Packaging involves developing a design and a container for a product. Packaging provides benefits like easy and secure handling, increase in the sales of the product, aiding the customer in taking a better purchase decision etc. Labeling involves exhibiting important information on the product's package.

In this unit, we shall first discuss the concept of brand and its importance. We shall then move on to discuss the concepts of brand equity, brand sponsorship, and brand strategy decisions. We shall conclude the unit by discussing packaging and labeling and their importance in marketing.

#### **14.2. Objectives**

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

- Appreciate the significance of brand in marketing
- Enumerate the different types of brands and their challenges
- Explain the concept of brand equity
- Discuss the process of brand strategy decision making
- Analyze the importance of packaging in marketing
- Discuss the concept of labeling

#### **14.3. Brand as a Concept and its Significance**

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Duane E. Knapp, author of *'The Brand Mindset'*, defined a genuine brand as “the internalized sum of all the impressions received by the customers and consumers resulting in a distinctive position in their mind's eye based on perceived emotional and functional benefits.”

Brands convey different messages to different consumers, depending on their perceptions, they are created by marketers over a period of time. A brand can convey different levels of meanings to customers as given below.

1. **Attributes:** Marketers highlight the attributes of brands so as to retain existing customers and also to attract new customers. For example, the attributes of Fastrack watches are affordability, looks, waterproof, and durability.
2. **Benefits:** The benefits should be derived from the attributes of the brand for it to be successful. For example benefits of Fastrack has functional benefits of lightweight, uber stylish, long lasting battery, calorie and sleep track and affordable price.

## Unit 14: Branding and Packaging

3. Values: Most brands associate some value with themselves. For instance, American Express doesn't just hit the bare minimum when it comes to polite, helpful customer service -- they go above-and-beyond to solve for their customers, even when there's no protocol in place. Customer commitment is one of the core values of American Express..
4. Culture: Brands also represent a certain culture. For example, the MTR brand of food products project a culture of family bonding in their advertisements.
5. Personality: The personality of customers is also communicated through brands. For example, Jeep name has been indelibly associated with freedom, authenticity, adventure and passion. These are vehicles for “dreamers and doers” – forging extraordinary, uncommon bonds between themselves and their owners, because adventure is found in every Jeep vehicle's DNA.
6. User: Brands clearly state their user segments. For instance, Rado watches are targeted at upper class customers.

### Value and Significance of a Brand

Brands are of great value to companies and many companies spend a lot of time, money, and energy on brand building. Without a brand name, products may not get noticed in a competitive market. In fact, brands give the products a unique identity. However, some companies have a narrow view toward brands and feel that they are just symbols or logos of an organization. Companies should realize that brands are much more; that they are the means of gaining a competitive advantage in the market. Brands are, in fact, a result of the combination of marketing, promotional, service, and distribution efforts undertaken to differentiate a company's product from competitors' products. Brands should be developed carefully to convey specific details to customers through name, symbol, visual identity, etc.(Refer Exhibit 14.1).

#### Exhibit 14.1: Google's Doodles

Doodles are the customized versions of Google's logo, which are placed on the homepage of the search engine. This is to celebrate festivals, occasions, events and other commonly celebrated days. A brand's logo plays a very important role in building a loyal customer base, therefore it was a quite risky step taken by Google to change the logo on the homepage almost every day. But customers have well received this creativity which ended up creating curiosity among customers to check the Google's logo every day.

Source: <https://www.icmrindia.org>

### Block-3: The Marketing Mix – I

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#### **Check Your Progress-1**

1. Consumers identify a brand's distinctive capabilities based on the awareness created by marketers over a period of time. The brand conveys many aspects. Which of the following is **not** conveyed by the brand?
  - a. Value proposition
  - b. Personality status
  - c. Process attributes
  - d. User segments.
2. A name, term, sign, symbol, or design, or a combination of them intended to identify the goods or services of one seller or group of sellers, and to differentiate them from those of competitors is known as \_\_\_\_\_.
  - a. Attribute
  - b. Brand
  - c. Product
  - d. Packaging.
3. Brands can convey cues relating to \_\_\_\_\_.
  - a. Attributes
  - b. Benefits
  - c. Values
  - d. All of the above.

---

#### **14.4. Types of Brands and their Challenges**

The major types of brands are:

- Manufacturers' brands
- Private brands
- Generic brands

**Activity:** Ask your friends to list the brands that they use in daily life, to explain what those brands mean to them, and why they prefer them to other brands. From the list that you collect find out which brands are most popular among your friends and try to analyze the main reasons for their popularity from the reasons mentioned by your friends for preferring those brands.

**Answer:**

## Unit 14: Branding and Packaging

Manufacturers' brands are brands directly owned by manufacturers. For example, Cinthol, Pepsodent, Pepsi, Raymond's, Surf, etc. are owned by the manufacturers.

Private brands are developed and owned by resellers. For instance, retailers like Lifestyle, Big Bazar, Shopper's Stop, etc. have their own brands. Exhibit 14.2, delineates how JBL group is associated with major clothing and lifestyle brands with its private label Junior's.

Generic brands are the third type of brands. They are not specifically advertised and are sold by grocery stores at a price lower than those of identical private brands. Usually, rice, wheat, sugar, pulses, etc. are sold as generic brands in the Indian market.

### **Exhibit 14.2: Junior's – Association with Premiums Clothing Brands**

The Junior's group has been associated with premium clothing and lifestyle brands that have acted as a bridge to introduce children to the ever exciting and inspiring international fashion world. The company has a global outreach with some of the best international brands and it intend to amplify their market value by presenting its true essence to the potential customer. Junior's started its journey with children's alluring runway shows, transformed to a one-stop destination for kids fashion wear. Junior's supply kids fashion apparel to brands like Allen Solly Junior, DKNY, KENZO kids, Flying Machine Boyzone, Paul Smith Junior, US.Polo Assn Kids

Source: <https://www.jbpl.co/brands/> Accessed on Oct 3, 2021

### **Brand challenges**

Conventionally, goods and services were sold in the markets without branding. But with the increased number of players in the market, branding the products became very important. However, branding faces many challenges and marketers have to brand their products taking certain factors into consideration. For instance, the decision about branding should be made after analyzing the feasibility of branding the product. Another challenge is to decide whether it should be a manufacturer's brand or a private brand. Repositioning of a brand is also crucial to sustain oneself in the market.

**Activity:** List out around twenty brands that you have used in your daily life and identify the type of those brands. Do you think all of them are appropriately branded? Why/why not?

*Contd. ....*

### Block-3: The Marketing Mix – I

Answer:

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#### Check Your Progress-2

4. There are three major types of brands, manufacturers' brand, resellers' brand and generic brand. Given below are some brands and the brand categories. Identify the **incorrect** combination.
- Karrot (Shoppers' stop) - Resellers' brand
  - Paper napkins - Resellers' brand
  - Coca-Cola - Manufacturers' brand
  - Sitara (Broomstick) - Generic brand.

---

#### **14.5. Brand Equity**

Brand equity is the combination of assets and liabilities associated with a brand that enhances or depreciates its value. The brand equity of a product or service is determined by the awareness of the customers, quality perception, loyalty, patents, and trademarks. Companies often use brand equity of established brands to enter other categories of products.

Professor Osborn, author of *Strategic Brand Management*, identified ten characteristics of the most popular brands in the world:

1. The brand offers more than what the customer expects.
2. Popular brands associate themselves with intangible factors like brand personality, and build relationship with target customers.
3. The customer's value proposition dictates the pricing of the brand. (The price of a brand should be fixed according to the value of the brand as perceived by customers)
4. Right positioning of the brand.
5. The brand maintains consistency. (**There should be the right mix of marketing efforts to make the brand relevant to the changing times**)
6. The portfolio of brands is well maintained.
7. The firm utilizes all its marketing efforts to build brand equity.
8. The firm knows what a brand means to its customers.
9. The brand is properly supported for a long period of time.

The company checks for brands' performance from time to time.



### Selection of a Brand Name

The selection of an appropriate name is important for the success of a brand. The factors to be considered before selecting the name are that people should find it easy to pronounce and easy to remember. The brand name selected should be such that it helps in distinguishing the brand from other brands. It should be legal, ethical, and available to the company (no other company should have already registered that brand name).

The selection of brand names for international markets is crucial. Care should be taken to convey the right meaning when brands are introduced in international markets. Marketers should evaluate the appropriateness of the brand name taking into account the different social, economic and cultural conditions prevalent in the country into which it is entering.

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### Check Your Progress-3

5. Lakme's products enjoy higher brand loyalty, name awareness, perceived quality. They are also protected from imitation by patent and trademarks, as applicable. In a nutshell, Lakme's products have \_\_\_\_\_.
  - a. High growth rate of sales
  - b. Good market share
  - c. Good brand equity
  - d. Good profitability ratio.
6. Selecting a brand name is crucial to the success of a brand. HLL wants to launch a new brand of bathing soap in the market. What are the important factors that the company need **not** consider while selecting the brand name for the soap?
  - a. Ensure that the brand name is such that it distinguishes itself from other brands
  - b. Ensure that the brand name is related in some way to the products or services the company is offering
  - c. Ensure that the brand name is able to generate curiosity when heard
  - d. Ensure that the brand name is distinct from the company's other product offerings.

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### **14.6. Brand Equity Models**

Brand equity is the commercial value that derives from consumer perception of the brand name of a particular product or service, rather than from the product or service itself. Though brand equity models conceptually look similar they do differ on various determinants. The brand equity models that are based on various determinants are as follows.

- David Aaker's Brand Equity Model

### Block-3: The Marketing Mix – I

- Brand asset Valuator
- Brandz Model
- Brand Resonance Model

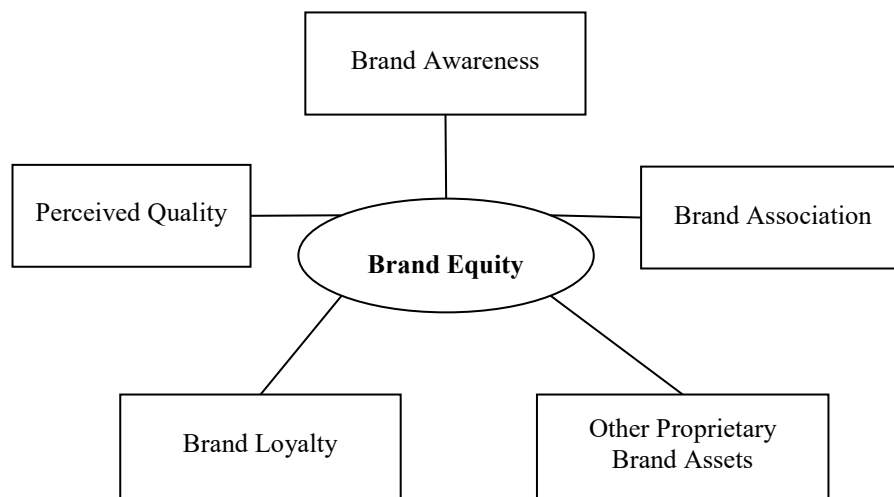
#### 14.6.1: David Aaker's Brand Equity Model

According to David Aaker, brands have high equity because they have high awareness, many loyal customers, a high reputation for perceived quality, brand associations, and proprietary brand assets such as patents and trademarks.

