

Marketing Management

The Marketing Mix-II



Marketing Management

Block

IV

THE MARKETING MIX – II

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BLOCK IV: THE MARKETING MIX – II

The fourth block to the course on Marketing Management deals with the concepts of distribution and communication related to marketing mix. This block contains six units. The first unit talks about the different channels of marketing available for the marketers to facilitate the exchange process. The second and third units focus on logistics, wholesaling and retailing and their role in marketing. The fourth unit talks about the communication process and the communication mix in marketing. The fifth and sixth units discuss the communication tools like advertising, sales promotion, public relations, personal selling in detail.

The first unit, *Channels of Marketing*, introduces the concept of marketing channels. Marketing channels facilitate the exchange process between the buyer and the seller. Marketing channels also perform several functions like facilitating the exchange process, alleviating discrepancies, standardizing transactions etc. This unit provides a clear understanding about the role and importance of marketing channels.

The second unit, *Logistics and Wholesaling*, deals with the concepts of logistics and wholesaling. Logistics involves the delivery of right product, at the right place, and at the right time to the customer. Warehousing involves the maintenance of goods from the time they enter the warehouse to the time they leave the warehouse. Wholesaling is a part of distribution channel and refers to all the transactions with the intermediaries. This unit provides a detailed discussion on the concepts of logistics and wholesaling.

The third unit, *Retailing*, deals with the concept of retailing. Retailing constitutes the last stage in the distribution process and involves selling of products/services to the final customers. Retailers can be classified on the basis of ownership, number of product lines handled, etc. This unit provides a detailed discussion on the concept of retailing.

The fourth unit, *Communication mix in Marketing*, introduces the concept of communication mix in marketing. Communication and promotion process play an important role in communicating with the consumers by the marketers. Marketers use different promotional tools in the marketing communication process like advertising, sales promotion, publicity, etc. This unit provides a clear understanding about the communication and promotion process in marketing.

The fifth unit, *Advertising, Sales Promotion and Public Relations*, deals with the promotional tools advertising, sales promotion, and public relations. Advertising is a paid form of promotion of goods and services while sales promotion is a combination of activities like advertising campaigns, free gifts, free samples, discounts, etc. aiming at increasing the sales of the product. Public relations involve maintaining a good image regarding the organization in the minds of the public. This unit provides a detailed discussion on advertising, sales promotion and public relations.

The sixth unit, *Personal Selling and Sales Force Management*, deals with the promotional tool personal selling and the various issues related to it. Personal selling is the personal presentation of the goods and services to the customers by the salespersons. Personal selling involves selling the products directly to the consumers by establishing a direct relationship with them. This unit provides a detailed discussion regarding personal selling.

Unit 16

Channels of Marketing

Structure

- 16.1. Introduction
- 16.2. Objectives
- 16.3. Nature of Marketing Channels
- 16.4. Role of Marketing Channels
- 16.5. Functions of Marketing Channels
- 16.6. Designing Distribution channels
- 16.7. Channel Management
- 16.8. Channel Dynamics
- 16.9. Multi-channel Marketing System
- 16.10. Channels and Conflicts
- 16.11. Summary
- 16.12. Glossary
- 16.13. Self-Assessment Test
- 16.14. Suggested Reading / Reference Material
- 16.15. Answers to Check Your Progress Questions

16.1. Introduction

In the previous block, we discussed about the product and the different concepts related to product like product differentiation, product positioning, and the new product development process. We have also discussed the concepts related to branding and pricing of the product. In the current unit, we shall discuss the issues related to channels of marketing.

Marketing channels facilitate the exchange process between the buyer and the seller. The nature of marketing channels is diverse and complex and may range from a simple channel to a complex one depending upon the layers of distributors linking the producer to the end consumer. Marketing channels perform several functions like facilitating the exchange process, alleviating discrepancies, standardizing transactions, matching buyers and sellers, and providing customer service. Marketing channels should be effectively designed.

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The factors that the marketer should consider when designing a distribution channel are: cost effectiveness, target market coverage, and adaptability in the long run. Marketers also need to face several issues in channel management like selecting and training the channel members; training, motivating, and evaluating the channel members; legal and ethical issues.

Channel members need to integrate their functions under the channel leader, either horizontally or vertically in order to achieve economies of scale, stabilize supplies, achieve proper coordination, etc. Multi-channel is a concept where a single firm uses more than one marketing channels to reach one or more market segments.

In this unit, we shall first introduce you to the concept of marketing channels and their nature, role and functions. We shall then discuss how distribution channels are designed and issues related to effective channel management.

16.2. Objectives

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

- Explain the nature and role of marketing channels
- Discuss the different functions of marketing channels
- Describe how distribution channels are designed
- Analyze the different channel management issues of a company
- Define the concept of multi-channel marketing system
- Explain the types of channel conflicts and their causes

16.3. Nature of Marketing Channels

Nature of marketing channels is diverse and complex, and ranges from a simple channel linking the producer and consumer directly to a complex one where there are several layers of distributors linking the producer to the end consumer. The diverse nature of marketing channels poses a challenge to marketers with regard to the selection of an appropriate channel. Proper planning can help managers in selecting suitable channel/s for distributing their products. Marketing channels should be adjusted as per the dynamic changes in the needs of customers, so as to maintain a competitive advantage.

16.4. Role of Marketing Channels

The role of a marketing channel consists of a set of activities or behavior of various intermediaries in a channel system. An important role of a marketing

Unit 16: Channels of Marketing

channel is to fill the gaps between the production and consumption process. These gaps can be in relation to time, space, quantity and variety.

Time gaps arise because of difference in the time of production and consumption of goods. For instance, consumers may use a toilet soap of a company at least a month later to the date of production. Space gaps occur in marketing channels, if production is carried at one location or across a small number of locations. Space gap may result as the final consumers may not be close to the place of production.

Quantity gaps arise as the manufacturers produce in large quantities and there is need to break these large quantities into smaller quantities to fulfill the needs of individual customers.

Variety gaps occur as the consumers may look out for more variety in products than what a manufacturer produces.

Marketing channels play a significant role in reducing these gaps and promoting the products. Various techniques used for promotion of products are discounts, promotional schemes, etc.

Channel flow

The role played by marketing channels to fill the above discussed gap between producers and customers includes:

- **Possession:** when goods are physically transferred from the producer to the final customer possession takes place.
- **Ownership:** The flow of ownership or transfer of the title of the goods takes place on physical receipt of the goods from one channel member to another
- **Financial flow:** The financial flow involves the process of the customers paying for the goods received from the channels
- **Information flow:** The flow of information from the channel to the customers
- **Risk flow:** Product perishability, fluctuating demand patterns, price fluctuations, and risks generated by faulty products, are risk flows among channel members
- **Negotiation:** Negotiation is the process of reaching an agreement on the price and other conditions among channel members.

Channel levels

There are different levels of marketing channels to help the goods produced reach the consumers. The length of a channel represents the number of

Block-4: The Marketing Mix – II

intermediary levels that exist between the producer and the final user. For consumer markets, the possible levels of channels are zero, one, two, and three levels. Zero-level channel represents direct selling of goods by manufacturers to final consumers. Examples of zero level channels are door-to-door marketing, tele-marketing, mail order catalogs, manufacture owned retailer outlets, etc. Companies like Amway and Eureka Forbes have adopted door-to-door selling successfully.

One level channel has a single intermediary between a producer and a consumer. A retailer buys goods from the manufacturer and sells it to the final consumer. For instance, petrol pump dealers constitute the one level channel.

Two-level marketing channel consists of two intermediaries. Here, a wholesaler purchases the goods from the manufacturer and sells them to the retailer, who in turn sells them to the final consumers. Most of the FMCG (Fast Moving Consumer Goods) and consumer durables are marketed through a two-level channel.

Depending on the level of channel, distribution can be intensive, exclusive or selective.

Intensive distribution involves distribution through as many outlets as possible. This type of distribution enables easy availability of products to customers. Products like soaps, chocolates, etc., are distributed through this method. For example Coca-Cola relies on intensive distribution to reach its customers, through grocery stores, restaurants, street vendors, convenience stores, movie theatres and amusement parks grocery stores, restaurants, street vendors, convenience stores, movie theatres and amusement parks

Exclusive distribution involves a limited number of intermediaries between a producer and the consumer. It helps producers to market their products exclusively without having sell them along with competitors' products. Products such as apparels, automobiles and their accessories are sold through exclusive distribution. For example, as of 2021 Zara sells its apparel through 21 exclusive stores in India

Selective distribution falls in between intensive and exclusive distributions. Through this form of distribution, manufacturers select more than one channel to distribute their goods. For example, suitcases of companies like VIP, Aristocrat, etc., are sold through exclusive showrooms of companies and also through other retail outlets.

Service Sector Channels

Distribution of services is undertaken along with distribution of products by the channel members. When customers need services, companies can provide them through the marketing channels. Advancement in technology has enabled

producers to provide services to customers through the Internet. Services like online reservation, online banking, etc., are easily reaching the customers.

Check Your Progress-1

1. Depending on the number of intermediaries required at each level, there are various ways of distributing a product. Which of the following is **not** a major option of distribution available to producers?
 - a. Intensive distribution
 - b. Selective distribution
 - c. Exclusive distribution
 - d. Inclusive distribution.
2. Companies can distribute their products in three ways, intensive distribution, exclusive distribution, and selective distribution. Identify the correct combination.
 - a. Inclusive distribution – It is a form of distribution in which the producer distributes the products through as many outlets as possible
 - b. Exclusive distribution - It is a form of distribution in which there are a limited number of intermediaries between the producer and the customer
 - c. Selective distribution – It is a type of distribution in which the producer uses all the available distribution channels
 - d. Intensive distribution – It is a form of distribution in which the producer distributes the products through very exclusive outlets.
3. The gaps between the production and consumption process are classified as time gaps, space gaps, quantity gaps and variety gaps. Name the gap that occurs when production takes place at one or a relatively small number of locations.
 - a. Time gaps
 - b. Space gaps
 - c. Quantity gaps
 - d. Variety gaps.

16.5. Functions of Marketing Channels

The functions of marketing channels are:

- Facilitating the exchange process
- Alleviating discrepancies
- Standardizing transactions

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- Matching buyers and sellers
- Providing customer service

Facilitating the Exchange Process

Facilitating the exchange process between a company and an individual customer is one of the important functions of a marketing channel. Members of a marketing channel who help in the exchange of goods and services are considered to be facilitators.

Alleviating Discrepancies

Discrepancies in a marketing channel occur when it fails to deliver goods according to the expectations of customers. Quantity discrepancy and assortment discrepancy are the two types of discrepancies. If a customer is unable to purchase the exact quantity of goods required, quantity discrepancy occurs in the marketing channel. Assortment discrepancy results, when customers are unable to purchase the exact combination of goods and services they require. However, regrouping activities help in avoiding these discrepancies.