David Aaker suggests a brand equity model with five major determinants\* as shown in the Exhibit 14.3

- Brand Awareness
- Brand Loyalty
- Perceived Quality
- Brand Association
- Other Proprietary Brand Assets (Patents, Trademarks and Relationships)

**Exhibit 14.3: David Aaker's Brand Equity Model**



*Source: David A. Aaker, Managing Brand Equity (New York Press, 1991), P.17*

Customers prefer high- equity brands because they find it easier to interpret what benefits the brand offers, feel more confident of it, and get more satisfaction from using it. Because of such consumer preferences, the brand can charge a higher price and command more loyalty.

##### 14.6.1.1: Brand Awareness

Brand awareness is the ability of a prospective customer to recall that a brand is a member of a product category. There is a link between the brand and the

## **Unit 14: Branding and Packaging**

product class. A specific brand, in order to generate awareness, must define a company's uniqueness and set it apart from competition. If potential customers have knowledge about a company, it makes the job easier. A business should always plan to develop brand awareness cost-effectively. It is necessary to design a suitable communications message that reflects the brand's differentiating features and unique value for the target segment. Brand awareness has various levels that range from the uncertain feeling that the brand is part of a product category, to the point when it is known to be the only one in its category.

### **14.6.1.2: Brand Loyalty**

A brand is the physical and emotional alliance between a company and its customers - a web of messages, shared experiences and relationships. A brand consists of both tangible and intangible elements. When the tangible elements are separated from the brand, what is left is intangible. This is conceived in the customer's mind in the form of attributes. This perception functions as a foundation stone, which leads to repurchasing and later gets settled as brand Loyalty. When a consumer buys a new brand, he is a little apprehensive about its quality and performance. When he is satisfied with its performance, it becomes a habit to buy the same brand whenever he thinks or buying in the same product category. The consumer has by then become familiar with the product and brand and feels that the brand is suitable for him. Thus, an attachment is developed between the brand and the customer.

### **14.6.1.3: Perceived Quality**

Perceived quality can be defined as a customer's perception towards the product or service, relative to alternatives. It is influenced by intrinsic and extrinsic values. Intrinsic values refer to the visible, verifiable physical aspects of the product such as features, colour and taste. These cues lead to more abstract beliefs about the product's quality and benefits. Extrinsic cues are related to the product, but are not part of the physical product. These include price, level of advertising, warranty etc. The perception of quality can differ across industries.

### **14.6.1.4: Brand Association**

It was not until the 20<sup>th</sup> century that branding and brand association became so central to competition. In fact, a distinguishing characteristic of modern marketing has been to move beyond generics to branded products. The underlying value of a brand is often based on specific association of a "use context" such as cholesterol prevention by using "Saffola". This can provide a reason-to-buy, attracting customers. Such association represents the product's meaning to customers. Even if developing cholesterol was a side effect with edible oils, no other brand of edible oil prior to Saffola had stressed on the health factor in keeping cholesterol at bay which is what helped it gain market.

### Block-3: The Marketing Mix – I

For example, the, 'Saffola Gold blended oil has the unique composition of 80% rice bran oil and 20% sunflower oil for effective cholesterol control. Studies have shown that, a right combination of sunflower oil and rice bran oil is more effective in reducing cholesterol, than each of the oils singly. It also makes sense to highlight positive brand attributes before competitors do it.

#### 14.6.1.5: Patents, Trademarks and Relationships

The brand equity also gets valued based on patents, trademarks, copyrights, and channel relationships. These types of assets usually prevent competitors attack on the products or company. These assets also help in restoring customer loyalty and reinforce company's competitive advantage.

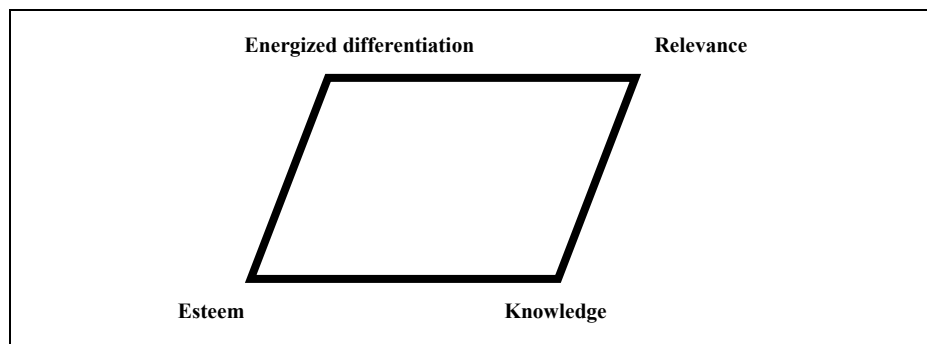
For example, Intel has patents over its microprocessor chips and this has prevented competitors from copycatting its chip technology. Intel is the leader in computer microprocessor industry for several years, due to its patent rights, and its only competitor is AMD. Since their inception Intel and AMD have been fierce competitors, both trying to one-up each other with the latest technology and most powerful processors to run the world's computers.

#### 14.6.2: Brand asset Valuator Model:

Young and Rubicam (Y&R) ad agency has developed a brand equity model known as 'Brand asset valuator' based on four determinants as follows (Exhibit 14.4).

- **Energized differentiation:** The perceived differentiation from other brands in terms of momentum and leadership
- **Relevance:** It measures the appropriateness and breadth of a brand's appeal
- **Esteem:** Customer perception of brand reputation and respect
- **Knowledge:** Customer awareness of brand

**Exhibit 14.4: Determinants of Brand asset Valuator**



The four determinants can be divided into 'leading indicator' and 'current indicator'. The top two determinants 'energized differentiation and relevance' together determine brand strength which is a leading indicator that represents

## Unit 14: Branding and Packaging

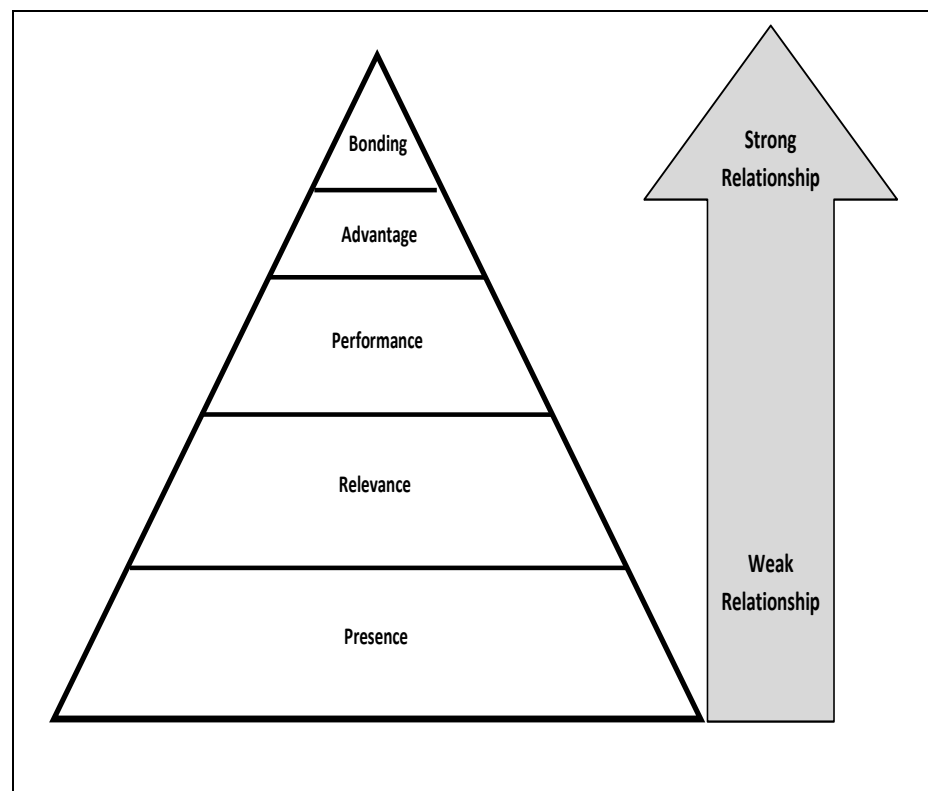
the future growth. The bottom two determinants 'esteem and knowledge' together determine the current value of brand stature which is a current indicator.

### 14.6.3: BrandZ Model

Marketing experts Millward Brown and WPP have designed BrandZ model based on Brand Dynamics pyramid. The brand Dynamics model understands the brand strength based on 'customer level' in a pyramid. The BrandZ model distinguishes customers based on their reach on the pyramid. The pyramid has five levels or determinants as follows (Exhibit 14.5).

- **Presence:** Awareness of brand promise
- **Relevance:** How far product is relevant to customer needs
- **Performance:** Customer believes that product delivers what is expected
- **Advantage:** Particular brand is preferable than others
- **Bonding:** Emotional attachment with the brand and exclusion of others

**Exhibit 14.5: BrandZ Model based on Brand Dynamics Pyramid**



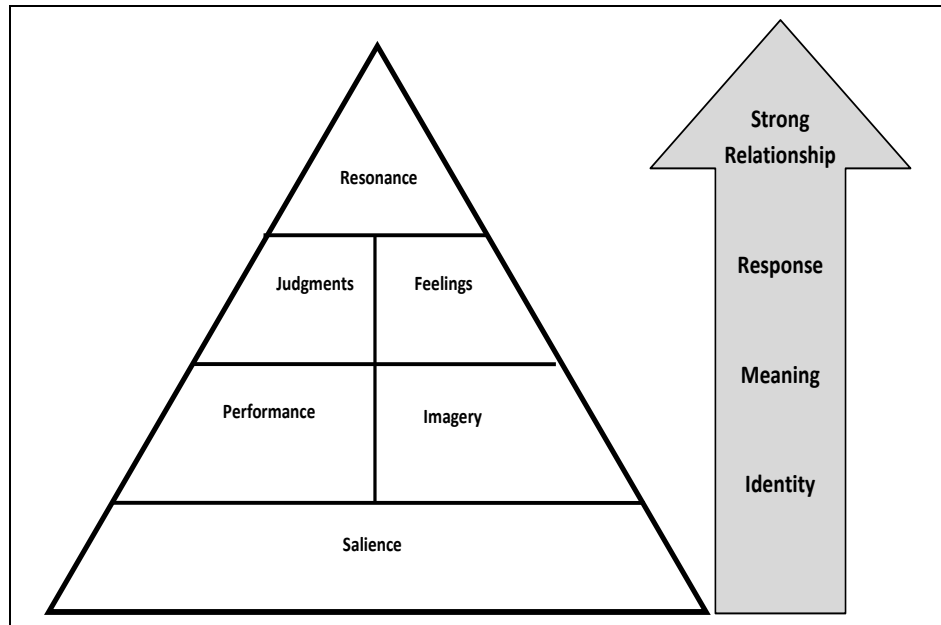
The consumers who reach top of the pyramid display deeper bondage with the brand hence the relationship is stronger and last longer. Companies have to move customers from bottom of the pyramid to top of the pyramid to enhance brand equity.

### Block-3: The Marketing Mix – I

#### 14.6.4: Brand Resonance Model

Brand resonance model is also designed based on pyramid structure. The customer journey on pyramid is divided into four levels with graded level of relationship with the brand. The four levels are determined based on six determinants as follows (Exhibit 14.6).

**Exhibit 14.6: Brand Resonance Model**



- **Brand salience:** Customer awareness of the brand
- **Brand performance:** How far product meets customers functional expectations
- **Brand imagery:** How far product meets customers psychological and social expectations
- **Brand judgments:** Customer evaluation of brand at a rational level
- **Brand feelings:** Customer evaluation of brand at emotional level
- **Brand resonance:** Customer relationship with the brand and how far they are in alignment

Brand equity can be high if customers are able to reach top of the pyramid. Companies have to build all the determinants are well placed. Resonance is the highest state where customers display stronger relationship with the brand. For example, brands like Apple, Sony, BMW, etc. have high brand resonance hence attract more brand equity.

#### 14.7. Brand Equity Measurement

Brand equity is different from brand valuation, which is the job of estimating the financial value of the brand. Brand valuation is the measurement of brand

## Unit 14: Branding and Packaging

equity in financial terms. The measurement and ranking of brands is a complex task to define and specify the parameters. There are varieties of measurement methods and often they differ on ranking of most values brands. Interbrand measures brand equity every year to rank Indian best brands.

As per Brand Finance India 100, 2021 ranking, Tata has retained the title of India's most valuable brand by a considerable lead with a brand value of \$21.3 billion. Operating in more than 100 countries across six continents and employing over three-quarters of a million people, TATA Group is a force to be reckoned with on the global stage. Ranging from Tata Steel and Tata Motors to TCS and Tata Consumer Products, the brand has managed to protect itself from COVID-19 damage –recording a 6 per cent uplift in brand value in 2021. Tata brand has won the hearts of millions of people with diverse and unique products and services.

Tata Group's integrity, understanding, excellence, unity, and responsibility make the Tata's a winner all the way (Exhibit 14.7).

**Exhibit 14.7: Tata's a winner all the way**

Brand	Position	Previous Position	Brand Value (\$M)	Previous Brand Value (\$M)
TATA Group	1	1	21283.1	20001.42
LIC	2	2	8655.33	8106.15
Infosys	3	4	8402.05	7087.22
Reliance	4	3	8138.32	7440.06
HDFC Bank	5	6	6587.88	5926.89
Airtel	6	10	6068.93	4459.74
State Bank of India	7	5	5843.42	6434.49
HCL	8	9	5523.65	4889.4
Mahindra Group	9	7	5377.87	5735
Jio	10	13	4814.98	3209.25

Source: <https://brandfinance.com/press-releases/brand-finance-global-500-2021-indian-brands-gain-pace-as-tata-retains-title-of-nations-most-valuable-brand>

### **Interbrand's Brand Valuation Methodology:**

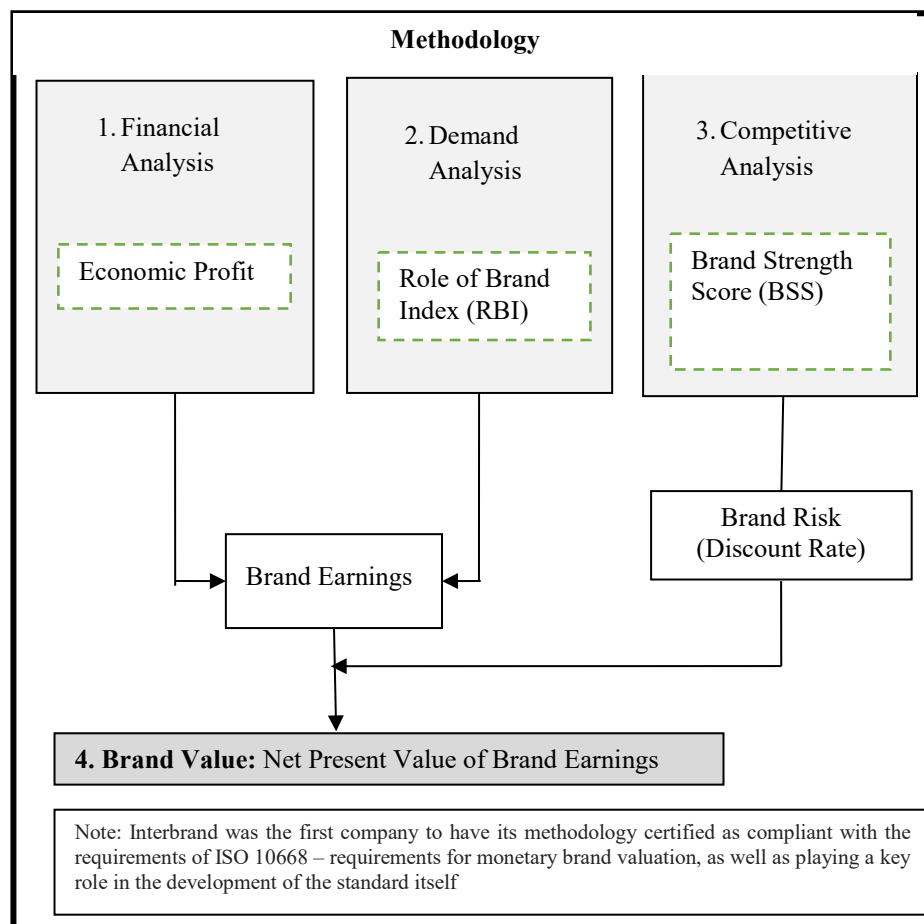
Interbrand brand valuation methodology as shown in Exhibit 14.8 is based on three important components as follows.

1. **Financial analysis:** This measures the financial performance of the brand in terms of economic profit. Economic profit is the after-tax operating profit of the brand minus a charge for the capital used to generate the brand's revenues and margins.

### Block-3: The Marketing Mix – I

2. **Demand analysis:** This measures the role of brand in purchase decision relative to other factors such as price, features, convenience etc. The Role of Brand Index (RBI) quantifies this as a percentage. Customers rely more on brands to make choices when competing products cannot be easily compared.
3. **Competitive analysis:** This measures the competitive strength of the brand where brand loyalty attracts more demand and profit into the future. Brand strength is scored on a scale of 1 to 100, based on an evaluation across ten key factors that Interbrand believes make a strong brand. The strength of the brand is inversely related to the level of risk associated with the brand's financial forecasts. A formula is used to connect the brand strength score to a brand-specific discount rate.

**Exhibit 14.8: Inter brand's Brand Valuation Methodology**



**Source:** <http://www.interbrand.com/en/best-global-brands/region-country/best-indian-brands/interbrands-brand-valuation-methodology.aspx>

Brand value is calculated based on brand-specific discount rate to discount brand earnings back to a present value. The calculated present value is able to withstand challenges and deliver the expected earnings into the future. Brand



value is nothing but the net present value of brand earnings. The brand value of Tata group is estimated for the year 2021 is \$21.3bn.

#### **14.8. Brand Sponsorship**

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Brand sponsorship stands for linking the organization's name with a particular event. Sponsorship is usually done for activities which involve a large public gathering. Many companies sponsor sports events to gain publicity. Companies even sponsor individuals or teams to gain publicity. For example, IPL 2021 is sponsored by Vivo and Rolex has been one of the major sponsors of F1 races for several years.

Sponsorship includes advertising and sales promotion activities. It can be effective when the company is clear about the benefits it is trying to derive by sponsoring a particular event. The benefits could be in the form of visibility or awareness of the brand during the event. The company should choose to sponsor an event which it can easily associate with. Moreover, companies should look out for having long-term relationship with an event. Companies could also use the sponsored events as platforms to launch products or product awareness campaigns. For events which are costly, companies can go in for co-sponsorship. In fact, companies should plan and implement sponsorship to achieve maximum promotional advantage. For example BYJU's will be the club's title sponsor for Kerala Blasters FC for the eighth edition of the Indian Super League (ISL) 2021-22.

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#### **Check Your Progress-4**

7. What is brand sponsorship?
  - a. A form of publicity which is done by supporting and linking the name of the company with a particular event
  - b. Having a new brand name for a company's new product
  - c. Developing and maintaining many brands so as to gain a greater market share
  - d. Companies supporting their brands.

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#### **14.9. Brand Strategy Decision**

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The brand strategy of companies should help in delivering to customers the value associated with a brand. Brand building should be done considering the identification, availability of resources, and the commitment of the company. The strategic implication of building a brand is that it should help improve the business of the organization. The brand strategy decision should be taken in accordance with the business strategies of the organization.

### **Block-3: The Marketing Mix – I**

It is difficult to brand some products like pulses, chemicals, etc. as it is difficult to differentiate these products from competitors' products. Marketers should be more cautious in making the brand strategy decision for these products. The branding strategy should also decide whether the company can adopt separate branding or umbrella branding for its products. For example, HUL adopts a separate branding strategy and has different brand names in its toilet soap segment like Lux, Rexona, Liril, Pears, Dove, Hamam, Lifebuoy, etc. On the other hand, Tata follows the umbrella branding strategy and names its products with the same brand for all its products. The various products of Tata group of companies carry the brand name 'Tata' like Tata Tea, Tata Sky, Tata Indigo, etc.

Line family branding is a branding strategy in which a company has the same name for a particular line of products. For example, HLL has the same name for a particular line of products like Knorr Annapurna Atta, Knorr Annapurna salt, and Knorr soups. The rest of the products in other categories have different names.

Brand extension strategy for branding makes the company use the same brand name for an enhanced version of the product. For example, HLL's Surf brand has extensions like Surf Excel, Surf Excel Automatic, Surf Quickwash, etc.

In brand licensing strategy some producers get the authorization to use a brand name of a prominent company for their products by paying a licensing fee.