Regrouping activities consist of four steps. They are sorting, accumulating, allocating and assorting.

Sorting

Sorting of products is done based upon their usage, the target market for products, increased utilization of products, etc. Sorting is useful to identify the products easily and to deliver them fast to the customers.

Accumulating

Accumulating is a process of collecting the same product in large quantities. This helps the buyers and sellers to efficiently handle contingencies due to supply and price fluctuations. If any problem arises in the production of goods, accumulation helps the manufacturer and wholesaler to ensure uninterrupted supply to retailers or customers. There by, it helps in preventing the shift of customers to competitors' products.

Allocating

This is a process in which larger quantities of homogeneous products are broken down into smaller quantities. Allocation process is also known as 'breaking bulk'.

Assorting

Marketers assort goods and services so that the customers can find the various goods they want in one place. For example, assortment of goods and services in a super market helps in reducing the shopping time of customers.

Standardizing Transactions

Another function of marketing channels is to standardize transactions. Standardizing helps marketers to automate many stages in the flow of products from producer to the consumer. For example, in the milk delivery system, distribution is standardized all through the marketing channel and consumers need not negotiate with sellers on aspects of price, quantity, mode of payment, and other such aspects.

Matching Buyers and Sellers

A marketing channel performs the important function of matching the needs of buyers and sellers. Sellers in the market may not know how potential buyers can be reached and buyers may not know where potential sellers are available. Marketing channels act as intermediaries and bring together the buyers and sellers.

Providing Customer Service

Members of a marketing channel provide the required customer services for the buyers of their products. Manufacturers of products can provide service and repair facilities for their products through select outlets of companies. Customer service by companies might include installation, training, maintenance of products and other services as per customer requirement.

Activity: Benter Ltd., is a bottling distribution agency of Zings, a soft-drink manufacturing company. Zings distributes its products through distributors located in all the major cities of the country. List the various functions that need to be performed by the distribution channel of Benter Ltd.

Answer:

Block-4: The Marketing Mix – II

Check Your Progress-2

4. If a market channel fails to meet customer expectations while delivering goods, inconsistencies result. Marketers resort to regrouping activities like allocating in such situations. What is meant by allocating?
 - a. A process where large quantities of homogeneous products are broken down into smaller quantities
 - b. This is the process of collecting the same product in large quantities
 - c. A process where large quantities of heterogeneous products are broken down into smaller quantities
 - d. In this process, the exact requirement of the customers is ascertained for a target group of customers.
5. Which of the following is/are the functions of the marketing channels?
 - a. Facilitating the exchange process
 - b. Standardizing the transactions
 - c. Alleviating discrepancies
 - d. All of the above.

16.6. Designing Distribution Channels

Designing of the distribution channels deals with the decisions that are associated with forming a new distribution channel or modifying an existing one. An efficiently designed distribution channel helps a company in maintaining a competitive advantage in the market. Designing a marketing channel is similar to developing a competitive strategy for a company. The basic factors that a marketer consider when designing a distribution channel include cost effectiveness, target market coverage, and adaptability in the long-run to help in the efficient distribution of the products of a company.

Analyzing Customer Expectations of Service Output

A marketing channel should be designed after thorough analysis of target customers' expectations. The buying decisions of customers can be categorized into four types of channel output utilities such as lot size, convenience, selection and service.

Lot Size Utility

Lot size of a product is the total number of units acquired by a customer during a particular transaction period. Manufacturers should provide products through appropriate distribution channels to satisfy the need of customers whose purchase quantities differ.

Convenience Utility

Convenience utility has two perspectives—time and space.

Convenience in relation with time is termed as temporal convenience. It takes into consideration the waiting time of a customer to receive a product or service. Customers, in general, seek faster delivery which in turn requires more skilled service.

Convenience in terms of space or location is termed as spatial convenience. It refers to the ease with which a customer can locate a product. If the customers can locate service stations easily, it reduces the search and transportation costs.

Selection Utility

Customers need a variety of product assortment to select a product in the buying process. The selection utility of a marketing channel refers to the likelihood that the needs of customers will be exactly satisfied. For example, supermarkets carry a wide assortment of household products to provide various selection options for customers.

Service Utility

Service utility of a channel member refers to the value added services offered by the channel member. Service utility for customers is enhanced by providing services like free delivery, credit facility, installations, repairs, etc. However, design of a marketing channel to provide all these utilities will increase the marketing expenditure of companies. Therefore, companies should decide the utility to be highlighted and design the distribution channel accordingly. Exhibit 16.1 delineates how companies provide service utility to their consumers.

Exhibit 16.1: Hyundai Care, Mobile Application

Hyundai Motor India Limited launched the newly designed “Hyundai Care” Mobile Application Version 1 for sales and service offering. No matter where the customer is, “Hyundai Care” assists him with all forms of Sales and Service support with just a few clicks. The application is free to download

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via the Google Play Store for Android and the Apple App Store for iOS platforms. This GPS enabled app also facilitates user, an effortless dealer search on a real time basis with correct assistance anywhere and anytime in the country.

Source: <https://www.hyundai.com/in/en/connect-to-service/hyundai-service/hyundai-care-app>, Accessed on Oct 4, 2021

Formulating Objectives

Distribution channels should be designed based on objectives, which may vary with the size of the firm. The objectives of smaller firms might be to serve a limited market area whereas a larger firm may have objectives to make its presence in different markets. In designing of a marketing channel the company should also consider SWOT analysis by to assess the strengths and weaknesses of intermediaries. The firm should also analyze channel members' sales volume, profitability, product portfolio, life cycle, brand associations along with analysis of managerial capabilities, performance, attitude, etc.

Evaluation of Distribution Environment

Evaluation of distribution channel can be through analyzing, observing, and forecasting the external factors, which would influence the channel environment. The changing market trends should be observed by the marketers to manage uncertainty efficiently. Coordination between channel members should be maintained to serve the customers effectively.

Evaluating Channel Alternatives

Evaluation of channel alternatives by a company should be based on three criteria—economic, control and adaptive.

Economic Criteria

Firms should evaluate channel alternatives and choose a channel member, which can generate more sales while incurring minimum costs for the distribution of products. Usually, companies prefer to use an external sales force for sales when the sales volume is low. However, it is better to develop a company's own sales force as the sales volume increases.

Control Criteria

Companies are usually not self-sufficient and depend upon the services of external agencies for distribution of products. Selection of an intermediary should be made maintaining a balance between a company's desire to control important functions and the need for external agencies for market coverage.

Adaptive Criteria

Adaptive nature of the relationship between manufacturer and the distributor is one of the criteria for the evaluation of a distribution channel. Both sides should have an agreement on the commitment levels before starting the business. Exhibit 16.2, tells us how companies join hands on the basis of adaptive criteria.

Exhibit 16.2: Starbucks and Nestle enters into a Collaboration

Starbucks Corporation and Nestlé announced a new collaboration to bring Starbucks Ready-to-Drink (RTD) coffee beverages to select markets across Southeast Asia, Oceania and Latin America. The companies will work to quickly bring these coffee beverages to consumers as of 2022. With Nestlé's expansion plans into RTD coffee, it aims to build on its global leadership in coffee and benefit from new growth opportunities in a segment that is developing rapidly and attracting new and younger consumers.

Source: <https://www.nestle.com/media/pressreleases/allpressreleases/starbucks-rtd-coffee-beverages-southeast-asia-oceania-latin-america>, July 26, 2021

Check Your Progress-3

6. Prior to designing a channel, marketers need to first analyze why customers buy their products. Such an analysis helps marketers categorize buying decisions of customers into four types of channel output utilities. Match the following utilities with the corresponding benefits gained.
 - i. Lot size utility
 - ii. Convenience utility
 - iii. Selection utility
 - iv. Service utility.
 - p. Credit facility
 - q. Wider assortment of products in super markets
 - r. Faster delivery of goods
 - s. Purchasing in large lot sizes.
 - a. i/p, ii/q, iii/r, iv/s
 - b. i/s, ii/r, iii/q, iv/p
 - c. i/p, ii/r, iii/q, iv/s
 - d. i/s, ii/p, iii/q, iv/r.
7. The foods division of ITC Ltd is on the look-out for alternative distribution channels for some of its ready-to-eat products. On what criteria must ITC evaluate the various distribution channels to select the appropriate one?
 - a. Economic, social and control criteria
 - b. Economic, adaptive and control criteria

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- c. Economic, legal and control criteria
- d. Political, economic and technological criteria.

16.7. Channel Management

Channel management issues of a company include the selection of channel members, their training, motivation and evaluation, modifying the channel arrangement, and the legal and ethical issues.

Channel Member Selection

Companies should strengthen their core competencies to sustain in the highly competitive business environment. Outsourcing of non-core activities such as distribution to outside agencies (distributors), which can efficiently perform them helps a firm to concentrate on developing core competencies. Relationships between channel members should be maintained favorably for the progress of the firm. Selection of channel members should be based on evaluation of the channel member's sales efficiency, product knowledge, experience, administrative ability, and the risk factors involved.

Channel Member's Training

Usually, channel members interact with the end consumers more than the manufacturers. Manufacturers of various products offer distributor training programs to help distributors increase their efficiency.

Member Motivation and Evaluation

After carefully selecting the channel members and assigning responsibilities, manufacturers need to continuously motivate their channel members to improve their performance. Motivation can be through relationship marketing wherein a manufacturer tries to maintain better relations with distributors so that they perform their best. Channel members can also be motivated by the company by helping them improve their supply chain, reduce operating costs etc. During Covid 19 pandemic many distribution channels underwent huge losses. Exhibit 16.3, explains how some companies helped their distributors to withstand in turbulent situations.

Exhibit 16.3: Kia Tops Best Dealer Support List for 2021

In a COVID-19 dealer support satisfaction study conducted by the federation of automobile dealers' associations (FADA), Kia Motors India was one of the few automotive companies who met expectations of their dealers better than others. Different aspects of business such as dealership viability, support on sales and aftersales, openness to dealer inputs in decision making

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and designing long term policies were examined for the study. Kia supported its partners during the crisis by promptly managing issues in areas of customer communication, dealer manpower training, and with financial support (particularly in terms of negotiating better deals on working capital & term loans through banks). Kia is offering one of the highest margins in the industry, and delivery time for Kia products being amongst the quickest, which leads to faster turnaround time. Higher percentage of settling of warranty claims in time and timely delivery of vehicles as per the specifications were also Kia's performance highlights. Kia's contributions were well appreciated by its dealers, and hence it topped best dealer support list among mass-market brands.