#### **Line Extension**

Line extension of a product means developing a product that closely represents an existing product but with features that meet different needs of customers. For example, Fair & Lovely Anti marks treatment fairness cream introduced by HLL, is an extension of the Fair & Lovely Fairness Cream and is meant for customers with acne and oily skin.

#### **Brand Extension**

Brand extension is done by extending the brand name to new product categories. Brand extension can be done in three forms:

1. Extending the brand name to another form of the same product. For example, Centaur Laboratories, a pharma company, sells its 'Sinarest' brand of medication for cold in the form of tablets, nasal drops, and vapo-caps.
2. Product line extensions, which involve extending a well-established brand to related products. For example, Life Style Department stores has extended its Ginger brand of footwear to other segments of fashion accessories, like handbags and clutches.

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3. Reaching out to a new category. For instance, Dabur has extended its Vatika brand of hair oil to introduce Vatika Face Pack and Vatika Soap.

While extending brands, companies should carefully consider organizational synergies, product category similarity, and perceptual match or mismatch.

Brand extensions are common in the competitive business environment. However, there are instances where such extensions have ended in failure for many companies across the globe. So the companies should study the feasibility of brand extension before deciding to go ahead with it. Sometimes brand extensions prove to be economically beneficial for companies to an extent. However, brand repositioning is very difficult when the company plans to extend its brand from the low-end market to upper end.

### Brand Rejuvenation

Brand rejuvenation means revitalizing an old brand, which is gradually losing its market share. Companies can revitalize brands which have been losing market share over a period of time through a step-by-step process that involves discovery, innovation, and expression. Companies should first discover or identify what their brands mean to customers. They should also evaluate and analyze the competition. Then, as a next step, innovation of products needs to be done. Marketers should try to overcome shortcomings identified in the discovery stage. Improvements can be in terms of package, designs, etc. Testing the effectiveness of the improved product with wholesalers or loyal customers can be helpful to companies. In the expression stage, companies should try to project a positive image of the brand. The rejuvenated brand should be displayed very prominently across different media and also on the company's stationery.

**Activity:** 'Needs', an international FMCG major based in India, noticed that one of its well-established and core brands was losing market share as customers were shifting to competitors' brands. In order to hold its market share and also to regain lost market share, the company decided to rejuvenate the brand. The task was given to the marketing manager of the company. If you were the marketing manager, discuss the various steps you would take to rejuvenate the brand.

**Answer:**

### Brand Relaunch

Brand relaunch is done when companies launch a brand again after a certain time gap. Sometimes, brands which are acquired from other companies are also relaunched with necessary modifications. For example, HUL acquired Kwality icecream in the mid-nineties and relaunched it as Kwality Walls.

### **Block-3: The Marketing Mix – I**

#### **Brand Proliferation**

Brand proliferation is the opposite of brand extension. It refers to the introduction of new brands in the same product category unlike extending the brand name to other product categories as in brand extension. For example, HLL forayed into the detergent category with brand names like Rin, Surf, Wheel, etc. Brand proliferation helps companies to reach a wider market but might result in cannibalization of market share by products in the same category and thus in lower margins for the company. Cannibalization can be avoided by differentiating the brands and positioning them in different market segments. Companies try to capture a greater market share by introducing several brands in a single product line. This helps in filling the gaps created by small niches in the market. However, companies across the globe have realized that it costs more to maintain a large number of small brands than to maintain a small number of big brands. Large amounts of financial and managerial resources are required to maintain a large portfolio of brands. But if brand proliferation is planned carefully and managed well, marketers can succeed in getting greater profits for the company.

#### **Multi-brands**

Multi-branding refers to introducing different brands in the same product category to satisfy the various buying patterns of customers. However, multi-branding may sometimes result in a smaller market share for a company if none of the multiple brands succeeds in capturing a significant market share.

#### **New Brand Name**

A firm can have a new brand name for a new product when it plans to enter a new product category. For example, Pepsi entered the bottled water segment with the brand name Aquafina.

#### **Co Brands**

Co-branding or dual branding is a process where two or more companies combine their brands to obtain greater sales. Co-branding can be of different types. Ingredient co-branding (Hero Honda recommending MRF tires), combining brands of the same company (Pepsi recommending Aquafina mineral water), joint venture co-branding and multiple sponsor co-branding (technological alliance between OnePlus and Android).

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#### **Check Your Progress-5**

8. Different strategies are involved in branding products. Which among the following definitions is **incorrect**?
  - a. Brand re-launch is a process of launching the brand again after a time gap
  - b. In brand extension brand names are extended to new product categories

## Unit 14: Branding and Packaging

- c. Brand rejuvenation is a process of development of a product that is closely related to one or more products in the existing product line but is specifically designed to meet different customer needs
  - d. Brand proliferation is the introduction of products with new brand names in the same product category.
9. In which of the following, two or more well-known brands are combined in an offer and each brand sponsor expects that the other brand name will strengthen preference of purchase intention?
- i. Co-branding
  - ii. Multi-branding
  - iii. Dual branding
  - iv. Brand rejuvenation.
- a. i, ii & iii
  - b. Only i& ii
  - c. ii, iii & iv
  - d. Only i& iii.
10. Daimler Benz wants to undertake a brand extension for its Benz car. The company has two options, namely, upward brand extension and downward brand extension. However, downward brand extension has some disadvantages associated with it. Identify them.
- i. The brand may lose its up-market image
  - ii. The brand may lose its down-market image
  - iii. It may have serious repercussions on the value perceptions of the consumers
  - iv. All of the above.
- a. ii & iii
  - b. ii & iv
  - c. i& iii
  - d. Only iv.

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### 14.10. New Developments in Brand Management

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Brand management has seen several developments in recent times. Established companies like Procter & Gamble (P&G) and HUL are concentrating on a set of popular brands termed as 'power brands'. Power brands are brands built over time by the firms and have a huge value in the market.

Companies are also discarding brands which are not profitable. More and more companies are using semiotics, a science of signs and/or sign systems to enter the comfort area in the subconscious minds of people. A firm tries to ensure

### Block-3: The Marketing Mix – I

that the brand sustains the curiosity of people by positioning it in such a way that it has some cultural, actual, and historical relevance. For example, the apple, symbol of Apple Computers has relevance to Adam and Eve, scientific relevance in terms of Newton's gravitational theory, and is considered to be a fruit of genius.

A study has revealed that only brands with constant innovation and advertising could perform well in the market. (Refer Exhibit 14.9).

#### Exhibit 14.9: Insight: Top Branding Trends 2020

- *Brand personalization:* Current scenario is about personalization. Customers not just look for the product in isolation, but also get attracted to people's hospitality and behavior during the purchase of the product. And how much you know about their individual tastes and preferences. Therefore, the more a brand is good at giving personalized experience, the more are the chances of the customer coming back to you. This can be communicated to customers by the following ways:
  - Storytelling: Like, Paper boat came up with a story in their advertisement behind each product they have.
  - Take people behind the scenes: Sharing employee stories on social media; Disney takes their customers on 'behind the scene' tours.
- *Use latest technology:* Chatbot has become a popular medium to stay in touch with the customers and customers also have found this as a more comfortable way to interact with the company. With the use of artificial intelligence, these chatbots are making the brand more interactive.
- *Online communities:* These days, online communities give a common platform to the customers to interact with each other and also with the company. So, generally the discussions happen on such communities are being considered most effectively by the fellow customers. Therefore, as a brand it becomes really important to have a close look on the same. Exhibit: Quora.
- *Provide creative customer experiences:* Generally, the key to increase the rate of loyal customers for the brand is exceptional customer experience. In near future, customer experience is going to overtake product and price as a differentiator. These days brands are providing with 24/7 services to their customers wherein the customer can make and track the order anytime. Also they can interact with the customer service representative and get a clarification to their query at any time.
- *Be socially aware and conscious:* Consumers appreciate the responsible attitudes of the brands towards to social causes of the society. For instance, IKEA focuses on using 100% renewable energy and sources the raw material i.e. wood from sustainable sources.
- *Mobile generation:* Current scenario is about usage of mobile for any other technology related requirement. Therefore brands must create and

Contd. ....

design their promotions in such a way that they can be watched on mobile also. Talking about email marketing, i.e. sending promotional messages through email, so here the key is to come up with a short email with attract words and message which will be able to reflect the effort of promotional activities.

- *Influencer Marketing:* This is becoming quite popular as customers are becoming more reliant on influencing personalities. Such personalities are maybe celebrities, cricketers, politicians, religious people etc.

*Valuable content:* Brands must provide valuable and correct content to the consumers because now-a-days internet is giving a lot of opportunities to consumers to explore information. Therefore, misleading the consumers is not going to help in any way.

Source: <https://www.lyfemarketing.com/blog/branding-trends/>

#### 14.11. Packaging and its Importance in Marketing

Packaging of a product adds value to the product by enabling easier handling and secure usage. Packaging helps in increasing the sales of a product by attracting customers to make repeat purchase of the product. An easy-to-use and secure packaging has a positive influence on the purchase decision of the customer. Packaging plays an important role in preserving products from getting spoiled if exposed to the external environment for a long time. Specifically for FMCG products, packaging should be done in such a way that it appeals to a customer instantly as customers usually spend only a short time in picking up products from the shelves of retail outlets. Packaging should attract customers visually and psychologically. If the size, color, or other features of packaging are altered to make it more attractive, it will influence the minds of the people positively toward the product. Therefore, marketers should take a lot of care over packaging design in the early stages of brand introduction. International companies should be careful to adopt a single packaging design across the world so that customers will not get confused. Maintaining consistency in packaging throughout the world enables customers to recognize products irrespective of the place at which the products are being sold.

##### Importance of Packaging in Marketing

Firms try to inform consumers about the product through packaging. They try to highlight the utility of the product through packaging techniques such as by using suitable colors, appropriate designs, and structures for the pack. Further, packaging should be done in such a way that it is should be easy for wholesalers, retailers, and customers to handle during transit. It should also be environment friendly to increase the marketability of the product.

##### Packaging and Marketing Strategies

Packaging is given importance while developing marketing strategies since appropriate and convenient packaging can give a product a competitive advantage. Marketers also make changes to packaging as and when required to

### Block-3: The Marketing Mix – I

remain competitive in the market. Sometimes, the packaging may need to be changed as when it gets obsolete or when the competitors have changed the packaging of their products so that they are more attractive and convenient. Exhibit 14.10 explains how companies innovate their packaging, to create customer engagement and increased brand recall.

#### **Exhibit 14.10: Pizza Hut Box Lets You Play Pac-Man In AR**

Pizza Hut launched the concept of "Newstalgia," giving a modern spin to the brand's iconic branding elements, as per a press release shared with Marketing Dive. The year-long campaign was created with agencies GSD&M and Tool of North America.

As part of the campaign, limited-edition boxes of large pizzas featured QR codes that, when scanned, allow customers to play an augmented reality (AR) version of the classic game Pac-Man. Players that share their scores on Twitter are allowed to win a custom Pac-Man game cabinet.

The shift in its creative positioning also allowed the brand to release a TV spot featuring spokesperson Craig Robinson playing a retro Pac-Man game to promote the "Newstalgia" effort, which taps into trends around nostalgia and at-home dining that have boomed during the Covid-19 pandemic.

Source: <https://www.marketingdive.com/news/pizza-hut-spins-boxes-into-pac-man-ar-game-for-newstalgia-campaign/596665/> March 2021

Firms adopt different packaging techniques to increase the consumption of their products by consumers. According to a study conducted by the Marketing Institute in Cambridge, a large sized package encourages customers to consume more of the product as their perception is that they have bought a larger quantity of product for a reduced rate. On the contrary, the study also revealed that consumers would not use some products in large quantities if they felt that this would lead to damage of other related products as for instance, excessive detergent use leading to clothes getting spoiled.

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#### **Check Your Progress-6**

11. Packaging is an important aspect of marketing. Why is it given such importance?
  - a. An aesthetically packaged product attracts the attention of the consumers
  - b. The package with its verbal and non-verbal communication makes the consumers aware of the contents of the product and its attributes
  - c. An aesthetically packaged product improves sales
  - d. All of the above



12. Which of the following factor(s) contribute to the growing use of packaging as a marketing tool?
- Self-service in retail outlets
  - Affects consumer attitude
  - Reflects company and brand image
  - All of the above.

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#### 14.12. Innovations in Packaging

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Packaging has reached a stage to create differentiation in product clutter on the shelf. Marketers have become more creative to innovate in packaging to capture the attention of customers. The following developments can be seen in packaging.

- Traditional and Nostalgic Designs in Packaging
- Made for me packaging
- Convenience packaging
- Engaged packaging
- Interactive packaging
- **Traditional and Nostalgic Designs in Packaging:** Customers are taking pride in their tradition and connecting more to their nostalgic moments. Companies are showing interest in developing packages with designs that reflect traditional symbols and nostalgic memories.
- **Convenience packaging:** Companies always look for solutions to meet unmet needs of customers. Convenience packaging is extremely necessary for 'on the go' consumers. For example MTR's ready to cook Paneer, tomato rice, rajma masala are boon to travelers who don't have time or space for large or difficult to open packs.

**Engaged Packaging:** The primary purpose behind packaging is to make the product stand out on the shelf at the moment-of-truth in store. Companies have to sell their unique selling proposition through the 'moments-of-truth'. Packaging is an opportunity for moment-of-truth for companies to engage the customer with the product. Engaged packaging make a difference in the clutter.

Some products display their Unique Selling Proposition (USP) on packaging with various details and symbols. Engaged packaging provides all the necessary information. For example, Kit Kat provides all the details about the product on packaging for sustainable consumption.

**Interactive packaging:** Interactive packaging influences customers to go for conversation with the packaging to know more about product.

### **Block-3: The Marketing Mix – I**

For example, Heineken, Dutch brewing company, has developed the 'Heineken Ingnite', its first interactive beer bottle. The bottle is designed with an array of micro sensors, wireless networking technology, and LEDs. The bottle is able to sense the moment it is being used to say "Cheers" and light up. The bottle is also able to light up in time to music, actively responding to specific audio and data cues.

#### **14.13. Labeling**

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Labeling is a legally essential process of displaying important information on the product's package. Labeling should include instructions about the usage of the product and about ingredients of the product. Especially in the case of food products, proper labeling helps consumers who are health conscious to choose products according to the product's calorie content. The Government of India encourages the manufacture of eco-friendly products by providing the labeling with an 'Eco-Mark' for products meeting certain criteria. Labeling regulations are issued by the government from time to time. For instance, labeling of injurious products like cigarettes have to contain a statutory warning.

##### **Universal Product Codes**

Universal product codes are used in labeling products. They consist of a unique sequence of lines which help an electronic scanner to identify a product. The black and white lines of the code absorb and reflect light rays and this helps in identifying the product. Universal product codes are also known as bar codes and are used by manufacturers and retailers for efficient pricing and inventory controls. Bar codes do not help firms in effective tackling of piracy or imitations but can reduce the amount of data entry work. European Article Number (EAN), a Delhi-based organization, issues bar codes for products, which the Government of India has made compulsory for exporters.

A technological development in the concept of universal product codes is the Radio Frequency Identification (RFID) tag. An RFID tag consists of an electronic circuit and an antenna. Radio frequency communications are used to identify the objects. RFID tags have varied amounts of storage capacities. Some RFID tags have the capacity of storing data related to the date of manufacture, conditions in which the product is stored, the details of the shipment, and data added at every stage of the supply chain. Through this data, information related to where the product has been till it reaches the consumer can be traced. However, there is a limitation for the scanners, as they will not be able to identify a large number of RFID tags in the area covered by a single antenna. The RFID technology needs further enhancement for universal applicability.

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**Check Your Progress-7**

13. 'Labeling has become increasingly important and legally essential'; what is labeling?
  - a. A science of signs and/or sign systems
  - b. It is the process of exhibiting important information on the product's package
  - c. It is the process of developing a product that is closely related to one or more products in the existing product line but is specifically designed to meet different consumer needs
  - d. It is the process of developing a design and a container for a product.
14. Labeling is the process of exhibiting important information on the package of the product. The Government of India provides a label for environmentally friendly products. What is it?
  - a. ISO 9001
  - b. ECOMARK
  - c. AGMARK
  - d. ISO 14001.

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**14.14. Summary**

- A brand is a name, term, sign, symbol, design, or combination of elements with which consumers differentiate goods and services of a company from those of its competitors.
- Brands are of three types. They are manufacturer's brands, reseller's brands or private brands, and generic brands.
- Brand equity is the value of a product which is a combination of the assets and liabilities associated with a brand.
- Brand sponsorship is linking the name of a brand or organization with a particular event, which involves a large public gathering. Brand sponsorship helps the organization in publicity and promotional activities.
- The brand strategy decision of a company made in accordance with the business strategies help in enhancing the profits of a company. Various brand strategy decisions are brand extension, line extension, product extension, brand proliferation, etc.
- Packaging is a process which includes developing a design for the container of a product, and usage of appropriate colors and material to offer the product in a convenient container so as to influence the customers to purchase the product.
- Labeling is the process of exhibiting important information on the product's package.

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### 14.15. Glossary

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**Brand:** A name, term, phrase, design, symbol, or any combination of these chosen by an individual or organization to distinguish a product from competing products.

**Brand equity:** The overall strength of a brand in the market place and its value to the company that owns it; increasingly companies are trying to assign financial value to brand equity.

**Brand extension:** Assigning an existing brand name to a new product in the same product line or in a different product line.

**Brand licensing:** A type of licensing arrangement in which one company sells others the right to use one or more of its brand names.

**Cannibalization:** A situation in which a new product steals sales or market share from other products in the existing product line.

**Family brand:** A brand assigned to an entire line of product items.

**Generic brand:** A non-branded product that is identified only by its product category.

**Joint venture:** Collaboration by two or more companies on a task or product, sharing assets, risks, and profits.

**Private brand:** A brand that is designated, owned and used by a wholesaler or retailer.

**Product line extension:** A method of adding products to the product mix by introducing products into an existing product line.

**Publicity:** A class of public relations that focuses on news about a company or its products.

### 14.1. Self -Assessment Test

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1. Branding is an important process of attracting customers Explain the concept of brands and its significance.
2. Marketers are now focusing more on packaging and labeling of their products. From this perspective, discuss the importance of packaging and labeling in marketing.

### 14.2. Suggested Reading/ Reference Material

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### **14.16. Answers to Check Your Progress Questions**

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

**1. (c) Process attributes**

A brand conveys value proposition, personality status, product attributes, a certain culture, type of user segments, and emotional and functional benefits. However, in general, they do not convey the process attributes.

**2. (b) Brand**

A brand is a name, term, sign, symbol, or design, or a combination of them intended to identify the goods or services of one seller or group of sellers and to differentiate them from those of competitors.

**10. (d) All of the above**

A brand conveys attributes, benefits as well as values.

**4. (b) Paper napkins - Resellers' brand**

Paper napkins are an example of generics, not a reseller brand. Manufacturers' brands are those that are branded directly by the manufacturers who have invested heavily on building them. Resellers' brands are those brands that are developed and owned by the resellers. Generics are not specifically advertised and are sold by grocery stores at a lower price than those of identical private branded products.

**5. (c) Good brand equity**

Brand equity is the combination of assets and liabilities associated with a brand that increases or reduces brand value. Brand equity of a product

### **Block-3: The Marketing Mix – I**

has five determinants, namely, awareness, quality perception, loyalty, patents and trademarks.

**6. (d) Ensure that the brand name is distinct from the company's other product offerings or features**

While deciding upon the brand name, HLL should take into consideration various factors. It must ensure that the brand name identifies with the motto of the company and that it is distinguishable from other brands. The brand name should be easy to pronounce and should be able to generate curiosity when heard. The other important aspect that has to be looked into is whether the brand name evokes the intended association with the product features. The brand name need not be distinct from other brands of the company. This is seen in corporate/umbrella branding where the name of the company is highlighted in all the brand names.

**7. (a) A form of publicity which is done by supporting and linking the name of the company with a particular event**

Brand sponsorship is a form of publicity which is made by supporting and linking the name of the company with a particular event.

**8. (c) Brand rejuvenation is a process of development of a product that is closely related to one or more products in the existing product line but is specifically designed to meet different customer needs**

Brand rejuvenation is a process of revitalizing an ailing brand. An old brand which is losing its market share over a period of time has to be revitalized through the adoption of several means like increasing its usage.

**9. (d) Only i& iii**

In co-branding (also called dual branding) two or more well-known brands are combined in an offer and each brand sponsor expects that the other brand name will strengthen preference of purchase intention. On the other hand, multi-branding involves introducing different brands in the same product category to cater to the different buying patterns of the consumers. Brand rejuvenation is a process of revitalizing an ailing brand.

**10. (c) i& iii**

The disadvantages of downward brand extension are that the brand may lose its up-market image and secondly, it may have serious repercussions on the perceptions of the consumers about the ability of the brand in providing superior value. Downward brand extension may lead to a down-market brand image.

**11. (d) All of the above**

Packaging is given great importance because an aesthetically packaged product attracts the attention of the consumers. The package acts as a

## Unit 14: Branding and Packaging

source of verbal and non-verbal communication that makes the consumers aware of the contents of the product and its attributes. An aesthetically packaged product also improves sales.