Source: <https://www.autocarindia.com/car-news/kia-offers-best-dealer-support-among-mass-market-brands-fada-study-421577>, Jul 30 2021

Modifying Channel Arrangement

Channel arrangement should be modified when there is a change in the customers' preferences, their purchase patterns and when there is rapid expansion of market takes place or when a new competitor enters the market or if the existing technology becomes obsolete. Modifications to channel arrangement can be through different moves of marketers like adding or dropping an intermediary, adding or dropping a particular marketing channel, or designing a completely new distribution channel.

Activity: Food 'n' Fun, a fast-food retail chain wants to expand its business by establishing franchisees. What characteristics should be given importance in the selection of franchisees helping the firm in efficient channel management? How can the performance of franchisees be evaluated?

Answer:

Legal and Ethical Issues in Channel Management

Firms generally develop a channel structure based on their interests. However, companies sometimes resort to restrict competitors from using a particular channel through unethical means. Issues under legal scrutiny in channel management are dual distribution, where a manufacturer distributes products through more than one channel, exclusive dealing agreement between a manufacturer and a distributor to restrict distribution of competitors' products,

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tying agreements (where manufacturers force distributors to distribute other weaker products if the manufacturer agrees not to sell his products to any other distributor other than the appointed one within a designated geographical territory, and terminating agreements with dealers at the manufacturer's whim.)

Check Your Progress-5

8. Which of the following is not an issue related to channel management?
- a. Channel member's training
 - b. Modifying channel arrangement
 - c. Member motivation and evaluation
 - d. Identifying the conflicts between the members.
-

16.8. Channel Dynamics

Channel dynamics refers to the study of the impact of changes in the environmental forces such as economic, legal, political, social, technological and competition on a distribution channel. Channel members should be flexible, prepared and coordinate with each other to adapt to the changes taking place in the market. Channel members need to integrate their functions horizontally or vertically to reduce costs, attain economies of scale, stability in supplies, and for coordination among channel members.

Horizontal Marketing System

Horizontal marketing system is adopted by companies, which lack the resources to exploit new opportunities on their own. In this process, marketing resources are shared between two or more unrelated businesses at the same level of operation to derive common benefits. Horizontal integration helps related businesses to attain economies of scale in terms of geographic expansion, purchase from suppliers, and bargaining power of firms. It also helps to reduce cost of international trade. However, horizontal integration may give rise to problems related to size, lack of co-ordination, and understanding between members. Moreover, if a firm attempts to increase its market share by acquiring the competitor's business, it may lead to anti-trust actions. And sometimes economic anticipated from horizontal marketing system may not be gained. For example, the tie-up between Apple Inc and Bharti Airtel for the launch of iPhoneX denotes horizontal marketing.

Vertical Marketing System (VMS)

In the vertical marketing system producers, wholesalers, and retailers perform marketing activities jointly. Unlike the traditional marketing system wherein wholesalers, retailers and producers negotiate aggressively with each other for maximum cost reduction, in VMS, one channel member owns or franchises or wields considerable authority over other channel members, and therefore is able to obtain their cooperation. Channel members have contractual agreements in VMS. Various types of VMS are as follows:

Corporate VMS

When a firm owns and operates businesses at other channel levels, it is called a corporate vertical marketing system. This system is adopted by firms, which want high levels of control over their channel functions.

Administered VMS

In administered VMS, firms are independently owned and operated similar to traditional channels. However, there is a high level of inter-organizational management. One of the firms possessing considerable authority will co-ordinate other channel members and manage the channel activities.

Contractual VMS

In this system, independent firms operating at different channel levels enter into a contract for coordination of their distribution processes. Contractual VMS can be adopted in any retailer-sponsored cooperative organizations, wholesaler-sponsored voluntary organizations, franchise organizations, which may have a legal relationship, business relationship or non-business relationship in which the franchiser and franchisee realize the importance of working together. For example, Domino's Pizza restaurants across 298 cities in India, work under Jubilant Food Works Ltd, which is the master franchise of Domino's Pizza in India, Bangladesh, Sri Lanka and Nepal.

Check Your Progress-6

9. Expand VMS in channel dynamics?
 - a. Vertical Marketing System
 - b. Vertical Marketing Structure
 - c. Vertical Marketing Scheme
 - d. Vertical Management Structure.
10. In a vertical marketing system, producers, wholesalers and retailers perform marketing activities jointly. There are several types of vertical marketing systems. Identify the **incorrect** one.
 - a. Horizontal marketing system
 - b. Administered vertical marketing system

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- c. Contractual vertical marketing system
 - d. Corporate vertical marketing system.
11. Given below are the definitions of horizontal and vertical marketing systems. Identify the correct definitions.
- i. Vertical marketing system is a process where producers, wholesalers and retailers perform marketing activities independently
 - ii. Vertical marketing system is a process where producers, wholesalers and retailers perform marketing activities jointly
 - iii. A horizontal marketing system is a process of sharing marketing resources among two or more related businesses operating at the same level to attain common benefits
 - iv. A horizontal marketing system is a process of sharing marketing resources among two or more unrelated businesses operating at the same level to attain common benefits.
- a. i & iii
 - b. ii & iii
 - c. i & iv
 - d. ii & iv.

16.9. Multi-Channel Marketing System

In the Multi-channel marketing system a single firm operates through two or more marketing channels to reach one or more market segments. It is also known as 'dual distribution'. Firms adopt this system to cater to different needs of customers. In the process of catering to more segments, firms generally achieve wider market coverage, lower distribution costs, and also need to make specialized marketing efforts. Firms add additional channels of distribution to reach a specific customer segment, which is unapproachable with existing channels or to take advantage of a particular type of distribution. Addition of channels may sometimes lead to greater conflict between channel members.

16.10. Channels and Conflicts

Firms striving for success in their businesses establish channel relationship as may not be possible to fully own and control suppliers and distributors' businesses due to resource constraints. Conflicts in channel relationship arise when one member of marketing channel perceives other member as trying to prevent him/her from achieving his/her marketing goals.

Types of Channel Conflicts

Channel conflict can be of the vertical channel conflict type in which channel members operating at different levels compete for the same market share, or horizontal channel conflicts which arise between channel members operating at the same level in the same market. In a multi-channel conflict, when a manufacturer operates through two or more channels, channels serve and compete for the same market segment.

Causes of Channel Conflicts

Causes for conflicts in channel relationships can be due to incompatible individual goals and objectives of channel members, or lack of clearly defined roles and responsibilities, or if the manufacturer and channel members compete in the same market.

Managing Channel Conflicts

Channel conflicts can be managed through various methods such as negotiation, problem-solving strategies, persuasive mechanisms, legalistic strategies such as arbitration and settlement, climate management, and by developing cooperation and coordination between channel members. For instance, authorized dealers of Apple, many a time allege that their businesses adversely get affected by Apple retail stores. They allege that the new products launched by Apple are not being made available to them and are sold to customers directly through the online store

Check Your Progress-7

12. This type of channel conflict arises when channel members operating at different levels compete for the same market share. Identify it.
 - a. Horizontal channel conflicts
 - b. Vertical channel conflicts
 - c. Multi-channel conflicts
 - d. Single-channel conflicts.
13. What type of conflict usually exists when the manufacturer has established two or more channels that sell in the same market?
 - a. Vertical channel conflict
 - b. Horizontal channel conflicts
 - c. Multi-channel conflict
 - d. All of the above.

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14. Conflicts between channel members arise due to several reasons. Identify them.

- a. Channel members have individual goals that are incompatible with those of other members
- b. The aim of the producer is cost reduction whereas that of the channel members is to differentiate products and serve as many customer segments as possible
- c. The producer focuses on mass production, whereas the focus of the channel members is on margins
- d. All of the above.

16.11. Summary

- A marketing channel is an organized network of agencies and institutions, which link producers and users to accomplish the marketing task.
- The role of a marketing channel includes filling the gaps in the production and consumption process and promotion of products.
- Functions of a marketing channel include facilitating the exchange process, alleviating discrepancies, standardizing transactions, matching buyers and sellers, providing customer services, etc.
- The designing of a distribution channel involves the analysis of customer expectations, formulating objectives, and evaluation of distribution environment and channel alternatives.
- Channel management can be done efficiently by proper selection of channel members, training them, evaluating and motivating them, and modifying channel arrangement as per customer requirements.
- Conflicts may arise in channel relationships due to the channel dynamics.

16.12. Glossary

Allocating: Breaking accumulated supplies into smaller units that are easier for later intermediaries and customers to handle.

Franchise: A business entity licensed to use the trademarks, operations, and other attributes of a business.

Intensive distribution: A channel strategy that seeks to make products available in as many appropriate places as possible.

Marketing channel: A system designed to move goods and services from producers to customers, which consists of people and organizations supported by various facilities, equipment, and information resources.

Product portfolio: A combination of products and product lines balanced to achieve the company's profitability goals and to satisfy the needs of the target market.

Service sector: That portion of the economy whose output is services, or opposed to goods.

Vertical marketing system (VMS): A channel that is integrated from producer down to final intermediary.

16.13. Self-Assessment Test

1. Marketing channels act as a bridge between the consumer and the producer of products and services. Describe the nature, role, and functions of marketing channels.
2. Explain how channel management can be done effectively.
3. Conflicts are imminent in any kind of relationship and marketing channels are no exception. What do you know about conflicts in marketing channels? How do channel conflicts arise and how can they be managed?

16.14. Suggested Reading / Reference Material

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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.
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8. Richard R. Still and Edward W. Cundiff, Sales and Distribution Management, 6th edition, Pearson 2017

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9. Gupta Prachi, et al., Marketing Management: Indian Cases. Pearson Education; First edition, 2017
10. Warren J. Keegan. Global Marketing Management. Pearson Education; Eighth edition, 2017.

16.15. Answers to Check Your Progress Questions

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

1. (d) Inclusive distribution

The three forms of product distribution are intensive distribution, exclusive distribution and selective distribution.

2. (b) Exclusive distribution - It is a form of distribution in which there are a limited number of intermediaries between the producer and the customer

Exclusive distribution is a form of distribution in which there are a limited number of intermediaries between the producer and the customer. This type of distribution network is adopted by producers who want to deliver maximum service quality to customers.

3. (b) Space gaps

Space gaps occur when production takes place at one or a relatively small number of locations.

4. (a) A process where large quantities of homogeneous products are broken down into smaller quantities

Marketers resort to regrouping activities to avoid inconsistencies in quantity and assortment. Regrouping activities involve up to four steps – sorting, accumulating, allocating, and assorting. Allocating is the process of breaking down large quantities of homogeneous products into smaller quantities.

5. (d) All of the above

The functions of marketing channels are: Facilitating the exchange process, alleviating discrepancies, standardizing transactions, matching buyers and sellers, and providing customer service.