**12. (d) All of the above**

The factors which contribute to the growing use of packaging as a marketing tool are self service (consumers can pick up the product from the shelf of a retail outlet in a few seconds), consumer attitude (a change in the color patterns or the size and shape of packaging completely changes the customers' attitude towards that product) and company and brand image (it helps the company to increase its sales).

**13. (b) It is the process of exhibiting important information on the product's package**

Labeling is the process of exhibiting important information on the product's package. The process of developing a design and a container for a product is called packaging. The process of developing a product that is closely related to one or more products in the existing product line but is specifically designed to meet different consumer needs is called line extension. Semiotics is the study of signs/sign systems.

**14. (b) ECOMARK**

The Government of India issues ECOMARK for products that are eco-friendly and meet the set standards along with the requirements of Indian Standards Institute. ISO 9001 is concerned with quality management and ISO 14001 is concerned with environmental management.

## Unit 15

# Pricing and Marketing

### Structure

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- 15.1. Introduction
- 15.2. Objectives
- 15.3. Significance and Importance of Price to a Marketer
- 15.4. Price and Non Price Competition
- 15.5. The Process of Product/Service Pricing
- 15.6. Approaches to Price Adjustment
- 15.7. Dynamic Pricing
- 15.8. Pricing techniques of Online Retailers
- 15.9. Effects of Price Changes
- 15.10. Summary
- 15.11. Glossary
- 15.12. Self-Assessment Test
- 15.13. Suggested Reading / Reference Material
- 15.14. Answers to Check Your Progress Questions

### 15.1. Introduction

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In the previous unit, we have discussed the concepts of branding, packaging and labeling and their importance in marketing. In the current unit we will discuss pricing, the process of price setting, and the different methods used by the marketers to fix the prices of their products and services.

Price is the monetary value that the consumer pays to own or consume a product or service. A lot of importance is given to price by the consumer as he expects value for the money he spends. Marketers devise a variety of pricing strategies to attract consumer as pricing is an important part of the marketing strategy of a firm. The process of setting prices for product/service involves steps like setting the pricing objectives, demand determination, analyzing the pricing of competitors, selection of a pricing method, and selecting the pricing policy. Companies adopt a pricing pattern based on several aspects. The common methods adopted by marketers to fix the price of products and services are: geographical pricing, promotional pricing, discriminatory pricing, discounts and allowances, experience curve pricing, and product mix pricing.

In this unit, we will first discuss the concept of pricing and its importance in marketing. We shall then discuss the steps involved in the process of price setting and the different methods used by marketers for fixing the prices.



## 15.2. Objectives

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

- Explain the significance and importance of pricing in marketing
- Discuss the concepts of price and non price competition
- List the different steps involved in the process of price setting
- Analyze the different methods used by marketers to fix the price of their products and services

## 15.3. Significance and Importance of Price to a Marketer

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Setting prices for a product is an important aspect of the marketing strategy. An ineffective pricing can cause immense damage to the growth and sustainability of firms. Therefore, marketers take utmost care while pricing their products. Companies must consider the following factors, while setting prices of products:

- The demand for the product/service in the market
- Customers' perception about the product and the firm
- The market
- Expenditure incurred for producing the goods
- Intensity of the competition
- Refer Exhibit 15.1 for BMTC's services.

### **Exhibit 15.1: BMTC- Bangalore Metropolitan Transport Corporation**

In 2011, BMTC had earned 37 million rupees from its around 6,000 vehicles, which carried some 4.26 million people per day. It had 47 bus stations and 33,200 employees. The Vayu Vajra Airport Service, offered to consumers at a charge of 5 rupees per km, for commuting from Bangalore international airport to city and vice-versa. This is an air-conditioned and convenient service offered by utilizing Volvo buses, having multiple routes with limited stops and available round the clock. Another service offered by BMTC is Vajra, AC Volvo buses, an absolute premium service at a charge of 3 and 2 rupees per km for 10 and 25 km, respectively. Another, affordable and basic bus service, having around 600 routes within the city, charged 1 rupee and 0.33 paise for 10 and 25 km, respectively. They have other tailor-made services also for special requirements maybe from students, employees, staff etc. It calls for a logical and viable decision when a company decides price of its products because revenue earned by the company is important to make the company run their operations seamlessly.

*Source: Marketing Management- Kotler, Keller, Koshy & Jha*

**Check Your Progress-1**

1. IKEA, a leading furniture retailer, wants to affix the price of its new range of cupboards. What factors should it primarily consider before adopting a pricing strategy?
    - i. Demand for the particular product in the market
    - ii. Customer perception of the product
    - iii. The cost involved in producing the product
    - iv. Type of promotional strategy.
    - a. i, ii, iii, iv
    - b. ii, iii, iv
    - c. i, ii, iii
    - d. i, iii, iv.
- 

**15.4. Price and Non Price Competition**

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**Price Competition:** When companies compete with each other with respect to the prices of the products/services being offered, it is known as price competition. In this type of competition, marketers try to offer their products/services at a price equivalent or lower to the prices offered by the competitors. Companies that offer the lowest prices garner a huge market share in a market characterized by price competition. For example Reliance Jio emerged as the leader in Indian wireless telecom industry, due to its low cost pricing strategies. (Exhibit 15.2)

**Non Price Competition:** Competition may also occur with respect to the quality, features, packaging, etc., of the product/service being offered. Consumers in such a market are loyal to the brands and also are unwilling to satisfy their needs with substitute brands. Example 1, delineates what creates non-price competition in telecom sector.

**Exhibit 15.2: Data Privacy – A form of Non-price Competition**

A study by the Competition Commission of India (CCI) emphasized that Data privacy can take the form of non-price competition and abuse of dominance can lower privacy protection.

According to the study the other non-price factors such as quality of service (QoS), data speeds and bundled offerings, which are likely to be the new drivers of competitive rivalry between service providers in telecom sector in addition to just price. Abuse of dominance can take the form of lowering the privacy protection and therefore fall within the ambit of antitrust as low

*Contd. ....*

privacy standard implies lack of consumer welfare. CCI found that network coverage at the top followed by customer service, tariff packaging and lower tariffs as the most important non-price factors for the preference of a particular network.

Source: <https://www.thehindu.com/business/Industry/data-privacy-can-take-form-of-non-price-competition/article33669687.ece>, Jan 2021.

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### **Check Your Progress-2**

2. The pricing of products in a market is dependent on the type of competition existing in the market at that point in time. Which among the following is a feature of non-price competition?
- The marketer competes with competitors on the basis of price
  - The marketer competes with competitors on the basis of product features, quality and promotions
  - The marketer competes with competitors on the basis of price as well as features, quality of the product and promotions
  - All of the above.

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### **15.5. The Process of Product / Service Pricing**

The process of product/service pricing involves the following steps:

- Setting pricing objectives
- Demand determination
- Analyzing the pricing of competitors
- Selection of a pricing method
- The selection of pricing policy

**Setting pricing objectives:** The pricing objectives of a company should be in line with its overall objectives. Pricing objectives vary from company to company. While one company may price its products with a view to gain a huge market share, another might aim for long-term sustainability, etc. Some of the pricing objectives of companies are discussed below.

**Survival:** Setting prices with a view to survive in a highly competitive environment is a short-term objective. Here, marketers might resort to price cuts in order to combat the competition.

**Profit:** Marketers price the products with a view to attain profits. They analyze various pricing alternatives and arrive at a pricing strategy that would give maximum profits to the company.

**Return on investment:** Companies may also price their products with an objective of getting a return on their investment.

### Block-3: The Marketing Mix – I

*Market share:* Most companies price their products with a view to capture a considerable market share. According to them, an increase in market share would lead to increase in profits. Exhibit 15.3 explains how Kia Motors targeting Indian markets with attractive prices.

#### **Exhibit 15.3: Kia launches Carnival with an Attractive Price**

One of the biggest automotive success stories of 2019 is the entry of Kia Motors in India and the response to the Kia Seltos. Kia India claims that it had a market share of 10.7 per cent in May 2021, the highest-ever monthly share for the automaker since it commenced sales operations in the country. No matter how many gadgets or features you add to a car, pricing will still remain crucial for Indian car buyers. Keeping Indian car buyers' price consciousness in mind, Kia has designed effective pricing strategies for Indian markets.

In September 2021 Kia India has launched the updated version of its premium multi-purpose vehicle Carnival with a price starting at Rs 24.95 lakh (ex-showroom).

The refreshed Carnival features Kia's new corporate logo giving a fresh new look to the vehicle. The company has also rejigged the trim line-up with the introduction of Limousine and Limousine+ variants to offer unique product USPs at an attractive price point

The model will now be offered in four variants - Limousine+, Limousine, Prestige and Premium. The Carnival range starts from 24.95 lakh and goes up to Rs 33.9 lakh (ex-showroom)

*Source:* Adapted from "Kia India Drives in Updated Carnival with Price Starting at Rs. 24.95," [www.businessstandard.com](http://www.businessstandard.com). Sep16,2021

*Status quo:* Sometimes, companies maintain stability in the price of their product/services. This helps in stabilizing the demand for the product in the market and also helps in reducing the potential threat from competition.

*Product quality:* Companies may also set prices to reflect the quality of the product. The price of the product may also include the costs incurred on R&D to improve the quality of the product. Also, for some customers high priced goods imply good quality. Therefore, companies try to link price to product quality. For instance, Lakme Lever offers cosmetics products under the brand names *Lakme* and *Elle 18*. While *Lakme* is positioned in the premium range, *Elle 18* is targeted at teenage girls as a trendy yet easily affordable product.

***Demand determination:*** Forecasting the demand for product/services in the market is essential for marketers before determining prices. Companies

## Unit 15: Pricing and Marketing

determine the demand for the product/services with the help of market research teams and sales forecasts.

*Price sensitivity:* In general, the price of goods reduces when there is decrease in demand and increases when there is increase in demand. However, this does not always hold true as consumer preferences, perceptions and tastes also influence the price to a great extent. For instance, consumers tend to be less price sensitive under these conditions – when the product is new and offers a unique proposition, when they are unaware of substitute products, when the product is perceived of high quality and so on. Although, it must be noted that modern consumers are very demanding and becoming increasingly price sensitive.

*Demand curve:* Demand curve can be used as a tool by marketers to analyze the price-demand relationship of a product. Organizations use a variety of methods such as analyzing past data (sales and demand), conduct consumer surveys, etc., to analyze the price-demand relationship.

*Price elasticity of demand:* It is the percentage change in quantity demanded of a commodity divided by the percentage change in the price of that commodity. Marketers can easily set the price of their products once they determine price elasticity of demand.