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

Lot size utility is the convenience the customer experiences when he/she is able purchase products in the quantity suitable to them. Service utility member refers to the value added services offered by the

channel member. Convenience utility needs to be considered from two perspectives – time and space. Normally, customers seek faster delivery channels. The selection utility of a marketing channel refers to the likelihood that the needs of customers will be satisfied in terms of the variety of product assortment preferred by them.

7. (b) Economic, adaptive and control criteria

There are several distribution channels. However, before selecting one, the company should evaluate alternatives based on three criteria - economic, adaptive and control criteria.

8. (d) Identifying the conflicts between the members.

The various issues related to channel management are: selection of the channel members, channel's member's training, member motivation and evaluation, modifying channel arrangement, and legal and ethical issues in channel management.

9. (a) Vertical Marketing System

VMS stands for Vertical Marketing System. Vertical marketing system (VMS) is a process where producers, wholesalers and retailers perform marketing activities jointly.

10. (a) Horizontal marketing system

Except option 'a', all the other options are forms of vertical marketing systems. Vertical marketing system is a process where producers, wholesalers and retailers perform marketing activities jointly. On the other hand, a horizontal marketing system is a process of sharing marketing resources among two or more unrelated businesses operating at the same level to attain common benefits.

11. (d) ii & iv

Vertical marketing system is a process where producers, wholesalers and retailers perform marketing activities jointly. On the other hand, a horizontal marketing system is a process of sharing marketing resources among two or more unrelated businesses operating at the same level to attain common benefits.

12. (b) Vertical channel conflicts

here are three different types of conflicts that may arise in channel relationships. These are horizontal channel conflict, vertical channel conflict, and multi-channel conflict. A vertical channel conflict arises when channel members operating at different levels compete for the same market share.

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13. (c) Multi-channel conflict

A multi-channel conflict arises when a manufacturer has established two or more channels that operate in the same market. On the other hand, vertical channel conflict arises when channel members operating at different levels compete for the same market share. A horizontal channel conflict arises between channel members operating at the same level and also within the same market.

14. (d) All of the above

Conflicts between channel members arise due to several reasons. First, channel members may have individual goals that are incompatible with the other members. Secondly, the aim of the producer is cost reduction whereas that of the channel members is to differentiate products and serve as many customer segments as possible, and finally, the producer focuses on mass production, whereas the focus of the channel members is on margins.

Unit 17

Logistics and Wholesaling

Structure

- 17.1. Introduction
- 17.2. Objectives
- 17.3. Objectives of Market Logistics
- 17.4. Market Logistic Decisions
- 17.5. Functions of Warehousing
- 17.6. Strategic Issues in Managing Logistics
- 17.7. Growth of Wholesaling
- 17.8. Classification of Wholesalers
- 17.9. Market Decisions
- 17.10. Changing Patterns in Wholesaling
- 17.11. Summary
- 17.12. Glossary
- 17.13. Self-Assessment Test
- 17.14. Suggested Reading / Reference Material
- 17.15. Answers to Check Your Progress Questions

17.1. Introduction

In the previous unit, we discussed about the channels of marketing. In this unit, we shall discuss about logistics and the various aspects related to it. We will also introduce you to the concepts of warehousing and wholesaling.

Logistics can be defined as delivering the right product to a customer at the right place and at the right time. In order to remain competitive, companies have to ensure that their logistics process operates at highest possible standards. Logistics management has some important objectives like delivering customer service, reducing the total distribution costs, and reducing cycle time. The market logistic decisions involve aspects like order processing, inventory management, and transportation process. Inventory management in turn involves aspects like reorder point, order lead time, usage rate, safety stock, EOQ, JIT, and fixed order interval system.

Warehousing is a system that handles the goods that enter the warehouse until they leave the warehouse. The important activities involved in warehousing are: receiving, storing, packing, marking, etc. Warehousing is of different types like

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store warehousing and distribution warehousing. Wholesaling refers to all the transactions that take place with intermediaries. A wholesaler is one in whose case more than 50 percent of the total sales are to other intermediaries rather than to final customers. There are two types of wholesalers called as merchant wholesalers and functional wholesalers.

In the current unit, we shall first discuss the concept of logistics and the various aspects related to it. We shall then discuss about warehousing and wholesaling.

17.2. Objectives

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

- Identify the different objectives of market logistics
- Analyze the various decisions involved in market logistics
- Explain the functions of wholesaling
- Discuss the different types of wholesalers

17.3. Objectives of Marketing Logistics

Effective logistics management is vital for timely delivery of goods to consumers. In the event that the product/service does not reach the consumer on time, it would lead to customer dissatisfaction. Hence, an efficient logistics system must be customer driven. Exhibit 17.1, explains how Ikea handled logistics issues during Covid 19 pandemic, to keep up its reputation and market share. The following are some of the important objectives of logistics management –

- Delivering Customer Service
- Reducing Total Distribution Costs
- Reducing Cycle Time

Delivering customer service: The ultimate purpose of an effective logistics system is to meet customer expectations on time and with maximum efficiency. Customer service can be enhanced by keeping in mind the following three aspects –

- Customers are more important than the goods and services that have to be delivered.
- Customers value the products and services only when they are delivered at the right place and at the right time.
- Organizations should focus more on profitability than on sales volumes.

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Reducing total distribution costs: Minimization of distribution costs is one of the major concerns faced by most modern organizations? The benefits reaped from reduced distribution costs can be transferred to customers in the form of reduced prices. Therefore, more and more companies are striving toward designing a logistics system that would incur lower operational costs. To facilitate this, many companies are either building an internal logistics system or are hiring the services of an external logistics services provider.

Reducing cycle time: Cycle time can be defined as the time from which the order is received from the customer, to when the product is delivered to the customer. This includes, receiving raw materials, manufacturing the product as per customer specifications, and finally delivering the product to the customer at the right place and at the right time. Cycle time therefore, also includes the time taken by the vendor to supply the raw materials. Reducing cycle time will help organizations reduce the inventory holding costs significantly.

Exhibit 17.1: Ikea Charter Ships

As the Covid-19 pandemic drove people into their homes, one of the knock-on effects for many was the desire to spruce up their living spaces, or even move somewhere new. That was a boon to Swedish retailer Ikea —yet it is not totally trouble free opportunity.

In the U.K. and Ireland, up to 10% of some Ikea product lines were unavailable, as problems with transport, raw materials, and sourcing and production have compounded the impact of the pandemic. Ikea's issues have also been reported elsewhere in Europe such as Germany and in some areas of the U.S.

To combat the unavailability problem. Ikea decided to take matters into its own hands, chartering its own ships and taking advantage of transcontinental rail networks.

“During the last year we have shipped more volume than compared to before the pandemic and we have taken many extraordinary actions, such as buying our own containers and chartering extra vessels,” Tolga Öncü, retail operations manager at Ingka Group, which operates Ikea Retail, said by email.

Source: <https://www.bloomberg.com/news/newsletters/2021-09-09/supply-lines-latest-ikea-charters-ships-to-combat-bare-shelves>

Block-4: The Marketing Mix – II

Check Your Progress-1

1. Identify the basic objectives of logistics management.
 - i. Delivering customer service
 - ii. Reducing total distribution costs
 - iii. Improving product quality
 - iv. Reducing cycle time.
 - a. i, ii, iii
 - b. ii, iii, iv
 - c. i, iii, iv
 - d. i, ii, iv.
2. The concept of customer service emphasizes the need to focus on all resources required to satisfy customers. Which of the following aspects of marketing does **not** form the basis of customer service?
 - a. Customers should be given more importance than goods and services that have to be delivered
 - b. Products and services are of value to customers only when they are available to them at the required time
 - c. Organizations should place greater emphasis on customer satisfaction than on sales volume
 - d. None of the above.

17.4. Market Logistic Decisions

The following are the various decisions involved in market logistics –

- Order Processing
- Inventory Management
- Transportation Process

Order processing: The process involves the steps required to executed to fill the customers' order. Order processing includes allocation of inventory to the required levels. Management of inventory levels can be efficiently carried out with the help of the following two methods –

- Real time replenishment – it involves immediate processing of the orders.
- Batch method – it involves processing of orders at periodic intervals.

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Inventory management: Inventory Management involves all those activities concerned with planning and controlling the inventory stock levels. Exhibit 17.2 delineates how Carrefour efficiently manages its inventory across its 12,225 stores. Inventory management process employs various tools such as –

- Reorder point
- Order lead time
- Safety stock
- Economic order quantity
- Just-in-time
- Fixed order interval system

Reorder point: The re-order point system helps organizations to identify the stock purchase requirements. A computerized re-order point system contains all the components in the inventory of the company. On reaching a certain pre-determined minimum level, the system informs the purchase department about the required inventory to be purchased.

Order-lead time: Order lead-time is the period between the date an order is placed to the date the raw materials are available for production.

Usage rate: It is the average rate at which the raw materials are used in the production process of an organization.

Safety stock: It is that extra level of inventory held by an organization to meet uncertainties like out-of-stock conditions, increased customer demand, delays in supplier deliveries, etc.

Economic Order Quantity (EOQ): It is that quantity of inventory, which has to be ordered so that the company incurs minimum ordering and holding costs on inventory. EOQ can be determined with the help of the following formula –

$$EOQ = Q = \sqrt{\frac{2C_o D}{C_h}}$$

Where D = Demand per unit time

C_o = Ordering cost

C_h = Holding cost per unit time

Just-in-Time (JIT): The JIT system of inventory management was developed by the Japanese. According to this approach –

- The required quantity of raw materials is delivered at the plant as and when the requirement arises.

Block-4: The Marketing Mix – II

- The objective of JIT is to reduce or completely eliminate maintenance of inventory levels at the production plant.
- It assumes that the amount of inventory that is not immediately put to use in the production process is a waste.
- It is guided by two principles – continuous improvement (of the production process) and a clear supply chain strategy.

Fixed order interval system: In this system, the order period is fixed, but the order quantity varies with requirement. The quantity ordered each time depends on the current inventory levels or inventory in hand and future inventory requirements.

Exhibit 17.2: Carrefour's Inventory Management

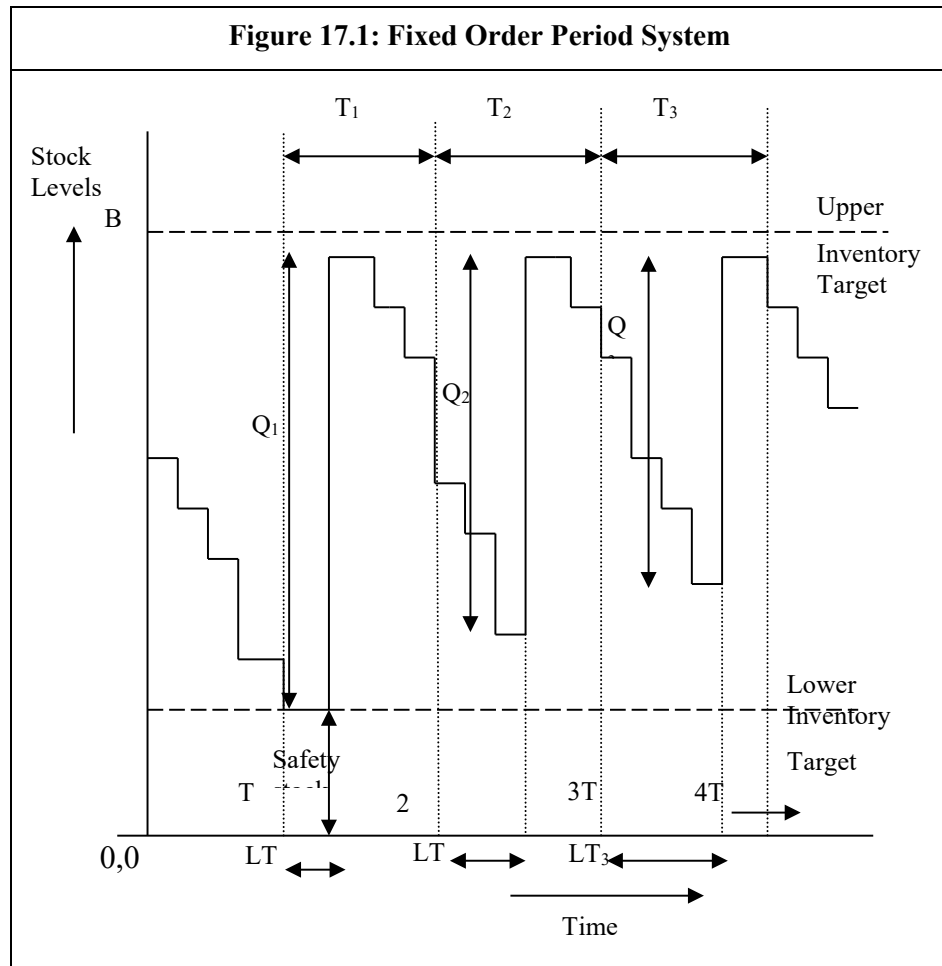
Carrefour, is the eighth-largest retailer in the world by revenue, it operates a chain of hypermarkets, groceries and convenience stores, which as of January 2021, comprises its 12,225 stores in over 30 countries. The company opines that On-Shelf Availability (OSA) means having "the right product in the right place at the right time all of the time". Not having the product available, on-shelf for purchase can be a lost sale for both the manufacturer and Carrefour. The mega retailer entered into an agreement with Symphony RetailAI in July 2019 to optimize inventory levels across its warehouses and stores. Carrefour believes that supply chain is at the heart of their customer satisfaction and sales performance.

Source: Adapted from <https://www.symphonyretailai.com/carrefour-france-makes-investments-to-optimize-its-supply-chain-operations/> July 2019

Figure 17.1 graphically illustrates the operations of this system. Here, orders are placed at equal intervals of time ($T_1 = T_2 = T_3$) and the quantity ordered during T_1 is different from the quantity ordered at T_2 . The level of inventory in this system is counted during the review period. The order size is determined on the basis of available and required inventory level.

Activity: Farheen Foods Ltd., a juice producer, noticed that the fruit stored in its warehouses did not stay fresh and in turn affected the quality of the juices produced. Therefore, the company decided to implement a new inventory system so that the fruits reached the factory just before the juice extraction process. Which type of inventory system do you think should the company adopt? Justify your answer.

Answer:



Transportation: The process involves moving goods from the place of manufacture to the desired destination, which can be warehouses, market places, etc. In the modern globalized environment where companies are expanding their operations worldwide, transportation has become one of the most crucial decisions in logistics management. Transportation involves space and time dimensions that enhance the value of the logistics process by delivering the goods at the right time and at the right place.

Check Your Progress-2

3. In organizations, inventory is effectively managed using certain control tools like reorder point, order lead-time, usage rate, safety stock, EOQ, JIT, and fixed order interval system. Identify the variable that keeps varying in the fixed order period system.
 - a. Order quantity
 - b. Order period
 - c. Order quality
 - d. All the above

Block-4: The Marketing Mix – II

4. What is the process of moving goods from one physical location to another known as?
 - a. Transportation
 - b. Warehousing
 - c. Logistics
 - d. Ordering.
5. EOQ is an inventory control tool. What is the full form of EOQ?
 - a. Economic Order Quality
 - b. Economic Order Quantity
 - c. Everyday Ordering Quotient
 - d. Economic Order Quotient.
6. Who developed the time-based logistics management system?
 - a. Americans
 - b. Chinese
 - c. Japanese
 - d. Germans.
7. What does the JIT logistics management system focus on?
 - a. Raw materials should be delivered in excess quantities to the production plant as and when required without delay
 - b. Raw materials should be delivered in required quantities to the production plant in advance before they are actually required without delay
 - c. Raw materials should be delivered in required quantities to the production plant as and when they are required without delay
 - d. Finished goods should be delivered in required quantities to the distribution centers as and when they are required without delay.

17.5. Functions of Warehousing

Warehousing involves a series of activities such as receiving finished the goods and/or raw materials, etc., storing them in a set area or space (warehouses, stores) and safeguarding the goods until they are dispatched for delivery or for the production process. Exhibit 17.3 describes Amazon's warehousing. The following are the important functions of warehousing –

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- Accurate verification of delivery documentation during the reception of inbound goods.
- Stock mixing: Involves sorting out bigger shipments into smaller ones and vice versa.
- Warehousing can also be used as a junction for transporting goods from one place to another. This is also known as 'transloading.'

In general there are two types of warehousing. They are – storage warehousing and distribution warehousing. While storage warehousing involves storage and dispatch of raw materials and finished goods, distribution warehousing serves the purpose of facilitating the process of transporting goods from one place to another.

Exhibit 17.3: Amazon's Warehouse Ecosystem

Amazon warehouse management is not monolithic. It has created a well thought-out warehouse ecosystem to give structure to the Amazon system. It imagined its ecosystem as a distribution network. Amazon's system divides its distribution network into five types of facilities Crossdock center: Parcels from foreign suppliers stay here until the fulfillment centers require more inventory.

Fulfillment Center: This is the environment a warehouse specialist would be in, where Amazon stores its products and Amazon employees collect and package products for customers. The company operates more than 175 fulfillment centers worldwide.

Sorting centers: The sorting of the centers introduced in 2014 is intended to improve delivery on the last mile. "No product is kept in these places. Instead, customer-ready packages are transported on conveyor belts while Amazon staff and robots sort and route packages by zip code before sending them to a carrier for final delivery.

Delivery System: The last mile of many Amazon shipments is handled by USPS, FedEx, or UPS, and the delivery stations offer Amazon flexibility in high volume areas.

Amazon Prime Now Centers: Amazon's system for urgent items such as groceries is based on Prime Now Centers. These centers manage items that are usually delivered within 2 hours of purchase. The two types of facilities most important to Amazon's inventory management are fulfillment centers and sorting centers.

Source: <https://www.analyticssteps.com/blogs/how-does-amazon-use-warehouse-technologies>. May05 2021.

Block-4: The Marketing Mix – II

Check Your Progress-3

8. Warehousing is a physical system that has a set area, tools, and laborers to handle goods. Which of the following is **not** a basic function of a warehouse?
 - a. Receiving
 - b. Storing
 - c. Packing and shipping
 - d. Moving goods from one location to another.
9. The function of storage warehousing is to store raw materials, other components and finished goods. Identify the two common types of warehousing.
 - i. Storage warehousing
 - ii. Manufacturing warehousing
 - iii. Sales warehousing
 - iv. Distribution warehousing.
 - a. i & ii
 - b. i & iii
 - c. i & iv
 - d. ii & iv.

17.6. Strategic Issues in Managing Logistics

- Modern organizations function in a highly competitive and ever changing global environment. Hence, they are required to adapt their business processes to the rapid technological developments. Companies are also required to leverage the advancements made in technology and imbibe them in their logistics practices as well. Exhibit 17.4 delineates role of AI in food supply chain.
- Companies are required to develop a coordinated global manufacturing strategy by streamlining the various global manufacturing processes.

Exhibit 17.4: AI in Food Supply Chain

According to a report by Accenture, 85% of organisations have planned to adopt digital or AI technologies in their supply chains during 2019. US market intelligence firm Tractica estimated the value of AI to be worth \$36.8bn globally by 2025. With most food manufacturers and retailers having thousands of customers and products to deal with on a daily basis, AI is proving much more efficient at analyzing complex data

Contd.

quickly and meaningfully. With the help of AI retailers are able to cluster and identify who are their main customers - who are repeat purchasers, browsers, or so-called aliens. They can understand which products are better to deliver last-minute; or which core lines should regularly be in stock.

And with many retailers dependent on promotions for contributing between twenty and thirty percent of sales - particularly in grocery - machines can tell them which promotions are better. Machine learning is more effective at clustering promotions based on looking at similarities and many more variables than is otherwise possible using traditional, linear-based forecasting techniques. For instance, a leading health food company used machine learning to analyse demand variations and shopping trends during promotions, resulting in a thirty percent reduction in lost sales.

Source: Adapted from <https://supplychaindigital.com/technology-4/comment-how-can-ai-help-food-supply-chain>. May 17, 2020.

17.7. Growth of Wholesaling

In the process of wholesaling, companies sell goods to intermediaries who further resell the goods to other intermediaries (e.g. selling goods to retailers) and not to the final consumers. In other words, wholesalers facilitate the process of transferring the goods from producer to the final consumer. While it was once believed that wholesaling as a part of the logistics process would soon become extinct, companies later began to realize the benefits of enhanced and improved wholesaling processes. As wholesalers are in close contact with the customers, they can help companies understand the changing needs and preferences of the customers in a better way and also help them in manufacturing in-demand products. Wholesalers can also devise localized marketing strategies by virtue of their proximity to consumers.

Check Your Progress-4

10. What is the characteristic of wholesale transactions?
- a. Business transactions take place with intermediaries except final consumers
 - b. Business transactions take place with either final consumers or intermediaries
 - c. Business transactions take place with both final consumers and intermediaries
 - d. Business transactions take place only with final consumers.
-

Block-4: The Marketing Mix – II

17.8. Classification of Wholesalers

Classification of wholesalers and retailers is done on the basis of who the purchasers are, and not on the amount of purchase that has to be made. Put simply, if more than 50 percent of the purchasers are final consumers then the intermediary is known as retailer, otherwise if more than 50 percent of the sales are made to other intermediaries then the intermediary is known as wholesaler. The following are the different types of wholesalers –

Merchant wholesalers: Wholesalers who purchase goods from other intermediaries or directly from the firms with a view to resell them are called as merchant wholesalers. Merchant wholesalers possess the title of the goods purchased by them.