The price elasticity of demand is given by 
$$\frac{\% \text{ Change in Quantity Demanded}}{\% \text{ Change in Price}}$$

*Analyzing competitor's pricing:* Every marketer must assess and analyze the competitive environment the firm is operating in. This is necessary because consumer demand pattern is also influenced to a large extent by the pricing strategies of the competitors. Therefore, it is essential that companies analyze the pricing strategies of competitors and accordingly react to the competitors' moves. A marketer may react either by maintaining the status quo or set prices equal to that of the prices offered by the competitor. Sometimes, companies may also bring down the prices of the products in comparison to the prices offered by the competitors.

*The selection of a pricing method:* Companies can choose any of the following pricing methods:

*Mark-up pricing:* In mark-up pricing, marketers fix a selling price that generally exceeds the cost incurred in manufacturing that product. For example, if a company has incurred around Rs. 78 as the cost to make a product then it might add-up a margin of some amount, say, Rs. 22 and sell the product at Rs. 100.

Markup expressed as a percentage of cost =  $\text{Markup} / \text{cost}$

Markup expressed as a percentage of selling price =  $\text{Markup} / \text{Selling price}$

*Target return pricing:* With this method, marketers fix the price of the product with a view to get back returns on the investment made in manufacturing the

### Block-3: The Marketing Mix – I

product. Target return pricing can be obtained with the help of the following formula:

Target return pricing = unit cost + (desired cost × invested capital) / unit sales

*Perceived value pricing:* Companies may also set prices based upon the consumers' perceived value of the product. Perceived value is calculated as a weighted average of the products' perceived attribute scores.

*Going rate pricing:* In this method of pricing, marketers set the prices depending upon the prevailing pricing patterns in the market. Companies may also adopt the same pricing strategy as that of the competitors.

*Sealed bid pricing:* This method of pricing is more suitable for industrial products. In this method of pricing, the price of the product or service is usually quoted in a sealed cover. This method is generally adopted for those products that do not have a designated a market price or when it becomes difficult to fix the price because of changing levels of quality parameters and specifications demanded by the customers.

*Differentiated pricing:* In this method, marketers adopt different prices for the same products at different locations or even for different customers. For instance, petrol is priced differently in different states in India.

*Value pricing:* In this method of pricing, marketers offer high quality products or services for low prices. Value pricing helps the customer perceive that they are getting high quality products at a low price.

*Market skimming:* When companies come up with an innovative or a breakthrough technology, they adopt the market skimming strategy. In this method of pricing, marketers set high prices while launching the products/services into the market in order to recover their costs as early as possible. Apple like many other premium mobile phone marketers, follows skimming strategy, with its every new launch. Prices of the newer iPhones are quite high, in fact much higher than the rest of the competition.

**Activity:** Thomas Industries Pvt., Ltd., (TI) plans to introduce its brand new product. The product and its technological features are relatively new to the market. Considering the fact that TI is introducing an innovative product in the market, which method of pricing should the company adopt?

**Answer:**

***The selection of pricing policy:*** The pricing policy is dependent upon the internal and external environment in which the company is functioning. Marketers adopt a variety of pricing policies for their companies. The following are some of the pricing policies a company may adopt:

***Psychological pricing:*** It is observed that consumers perceive higher priced products to be of good quality. For instance, consumers may feel that higher the cost of a silk sari better will be its quality.

Interestingly, a study observed that consumers are more inclined toward buying a product with a price that ends with an odd number, more precisely 5 or 9. Studies conducted in the US indicated that of the two catalogues published (one containing prices ending in 00 cents and the other contained prices ending in 99 cents), consumers were more likely to place orders from the catalogue containing prices ending in 99 cents.

***Transfer pricing:*** When one division of an organization transfers or sells goods or services to another division of the same organization, the price charged for the goods is called transfer pricing.

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**Check Your Progress-3**

3. In which pricing method the price of the product is set after fixing the required return on investment?
  - a. Differentiated pricing
  - b. Value pricing
  - c. Target return pricing
  - d. Going rate pricing.
4. LG Electronics India Pvt. Ltd. has drastically reduced the price of its GPRS-enabled mobile phones. As a result of this initiative, there has been an enormous hike in the demand for these handsets. What type of elasticity of demand is exhibited here?
  - a. Cross elasticity
  - b. Income elasticity
  - c. Price elasticity
  - d. None of the above.
5. Mr. Verma was a regular user of a particular brand of perfume. However, when the company reduced the price of the perfume by 20 percent, he switched to another brand. What type of pricing policy came into effect in this situation?
  - a. Emotional pricing
  - b. Psychological pricing

### Block-3: The Marketing Mix – I

- c. Physiological pricing
  - d. None of the above.
6. A company will set a high price in order to maintain quality and afford the high costs of R&D. This pricing objective is known as \_\_\_\_\_.
- a. Status quo
  - b. Current profit maximization
  - c. Cost recovery
  - d. Product-quality leadership.
7. Tata Consultancy Services charges Tata Steel joint venture in China some amount for consulting services. What type of pricing policy is followed here?
- a. Psychological pricing
  - b. Differentiated pricing
  - c. Transfer pricing
  - d. Value pricing.
8. One of the various steps involved in setting the price of a product is to determine pricing objectives. One of the pricing objectives of companies is to maintain status quo. What does this mean?
- a. To increase the price of products
  - b. To decrease the prices of products
  - c. To maintain stability in product prices
  - d. All of the above.
9. In which pricing method the price of the product is set after fixing the required return on investment?
- a. Differentiated pricing
  - b. Value pricing
  - c. Target return pricing
  - d. Going rate pricing.

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#### 15.6. Approaches to Price Adjustment

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Firms generally adopt a pricing pattern based on aspects such as geographical factors, demand patterns of the customers, service levels that have to be delivered, pricing to improve short term sales, customer perceived value pricing, and so on. Some of the well-known methods adopted by marketers to fix the price of their products and services are discussed below.

**Geographical pricing:** When a company sells its products to customers spread over a diverse geographical region, it adopts geographical pricing. According



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to this approach, companies set different prices for customers situated at different geographical locations to adequately cover their delivery expenses. Geographical pricing can be set by adopting uniform delivery pricing (company fixes a uniform price for the entire market), FOB pricing (customers bear the transportation costs of the goods being delivered), zone pricing (marketers divide the target market into different zones depending on population density, transportation), and basis point pricing (certain locations are called basis points, the goods dispatched from the same basis point are priced the same).

**Promotional pricing:** Sometimes, marketers price their products below the list price in a bid to attract large number of consumers. However, this approach is only a short-term approach and may have negative results, if adopted in the long-term.

**Discriminatory pricing:** According to this approach, marketers charge different prices from different customers for the same product. The basis for discrimination can be in the form of the paying capacity of the consumers, value attached to the consumers by the marketer, etc. For instance, Dell Computers follows the price discrimination approach while selling its computers on its website.

**Discounts and allowances:** Marketers may also offer discounts and allowances on the prices of products to attract consumers. The following are some of the types of discounts and allowances adopted by companies –

- Seasonal discounts
- Cash discounts
- Quantity discounts
- Trade discounts

For instance, many retail outlets such as Pantaloons, Shoppers' Stop, Life Style, etc., offer discounts as high as 50 percent on certain items during the end of the season, during festivals, etc.

**Experience curve pricing:** While introducing new products in the market, companies offer the products at low prices with a view to attract the price sensitive consumers. This is generally done by companies assuming that the cost of production would come down as the workers get used to the production process and as a result their productivity goes up. Thus, the initial low prices of the products can be set off by the large volumes of output produced and sold in the due course of time.

**Product mix pricing:** The various methods of setting product mix pricing are:

### Block-3: The Marketing Mix – I

*Product line pricing:* Marketers with more than one product item in a product line generally fix prices for product lines instead of individual products. In this method, the sales of one product in the product line may influence the sales of others. It is therefore important for the marketers to understand the interrelationship between different items in the product line.

*Optional feature pricing:* According to this approach, marketers set up a price for the basic product and additional charges need to be paid for optional features. Thus, the price of the product varies according to the optional features present in the product. For example, Volkswagen Polo comes in price range of 6.27 lakh to 9.99 lakh. Trendline the basic petrol variant is 6.27 and the Automatic petrol version comes at 8.7 lakh.

*Captive product pricing:* Marketers price the spare parts or ancillary parts relatively higher than the basic product in order to overcome the low profit share earned through the sales of the basic product. For instance, films used for cameras, blades for razors, cartridges for printers, are generally priced higher.

*Two-part pricing:* In this method of pricing, marketers charge a fixed price for an initial service and subsequent charges for over and above the minimum services provided. Mobile service providers generally charge a fixed price for certain basic services and any additional service sought by the customer would be charged extra. For example, Urban Company, charges Rs.999 for basic empty kitchen cleaning. As you add on other services, like chimney cleaning, sinks and cabinets cleaning, they will charge accordingly.

*By-product pricing:* Price setting of products obtained from an original product is known as by-product pricing. Pricing of products such as diesel, kerosene and other petroleum products is done using the by-product pricing approach.

*Product Bundling Pricing:* In this method, marketers offer a group of related products at an attractive price. For instance, computer manufacturers offer software along with the computer.

**Activity:** Identify the type of pricing followed by marketers in the following situations:

- Rice produced in Andhra Pradesh, India is sold for a higher price in other states of India. \_\_\_\_\_
- HUL offered a combination package consisting of a *Clinic Plus* Shampoo sachet and a *Clinic Plus* Hair Oil sachet, priced at Rs.3. \_\_\_\_\_
- ICICI bank offered 5 percent cash back on any purchase made by the bank's customers using its credit card within a stipulated period. \_\_\_\_\_

*Contd. ....*

- During festivals like Diwali, Christmas, Ramzaan, many companies like Godrej, LG, Samsung, etc., reduced the prices of certain products. \_\_\_\_\_
- In certain hotels, customers are required to pay additional amount for using services such as health spa, transportation, etc. \_\_\_\_\_

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**Check Your Progress-4**

10. There are several different approaches to price adjustments. Which of the following is **not** an approach to price adjustments?
  - a. Transfer pricing
  - b. Discounts and allowances
  - c. Experience curve pricing
  - d. Geographic pricing.
11. Airtel offers subscribers having Rs. 199 per month rental postpaid connection Rs 50 worth outgoing local calls free to any other network operator. Outgoing calls beyond this limit are charged. What type of product mix pricing has the telecom service provider adopted?
  - a. Optional feature pricing
  - b. Two-part pricing
  - c. By-product pricing
  - d. Product line pricing.
12. In which type of pricing approach, the company loses revenue initially by setting the prices low, but hopes to recover it over time?
  - a. Experience curve pricing
  - b. Discriminatory pricing
  - c. Optional feature pricing
  - d. Captive product pricing.
13. There are different methods of product mix pricing. One such method is captive product pricing. What is captive product pricing?
  - a. Manufacturers price ancillary products relatively higher than the basic product in order to overcome the low profits earned on the basic product
  - b. Manufacturers set the price of ancillary products without considering the price of the original product
  - c. Manufacturers offer some free gifts along with the main product
  - d. Manufacturers price the ancillary products relatively lower than the basic product.