Agents and Brokers

Agents: These are intermediaries who act as a bridge between the buyers and sellers. They do not possess title to goods. Agents negotiate the selling process between the buyers and sellers and sell the goods immediately. The agents are paid for their services in the form of ‘commission’. The various types of agents are – manufacturers’ agents, selling agents, commission merchants, and auction houses.

Brokers: Brokers are those who negotiate with the buyers and sellers, take minimal of risks and have minimum participation in intermediary activities.

Manufacturers’ sales branches and offices: These branches are owned by the manufacturers. The branches are required to sell goods to the buyers and are also responsible for providing support to manufacturers’ sales people. These offices are situated at a different place from the production plant. They also do not carry any inventory.

Check Your Progress-5

11. Identify the intermediary who negotiates with buyers and sellers, takes minimal risks, and have minimum participation in intermediary activities.
 - a. Commission merchants
 - b. Selling agents
 - c. Manufacturer’s agents
 - d. Brokers.

17.9. Market Decisions

The following are the different market decisions involved in the wholesaling process –

Target market: Wholesalers in the modern business environment are increasingly concentrating on responding proactively to the changing needs and

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requirements of the market. Wholesalers have started identifying and targeting the most profitable segments. As a result one can find wholesalers targeting new markets such as institutional markets (hospitals, hotels, etc.) and other niche markets.

Price: Wholesalers believe that the prices of goods should be fixed in such a manner that they (wholesalers) can earn sufficient returns and also sell them in large volumes. Hence, they feel that they should be given a chance to voice their opinion regarding decisions such as reviewing the credit policies, decreasing the credit periods, etc.

Promotion: In general, companies provide wholesalers with trade displays, advertisements, catalogues, etc., to facilitate the promotional process. However, some wholesalers prefer to formulate their own promotional strategies in a bid to differentiate themselves from other wholesalers.

Place: Wholesalers should make sure that the products are easily available to customers. For this, the wholesalers are required to take advantage of location.

Activity: Sagar Distributors Pvt., Ltd., is the sole company that distributes Hindustan Lever Limited's products to all the retailers in the city of Nasik. Discuss the various market decisions that the company undertakes to accomplish this task successfully.

Answer:

Check Your Progress-6

12. What are the marketing decisions that have to be taken in the wholesaling process?
- i. Pricing decision
 - ii. Product-based decision
 - iii. Decision on promotion
 - iv. Decision on target market.
- a. i, ii & iii
 - b. ii, iii & iv
 - c. i, iii & iv
 - d. i, ii, iii, iv.
-

17.10. Changing Patterns in Wholesaling

Wholesaling in present business environment is a valuable link in the supply chain. This is due to the developing trends in the wholesaling process that are resulting in more efficient operations. Exhibit 17.5 delineates Flipkart's venture into wholesale business.

Wholesale consolidation: The traditional process of product production and distribution is divided into four steps – manufacture, wholesale, retail and, consumption. However, of late, these divisions are becoming blurred due to the gradual integration of these processes through wholesale franchising, conglomerations and joint ventures.

Productivity and quality: Technology has revolutionized the way modern wholesalers are dealing with their processes. The use of computers and other software technologies has paved the way for an efficient distribution management system. The advancements made in technology are also enabling wholesalers to tailor their services to the requirements of the manufacturers.

Global expansion: Globalization has also enabled wholesalers to offer their services to customers spread across the world.

Exhibit 17.5: Flipkart Launches Wholesale Business

On 23rd July 2020 Flipkart announced the launch of Flipkart Wholesale, a new digital marketplace that will help transform India's retail ecosystem. As part of this launch, the Group also announced the acquisition of 100% interest in Wal-Mart India Private Limited, which operates the Best Price cash-and-carry business, to leverage the strong wholesale capabilities of the company and enable growth and prosperity for the nation's kiranas and micro-, small- and medium-sized enterprises (MSMEs). Flipkart Wholesale will leverage Flipkart's strong homegrown technology capabilities, extensive leadership in the consumer e-commerce segment and unique understanding of the industry in India. The business will also utilize the Flipkart Group's vast supply chain infrastructure to reach kiranas and MSMEs across the country. Flipkart Wholesale will draw on the merchandising experience of the Walmart India team, its strong relationships with brands and its deep DNA of servicing kiranas.

Source: <https://corporate.walmart.com/newsroom/2020/07/23/walmarts-majority-owned-flipkart-launches-wholesale-business-to-help-small-businesses-in-india-source-directly-from-manufacturers-and-producers>

Check Your Progress-7

13. Match the following factors influencing changing patterns in wholesaling with their respective characteristics.
- i. Wholesale consolidation
 - ii. Productivity
 - iii. Quality
 - iv. Global expansion.
 - p. Using computer-based systems to receive orders from customers rather than individually contacting them
 - q. Integration of wholesale retail franchising, conglomerations and joint ventures
 - r. Supply of goods and services to customers across the world
 - s. Tailoring quality of service.
- a. i/r, ii/p, iii/s, iv/q
 - b. i/q, ii/p, iii/s, iv/r
 - c. i/q, ii/s, iii/p, iv/r
 - d. i/s, ii/p, iii/q, iv/r.

17.11. Summary

- An efficient logistics management system must meet the objectives of – delivering customer service, reducing total distribution costs and reducing cycle time.
- Market logistics decisions involve – order processing, inventory management, and transportation.
- Inventory management can be done effectively using any of the following tools – reorder point, order lead time, usage rate, safety stock, economic order quantity, just-in-time or fixed order interval system.
- Warehousing involves a series of activities such as receiving finished goods and/or raw materials, etc., storing them in a set area or space (warehouses, stores) and safeguarding the goods until they are dispatched for delivery or for the production process.
- All business transactions that take place with intermediaries (except those transactions that take place with the final consumer) are called wholesale transactions.

Block-4: The Marketing Mix – II

- The various types of wholesalers are – merchant wholesalers, agents and brokers and, manufacturers' sales branches and offices.
- Developments such as wholesaling consolidation, improved productivity and quality and, globalization have reformed the functioning of the wholesaling process.

17.12. Glossary

Agents and brokers: Intermediaries who assist with the marketing of goods and services but who don't assume ownership of products, agents, unlike brokers, usually work long term for products.

Auction houses: Facilities designed to bring buyers and sellers together for the purpose of selling products to the highest bidder.

Distribution center: A private warehouse specially designed to provide the fast transfer of goods from suppliers to retailers or final customers.

Just-in-time inventory management: A technique that seeks to decrease costs by maintaining lower inventories of parts and materials.

Merchant wholesalers: Independent businesses that buy products from producers and then resell them to retailers and organizational customers.

Merchants: Intermediaries that assume ownership of the goods they sell to customers or other intermediaries; merchants usually take physical possession of the goods they sell.

Safety stock: The minimum level to which a given inventory is allowed to fall.

Sales branches: Manufacturer-owned selling locations that perform a variety of marketing functions; distinguished from sales officers by the fact that they carry inventory and usually fill orders from stock.

Selling agents: Agent intermediaries that go beyond manufacturers' agents by taking control of promotion, pricing, and distribution; they are used by producers that don't want to get involved in the marketing of their own products.

Sorting out: Dividing one heterogeneous supply into separate, homogeneous supplies.

17.13. Self-Assessment Test

1. What are the different market logistics decisions?
2. Who is a wholesaler? What are the different types of wholesalers?

17.14. Suggested Reading/Reference Material

1. Philip Kotler, Kevin Lane Keller, Alexander Chernev, Marketing Management, 16th edition Pearson 2021
2. Roger Kevin, Steven Hartley, Marketing: The Core, 9th edition McGraw Hill 2021
3. David Simchi-Levi and Kris Timmermans, "A Simpler way to Modernize Your Supply Chain," www.hbr.org. September-October 2021
4. GC Beri, Arun Kaushik, Zillur Rahman, Marketing Research 6th Edition McGraw Hill 2020
5. Callie Daum. Marketing Management Essentials You Always Wanted To Know. Vibrant Publishers; Second edition (1 January 2020)
6. Saxena, Rajan. Marketing management. McGraw-Hill Publishing Co Ltd, 2020.
7. Willy C. Shih, "Global Supply Chains in a Post Pandemic World", www.hbr.org, October 2020
8. V S Ramaswamy and S. Namakumari. Marketing Management: Indian Context Global Perspective. Sage Publications India Pvt Ltd; Sixth edition, 2018
9. Bowersox, Donald J Closs, David, M Bixby Cooper, Supply chain Logistics Management, McGraw-Hill, 2018.
10. Richard R. Still and Edward W. Cundiff, Sales and Distribution Management, 6th edition, Pearson 2017

17.15. Answers to Check Your Progress Questions

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

1. (d) i, ii, iv

The basic objectives of logistics management are delivering customer service, reducing total distribution costs, and reducing cycle time. Improving product quality is associated with production.

2. (d) None of the above

All three options form the basis of customer service. Customers should be given more importance than goods and services to be delivered, products and services are of value to them only when they are available at the required time, and organizations should place greater emphasis on customer satisfaction than on sales volume.

Block-4: The Marketing Mix – II

3. (a) Order quantity

In the fixed order period system, the order period is fixed, but the order quantity varies with requirement. The quantity ordered each time depends on the current inventory level or inventory in hand and future requirements.

4. (a) Transportation

Ordering, warehousing and transportation are different aspects of logistics. Transportation is the process of moving goods from one physical location to another. Warehousing is a physical system that comprises a set area or space, tools and laborers to handle goods. Logistics is the process of getting products and services where and when they are required.

5. (b) Economic Order Quantity

The expansion of EOQ is Economic Order Quantity. Economic Order Quantity (EOQ) is the replenishment order quantity that minimizes overall cost of inventory, i.e. the sum of ordering and carrying.

6. (c) Japanese

The time-based logistics management system, commonly known as JIT, was developed by the Japanese.

7. (c) Raw materials should be delivered in required quantities to the production plant as and when they are required without delay

The concept behind JIT is that raw materials should be delivered in required quantities to the production plant as and when they are required, without delay. The other statements are incorrect because the exact quantity should be supplied and not excess. Second, supply should be made when it is needed and not in advance. Finally, the concept deals with raw materials that have to be sent to the production plant and not finished goods to distribution centers.

8. (d) Moving goods from one location to another

The basic functions of a warehouse are receiving, storing, packing, marking, shipping, etc. Moving goods from one location to another is a transportation function.

9. (c) i & iv

The two main types of warehousing are storage warehousing and distribution warehousing. A warehouse is used for storage and not used for manufacture or sales.

Unit 17: Logistics and Wholesaling

10. (a) Business transactions take place with intermediaries except final consumers

Wholesaling transactions are all business transactions that take place with intermediaries barring final consumers.

11. (d) Brokers

Brokers are those who negotiate with buyers and sellers, take minimal risks, and have minimum participation in intermediary activities.

12. (c) i, iii & iv

Marketing decisions that have to be taken in the process of wholesaling are: the target market, price, promotion and place. Wholesalers identify and target the most profitable market segment. They also want goods to be priced in a way that they can earn sufficient profits and increase sales.

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

Wholesale consolidation - Integration of wholesale retail franchising, conglomerations and joint ventures. Productivity - Computer systems to receive orders from customers rather than individually contacting them. Quality - Tailoring the quality of service. Global expansion - Supply of goods and services to customers across the world.

Unit 18

Retailing

Structure

- 18.1. Introduction
- 18.2. Objectives
- 18.3. Types of Retailers
- 18.4. Franchising
- 18.5. Strategic Issues in Retailing
- 18.6. Market Decisions
- 18.7. Private Label
- 18.8. Global Trends in Retailing
- 18.9. Trends in Retailing in India
- 18.10. Summary
- 18.11. Glossary
- 18.12. Self-Assessment Test
- 18.13. Suggested Reading / Reference Material
- 18.14. Answers to Check Your Progress Questions

18.1. Introduction

In the previous two units, we discussed about the various concepts related to marketing channels, logistics, warehousing, and wholesaling. In this unit we shall introduce you to the concept of retailing.

Retailing involves selling of products/services to customers for their non-commercial, individual or family use. Retailing constitutes the last stage of the distribution process. Retailing can be classified into four categories based on ownership, extent of product lines handled, services vs. goods mix in retail strategy, and non-store based retailing. There are different elements involved in a retail strategy which help the retailer to effectively conduct his business like situation analysis, setting the objectives, identification of target markets and consumers, etc.

Franchising is an agreement between a franchiser and franchisee where the franchisor lends his trademark, trade name, product or service to the franchisee for a fee. There are three major types of franchises like product distribution franchise, business format franchise, and trade name franchise.

In this unit we shall first introduce you to the concept of retailing and then discuss the different kinds of retailers. We shall then introduce you to the concept of franchising and discuss its various advantages and disadvantages. We shall conclude the unit by discussing the strategic issues in retailing and the Indian and global trends in retailing.

18.2. Objectives

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

- Define the concept of retailing
- List the different types of retailers
- Define the concept of franchising and its different types
- Analyze the various strategic issues in retailing

18.3. Types of Retailers

Retailers are usually classified on the basis of

- Ownership
- Number of product lines handled
- Services vs. goods mix in retail strategy
- Non-store based retailing

Ownership

Independent retailers own a single retail unit. In India, lakhs of retailers own a single retail unit as it can be set up with a minimum of licensing requirements. But the market share of individual retailers in India is low as compared to other forms of retail ownership.

Chain retailers own several retail outlets. The various retail outlets have centralized decision making for procurement and other activities.

Another form of retailing based on ownership is franchising which is discussed in detail in the next section.

Retailing based on ownership can also take the form of a leased department. A portion of store is taken on lease by a retailer; rent for this is paid to the store owner. Another type of ownership-based retailing is consumer cooperatives. Consumer cooperatives are the retail outlets owned and operated by a group of consumers.

The number of Product Lines Handled

Based on the number of product lines handled, retailers may be called general merchandise retailers; they are further categorized into specialty stores, departmental stores, discount stores, supermarkets, and hyper markets.

The Marketing Mix – II

Specialty Stores

Specialty stores target a small selective segment of the market and offer a wide range of products for selection in the same product line. These stores employ personnel with some knowledge of the product line. For example, The Body Shop stores are specialty stores offering health and beauty products with ethically sourced, cruelty free and natural ingredients.

Department Stores

Department stores have a large collection of products with quality ranging from average to very good. Departmental stores have a considerably large retail space with separate sections for apparels, books, baby care products, toiletries, etc. Lifestyle and Shoppers' Stop are examples of department stores in India.

Discount Stores

Discount stores are similar to department stores but offer goods at lower than retail prices so as to gain through large volume sales. Middle class and lower-middle class people who are price conscious are targeted by discount stores. Walmart, Kmart, Best Buy and Target are some famous examples of discount stores.

Supermarkets

Supermarkets are based on the concept of self-service. In these retail stores, large variety of brands is displayed on shelves, to be picked up by customers. Ratnadeep, Reliance Fresh, and More are some of the famous supermarkets in India.

Hypermarkets

Hypermarkets are large super markets with a shop floor area of two to three lakh square feet. Hypermarket stores a wide variety of household products. For example, Spencer's is one such hypermarket set up by the RPG.

Retailing Based on the Service vs. Goods Retail Strategy Mix

Either goods or services can be sold through a retailing format. Goods retailing involves selling of physical products, while in services retailing, consumers pay to get access to a service and do not get ownership. For example, travel agents sell the travel service to customers. Service retailing can be sub-divided into rented goods services, owned goods services, and non-goods services.

Rented goods services are accessed by payment of a fee and the customer does not have ownership of product. For example, in car rental, customers have the right to use the car only for the period for which rent is paid.

Owned goods service retailing is a process in which service is provided to customers by service provider who does not own the goods. For example, periodic maintenance service provided by authorized service personnel of

Eureka Forbes for Aquaguard water purifiers, here the service personnel only provide the services and do not own the equipment.

Non-goods service retailing involves providing services through individuals who have expertise in providing the service for a fee. For example, stock brokers, sports trainers, tutors, etc. provide non-goods service.

Non-Store Based Retailing

Non-store based retailing can be in the form of direct selling, direct marketing, and automatic vending.

Direct Selling

In this process products are sold to customers directly by meeting them at home, office or other non-store locations. For example, companies like Amway, Eureka Forbes, Tupperware, etc. are involved in direct selling.

Direct Marketing

In this process companies provide information about products to customers through mails, telephone calls, radio or television and ask them to contact the company directly through telephone, post or e-mail for purchase of the products. For example, Asian Sky Shop, a retail marketing organization advertises through television channels and takes orders from customers on the telephone. Exhibit 18.1, delineates Global Teleshopping Market Size and Share 2021.

Exhibit 18.1: Global Teleshopping Market Size and Share 2021

The global Teleshopping market size is projected to reach USD 49180 million by 2027, from USD 44930 million in 2020, at a CAGR of 1.3% during 2021-2027. Teleshopping means buying goods and services by telephone or via the internet. It does not involve correspondence and personal visits. The seller prepares a short advertising film which is shown on television screen. It gives a full demonstration of the working of the product along with a list of contact phone numbers in every city. Asian sky shop, telebrands are examples of companies which provide teleshopping facilities in India. Some of the teleshopping players are QVC (Qurate Retail Group), ShopHQ (iMedia Brands), Jewelry Television (Multimedia Commerce Group), Tristar Products, Inc., Shop LC (Vaibhav Global), America's Value Channel, America's Auction Channel (AACTV), Gem Shopping Network Inc., Ideal Shopping Direct Limited. Among the companies, Home shop 18. QVC (Qurate Retail Group) contributed most. Home, beauty and wellness, consumer electronic, apparel and accessories, jewelry and watches are the most common categories of goods sold through these platforms. The Home Item is account for the largest share of the global market in 2019.

Source: <https://www.globenewswire.com/> September 15, 2021

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Automatic Vending

This is a form of non-store retailing in which salespersons are not involved; vending machines dispense the goods to customers. When customer inserts a coin or card in a vending machine, the product or service is delivered by it. For example, a coffee vending machine gives out a specified quantity of coffee when the coin is inserted. Public telephone machines are operated by inserting a rupee coin or a telephone card to use the telephone.

Implications of Merchandising

Merchandising is becoming increasingly complex. If retailers store small quantities of products, they may run short of supply when consumers ask for the product. On the other hand, overstocking is also a problem. To handle merchandising efficiently advanced software tools like SAP are being used by retailers to organize purchase, stock, price of products, and predict future supply and demand of each item in the store.

Activity: Identify the type of retailing being practiced in the following situations:

- Specifics, an automobile retail store, trades only in racing cars.
- Wanderer Inc. sends its sales people to the door-step of customers to promote the water purifier of the company.
- Travel Solutions organizes tours to various national and international locations starting from Hyderabad.
- Neeru's Boutique has a separate section leased out for its business in Hyderabad Central, a division of Pantaloon Retail

Answer:

Check Your Progress-1

1. Lenin Supermarket, a major retailer in Manipal, has rented some space to Olive Sweets, another small retailer dealing in sweets and confectioneries. For the leased space, Olive Sweets pays Lenin Supermarket a predetermined percentage of its sales. What type of retailing based on ownership is this?
 - a. Consumer cooperatives
 - b. Chain retailership
 - c. Vertical marketing units
 - d. Leased department.
2. Discount stores are similar to department stores except for one basic difference. What is it?
 - a. Discount stores offer products at a price less than retail price
 - b. Discount stores offer products at a price higher than retail price
 - c. Discount stores are based on the concept of self-service
 - d. Discount stores provide a narrow product line but a wide assortment of choice within the product line.
3. Ratnadeep is a retail outlet where customers can pick up products according to their liking from among items displayed on the shelves. This type of retail outlet is an example of what type of retailer?
 - a. Automatic vending
 - b. Direct marketing
 - c. Supermarkets
 - d. Direct selling.
4. Mr. Sharma, of late, constantly receives phone calls and e-mail from Asian Sky Shop regarding their new products. What type of non-store based retailing is discussed here?
 - a. Direct marketing
 - b. Direct selling
 - c. Vertical marketing units
 - d. Automatic vending.
5. 'Sapna Book House', the bookstore, offers a wide selection of goods but with a narrow product line. What type of retail store would 'Sapna Book House' come under?

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- a. Discount store
 - b. Supermarket
 - c. Specialty store
 - d. Departmental store.
6. Which of the following is **not** true regarding automatic vending machines?
- a. Vending machines only deliver products to customers
 - b. Vending machines offer greater convenience
 - c. It is a type of non-store retailing
 - d. There is no involvement of salespersons.
7. Which type of retail institution sells standard merchandise at lower prices by accepting lower margins and selling at a higher volume?
- a. Department store
 - b. Catalog showroom
 - c. Off-price retailer
 - d. Discount store.

18.4. Franchising

Franchising is a contractual and legally binding agreement between a franchiser and a franchisee. The franchiser gives the franchisee the right to do business using the trademark, trade name, product, or service of franchiser. The franchisee pays an initial amount to the franchiser and also pays a fixed portion of the monthly income on sales to the franchiser. A license or a franchise agreement is laid down, with specifications binding on the two parties.