### Block-3: The Marketing Mix – I

14. Hewlett-Packard manufactures and sells PCs. The company offers accessories like a printer and speakers along with the PC for a fixed price. Identify the product mix pricing method adopted by the company?
- By-product pricing
  - Product line pricing
  - Product bundling pricing
  - Captive product pricing.

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#### 15.7. Dynamic Pricing

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Dynamic pricing is a pricing method where customer experiences the price of a product changes based on changing circumstances. A retailer may change the price of a product based on customer demand, fluctuations at a competing retailer, time of the day and weather conditions. Companies set dynamic pricing based on complicated algorithms by taking multiple parameters into consideration.

All airline companies use dynamic pricing to sell tickets based on time and availability. Companies design complicated algorithm with various factors such as timing, customer segment, seats availability, services demanded etc., and offer unique prices that match current demand and supply.

For example, Spice Jet Airlines offers dynamic pricing based on customer segment, timing, seats availability, seasonal offers, type of customer such as armed forces, and type of service such as business class or economy class while deciding the price.

Dynamic pricing may not be successful all the time because customers may feel dynamic pricing as an unfair strategy. For example, Coca-Cola used dynamic pricing to sell soft drinks through vending machines. The prices of soft drinks would fluctuate based on the surrounding temperature. Coke thought that soft drink would be worth more when it is hotter outside and demand for it would decrease if colder outside. Customers did not respond well and subsequently Coke abandoned dynamic pricing strategy.

Dynamic pricing is successful if it meets the following conditions:

- Customers should have a willingness to pay for the difference
- Customers must be segmentable into various sections
- Dynamic pricing should not violate perceived fairness in pricing.
- There should not be any space for arbitrage

Refer Exhibit 15.4 for Uber's pricing strategy.

**Exhibit 15.4: Uber's pricing Strategy**

It's Monday morning and you are trying to book an Uber cab to reach office, but to your surprise you find that the price is different in comparison to the cost of the same trip some days back. This is all because of the dynamic pricing strategy used by the company. This strategy is about adjusting the price based on distance of the trip, traffic, time to reach the destination, and most importantly the current rider-to-driver demand. This is completely about temporary changes in price.

Source: <https://www.uber.com/en-GB/blog/uber-dynamic-pricing/>

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**15.8. Pricing Techniques of Online Retailers**

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Retailers have started using variety of online pricing techniques as follows.

**Customized pricing:** Online retailers use yield management algorithms to personalize the price offered to each customer. Big data facilitates for personalized pricing by analyzing various factors such as customer loyalty, purchase history, customer preference, etc. Customers become fans if personalized pricing is done effectively. Amazon charges 5% lesser price on Paper Boat Chikki when their online customer subscribes the product for 2 months and above. Safeway and Kroger use loyalty card programs to analyze how their customers shop in order to deliver personalized pricing given the items they buy most.

**Fixed pricing:** Online retailers use flat pricing where variety of products is offered at a flat price. For example, dollar stores sell all products at \$1. Retailers can also sell products at a fixed price of \$10, \$20, \$50 to variety of goods.

**Quote your Price:** Customers are given freedom to quote their own price to buy the product with a condition to exceed a threshold limit. Travel and tourism industry use quote your price strategy without displaying threshold limit to get more price.

**Dynamic pricing:** Online retailers use dynamic pricing based on various factors such as category of product, competitor price, timing of the day, customer segment, etc. to decide the price. Amazon and Best Buy use dynamic pricing to maximize profits. Best Buy even compares the price with competitors to offer a better price to customer.

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**15.9. Effects of Price Changes**

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Sometimes, certain factors force marketers to increase or decrease the prices of their products/services. In such cases, the perceptions of buyers and competitors' reactions influence the decision of price change to a large extent.

**Buyers' perceptions on the price changes:** In situations where marketers are left with no other opportunity but to increase the prices, they are obligated to communicate the reasons that led to the price change to the consumers. This is

### Block-3: The Marketing Mix – I

essential because consumers are very price sensitive for certain products and the marketers may as well lose the consumer loyalty on account of price change.

**Competitors' reactions:** Marketers must undertake price changes by anticipating the competitors' reactions to such a change. Competitors' reactions may be anticipated by observing the past reactions of competitors. Marketers should also constantly keep track of the competitors' moves, their strategies, etc. Such knowledge would help companies in formulating the right pricing policy for their products or services.

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#### **Check Your Progress-15**

15. The effects of a change in price should be studied in terms of the alteration in buyer's perceptions and competitor reactions. Customers generally tend to be more sensitive to price changes for which kind of products?
- The products that they buy frequently
  - The products that they buy occasionally
  - The products which are of low value and occasionally bought
  - All the products.

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#### **15.10. Summary**

- Price setting is a crucial element of any marketing strategy. An ineffective pricing strategy can have a negative impact on the growth and sustainability of the company.
- The process of product/service pricing involves setting pricing objectives, demand determination, analyzing the pricing of competitors, selection of a pricing method, selection of a pricing policy.
- Marketers may have various pricing objectives such as survival, profit, return on investment, market share, status quo and product quality.
- Determining the demand for a product is an essential step prior to setting prices. This can be done appropriately by understanding the price sensitivity of the consumers, determining the demand curve of the product or estimating the price elasticity of demand.
- The various methods for price setting that can be followed by a marketer are mark-up pricing, target return pricing, perceived value pricing, going rate pricing, sealed bid pricing, differentiated pricing, value pricing and market skimming.
- The various approaches to price adjustment are geographical pricing, promotional pricing, discriminatory pricing, discounts and allowances, experience curve pricing and, product mix pricing.

- Marketers' decision to change the prices of products is influenced by buyers' perceptions and competitors' reactions.

### 15.11. Glossary

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**Audience:** The person or persons who are receiving a transmitted message.

**Cash discount:** A discount given in return for paying a bill within a certain number of days.

**Demand Curve:** A graph that plots the relationship between demand and price; it indicates the sensitivity of buyers to various selling prices.

**Discrimination:** The ability to distinguish between similar stimuli.

**Experience curve pricing:** A pricing technique that relies on the experience curve theory of cost reduction to set current prices based on future (lower) costs.

**List price:** The "official" price of a product, even if the product is sold at that price only occasionally.

**Price discrimination:** The practice of offering attractive discounts to some customers but not to others for the same product; it is usually illegal.

**Price sensitivity:** An indication of the effect price has on buyers' intentions to purchase a given product or class of product; if buyers are considered price sensitive, changes in price will cause definite changes in their buying behavior.

**Product mix:** A company or strategic business unit's complete assortment of products and product lines.

**Value pricing:** Traditionally, a method for selecting a price based on the value that customers place on a product relative to its competitors; the term is increasingly used to describe the practice of adopting a lower price while maintaining the product's basic value.

### 15.12. Self-Assessment Test

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1. What are the various methods of setting prices? What is the role played by demand in process of pricing of products or services?
2. Explain the different approaches to price adjustment.

### 15.13. Suggested Reading/Reference Material

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#### **15.14. 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**

Before adopting a pricing strategy, the producers and retailers should keep in mind factors like the demand for that particular product in the market, customer perception, the cost involved in producing that particular product, the company image in the market, the intensity of competition and the margin that is required to prevail in the market. Promotional strategy is not a major factor as the margin that is required to sustain the product in the market is more important.

**2. (b) The marketer competes with competitors on the basis of product features, quality and promotions**

In non-price competition, a marketer competes with competitors on the basis of product features and the quality of the product, promotions, packaging, etc. Price is taken into consideration in price competition.

**3. (c) Target return pricing**

In target return pricing, the marketer sets the price of the product after fixing a return on the investment.

**4. (c) Price elasticity**

If the demand for a product significantly changes due to a change in its price, the demand is said to be price elastic. Cross elasticity of demand is the ratio of percentage change in the quantity demanded for one product due to a percentage change in the price of another related product. Income elasticity of demand is the percentage change in



quantity demanded of a product due to a percentage change in the income of the consumer.

**5. (b) Psychological pricing**

In psychological pricing, consumers generally judge the quality of a product by its price, the belief being higher the price of the product the better its quality.

**6. (d) Product-quality leadership**

Firms try to set the prices of their products to reflect the product's quality leadership in the market. Firms set high prices for their products so to compensate for high R&D costs incurred in improving the quality of the product. It is also important for marketers to communicate product quality to the intended audience, as customers will be inclined to pay a high price only when they are assured of the product quality.

**7. (c) Transfer pricing**

When one division of an organization transfers or sells goods or services to another division, the price charged for the goods is called transfer pricing. Generally, this happens in multinational companies when one division in a country sells its products or services to another division situated in another country.

**8. (c) To maintain stability in product prices**

Organizations can choose to maintain status quo as their pricing objective. Marketers adopt a status quo approach to pricing to maintain a certain level of stability in product prices or to maintain the market share.

**9. (c) Target return pricing**

In target return pricing, the marketer sets the price of the product after fixing a return on the investment.

**10. (a) Transfer pricing**

Transfer pricing is a pricing policy adopted by a company. This is especially seen in multinational companies when one division in a country sells its products or services to another division in another country. All the other options are methods of price adjustment.

**11. (b) Two-part pricing**

In two-part pricing, a company charges a fixed price for an initial service and subsequent charges for services consumed over and above the minimum. Optional feature pricing is done for accessories which come along with the product. By-product pricing is the process of setting prices for by-products obtained from the original product. In product line pricing, marketers usually set prices keeping in mind the entire product line instead of considering individual products.

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#### **12. (a) Experience curve pricing**

In experience curve pricing, the more the number of units produced in the same period of time, the lower is the cost of production. This is because over time the employees' experience increases and the cost of production comes down. In discriminatory pricing, companies charge different customers differently for the same product on the basis of their paying capacity and the value of the customers. Optional feature pricing and captive product pricing are types of product mix pricing.

#### **13. (a) Manufacturers price ancillary products relatively higher than the basic product in order to overcome the low profits earned on the basic product**

In captive product pricing, manufacturers set the price of the ancillary products relatively higher than the basic product. They do this in order to overcome the low profits earned on the basic product.

#### **14. (c) Product bundling pricing**

Hewlett-Packard is following the product bundling pricing method. In product bundling pricing, marketers anticipate the needs of customers and accordingly bundle either accessories or related products with the main product.

#### **15. (a) The products that they buy frequently**

Customers are naturally more price-sensitive to those products that they buy frequently, when compared to those occasionally bought or not purchased by them.



# Marketing Management

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<b>Unit 29</b>	Marketing Analytics