The factors to be considered by companies prior to franchising are to establish the company's brand in the market and to choose franchisees based on experience and local knowledge. The franchiser should also try to work through a long-term contract with the franchisee so that the commitment will be greater.

Major Types of Franchising

The three major types of franchises are:

- Product distribution franchise
- Business format franchise
- Trade name franchise

Product distribution franchise is a type of franchising in which the franchisee is allowed to distribute the manufacturer's products in a wholesale or retail form within a specified geographical area. The franchising agreement specifies the

geographical area in which franchisee can sell the products of franchiser. For example, dealers of petrol and gas are product distribution franchisees.

In business format franchising, franchisee have the freedom to modify the franchiser's product or produce a new product with a license from franchiser. A franchisee operates in a specified market area by using the trademark of the franchiser as well as the franchiser's methods of production, operational standards, marketing plans, etc. An example of business format franchising is Baskin Robbins.

Trade name franchising allows franchisee to use the franchiser's trade name or license for products manufactured at franchisee's plant. The franchisees have the freedom to sell the products produced under franchiser's trade name in a predetermined market area. Soft drink bottlers are an example in this category.

Advantages and Disadvantages of Franchising

There are advantages and disadvantages to both franchiser and franchisee in franchising.

Advantages to the Franchiser

Advantages that accrue to franchisers include: low capital to be invested and low risk of opening distribution outlets in new markets, speedier expansion of business, extended market penetration, automatic motivation of the franchisee to improve business since his/her investment in the business is involved, and ease in controlling quality when the business expands since day-today operational activities are taken care of by the franchisees, leaving sufficient time to the franchiser to maintain quality.

Disadvantages to a Franchiser

Among the disadvantages that may accrue to the franchiser is losing business control to franchisees causing damage to the brand image, in cases where the franchiser fails to have a concrete business agreement with the franchisee. Also, there may be a lot of expenses involved in the form of legal documentation of agreements, financial audit of company records, advertising expenses to attract potential franchisees and so on for the franchiser, and these costs have to be weighed against the benefits that the franchiser would get in the form of business success and market expansion.

Advantages to a Franchisee

A franchisee may derive benefits like reduced business risk when compared to independent businesses, operational advantages with the assistance of franchiser, easy financing of the business, psychological happiness of being an entrepreneur without having to take too much business risk, and ease of resale of business.

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Disadvantages to a Franchisee

The disadvantages a franchisee may face include: limited freedom as the franchiser's standards in business are to be maintained, fee payment to franchiser in the form of one-time payment or recurring payment or in the form of royalty as prescribed by franchiser, and the fact that if the franchiser's business does badly at the overall level, it would adversely affect the success of the franchisee.

Exhibit 18.2 explains McDonald's way of franchising.

Exhibit 18.2: Mastering Franchising – The McDonald's Way

McDonald's is regarded as a premier franchising company throughout the world. McDonald's Corporation is a food service retailer serving around 69 million customers everyday through 37,855 restaurants over 100 countries as of 2018. McDonald's selects its franchisees carefully based on certain criteria like past business and personal history of the individual, complete dedication to the business, etc. The McDonald's Corporation revenues come from the rent, royalties, and fees paid by the franchisees, as well as sales in company-operated restaurants.. The company provides training to all franchisees in relation to the business. McDonald's has control over the evaluation of the site and the selection of the location for franchise. The franchisees are supported by the company in matters of marketing and operations. However, the company does not interfere in the day-to-day operations of the franchisee's business.

Source; <https://en.wikipedia.org/wiki/McDonald%27s> (Wikipedia page updated on October 02,2021)

Check Your Progress-2

8. Certain factors should be taken into consideration by companies before franchising their business. What are these factors?
 - a. Franchisees should be selected on the basis of prior experience and local knowledge
 - b. A long-term contract should be made with the franchisee
 - c. Companies must establish their brands in the market before venturing into franchising
 - d. All of the above.
9. Franchising is a contractual and legally binding agreement between a franchiser and a franchisee. The franchiser faces several advantages and disadvantages. Identify from the following the advantages of franchising.
 - i. Controlling the quantity
 - ii. Low capital and high risk
 - iii. Extended market penetration

- iv. Faster expansion.
 - a. i & ii
 - b. ii & iii
 - c. iii & iv
 - d. i & iv.
- 10. Despite having a lot of advantages, franchising is also disadvantageous to a franchiser. Which of the following is **not** a disadvantage to the franchiser?
 - a. Enormous expense pertaining to legal documentation during the agreement process
 - b. Low profit potential because the actual business is carried out by the franchisee
 - c. Risky as a failure on the part of a franchisee in maintaining quality standards will erode the franchiser's brand image
 - d. A franchisee has to pay a substantial sum of money to the franchiser to purchase the franchise business.

18.5. Strategic Issues in Retailing

How can retailers conduct their business efficiently? A retail strategy combines the elements of various plans to make this possible. The major elements of a retail strategy are:

- Situation analysis
- Setting objectives
- Identification of target markets and consumers
- Developing an overall strategy considering the controllable and uncontrollable variables
- Developing specific activities based on the business environment
- Devising suitable control strategies to correct deviations, if any, in pursuing the organization's objectives

Before starting the business, the retailer should conduct a situational analysis and assess his strengths and weaknesses. Retailers should decide pick a suitable ownership alternative from the options like sole proprietorship, partnership, starting a franchise, or investing in an entirely new business. The short-term and long-term objectives should be set. Identification of the target market and selection of appropriate marketing techniques should be given importance. To design the overall strategy, controllable variables like investment capital, working hours, promotional strategies, etc., and uncontrollable variables like competition, technological advancement, government regulations, etc. should

The Marketing Mix – II

be examined carefully. After designing the overall strategy, specific activities like store location, pricing of products, and communicating with customers should be taken up. More details about these activities are given in the following section. Finally, an effective control mechanism and feedback in form of detailed retail audit can help in the smooth functioning of a retail business.

Location

The location of a retail store is of strategic importance as it helps the retailer to gain competitive advantage. The retailer can choose the location based on scientific research which proposes various models for location selection. In the analog model, selection of location is based on analysis of sales that the store in a particular location can generate. The spatial choice model along with the gravity model considers the competitive environment. Here the utility provided by the store is compared with the sum of utilities provided by all other competing stores.

Store Image Decisions

The image of the store influences the business of a retailer significantly. A proper store image helps to attract customers for repeat purchase. However, the impact of store image differs across consumer segments. In general, the age of the consumer plays a significant role in his/her perception of the image of a retail store. For instance, consumers in the age group of 30 to 60 years are not particular about the image of the store. On the other hand, young customers below the age group of 30 years are influenced to a great extent by aspects of store image such as aesthetics of the store, quality of merchandise, and responsiveness of sales staff. Hence, the retailers should create an appropriate store image based on the customer segment they want to cater to.

Activity: Investors is a retail store which offers a large variety of branded goods in the sectors of cosmetics, apparels, accessories, etc. The Visual Merchandising (VM) department of the store is in charge of the interior designing of the store so that it is most appealing to customers. Who do you think will comprise the majority of customers for Investors, a store selling branded goods? What suggestions can you give the VM department as it seeks to create a store image in accordance with customers' tastes?

Answer:

Check Your Progress-3

11. While developing a retail strategy, identification of the target market and selection of an appropriate marketing technique should be followed by designing an overall strategy by taking into account two types of variables – controllable and uncontrollable. Which of the following is **not** a controllable variable?
 - a. Working hours
 - b. Investment capital
 - c. Government regulations
 - d. Location of the outlet.
12. Strategic issues in retailing involve an overall set of plans that help the retailer conduct business efficiently. Which of the following are major elements involved in the development of retail strategies?
 - i. Identification of target markets as well as consumers
 - ii. Developing an overall strategy taking into consideration controllable and uncontrollable variables
 - iii. Deciding the store location
 - iv. Situation analysis.
 - a. i, ii, iii
 - b. ii, iii, iv
 - c. i, ii, iv
 - d. i, iii, iv.
13. Which model used to decide on the location of a retail outlet considers the competitive environment?
 - a. Analog model with gravity model
 - b. Spatial choice model
 - c. Spatial choice model along with gravity model
 - d. Spatial choice model and analog model.

18.6. Market Decisions

Market decisions of retailers should be made by understanding the expectations of customers. The principles which are to be followed by retailers for success in business are:

- To offer adequate and appropriate solutions to the shopping needs of customers.
- To treat customers with utmost respect.

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- To relate with customers' sentiments and offer services accordingly.
- To price the products honestly.
- To realize that the customers' time is precious and that it should not be wasted.

Retailers' market decisions relate to: product assortment and procurement, service mix, and retailing environment. Apt market decisions help retailers to handle business efficiently.

Product Assortment and Procurement

Product assortment can vary from wide and deep to narrow and shallow. The retailer should decide upon the product assortment to be provided in his store.

In a narrow and deep product assortment strategy, fewer product or service categories with a wide range within them are made available. Some bookstores offer limited categories of products such as stationery, books, and greeting cards, but within these product categories, a wide variety of choices is offered.

In a narrow and shallow strategy, products are offered in a limited number of categories with a limited range in them. Small retail outlets usually come in this category.

In a wide and shallow product assortment strategy, a wide number of product categories are offered with a limited variety in each category.

In a wide and deep strategy of product assortment, many categories of products or services are offered with a large variety in each category. Spencer's hypermarket is a good example in this category.

After taking the decision regarding product assortment, retailers should decide about the quantity of products to be stored. This decision should be based on a detailed analysis of the products available for procurement, and how competitors are stocking similar products. Subsequently, decisions regarding the frequency of procurement and the minimum level of inventory to be maintained have to be taken.

Service Mix and Retailing Environment

Price

Pricing is a vital aspect of a business, since customers are gained or lost largely on the basis of this factor. The price of a product or service should be fixed in such a way that the consumers derive maximum value for the price they pay. Decisions on pricing strategy should be made considering macro environmental factors like the competitors' pricing strategy, government regulations, advances in technology, etc.

As a first step in pricing strategy, retailers should set their pricing objectives. A penetration pricing strategy where price is kept low to attract maximum

customers, or a skimming pricing strategy where prices are fixed high to gain maximum profits in a short period by focusing on higher income customers who value quality highly, are some of the alternative pricing strategies that can be adopted by a marketer.

The next step is to develop the framework for the price policy. The marketer decides whether to price the products low, on par, or higher than that of competitors' products.

The next step is to decide whether to price products based on customer demands, or costs involved, or depending on the competition in the market.

The next stage involves implementation of the pricing strategy.

Later, price adjustments are made according to the market dynamics (i.e. based on the changes taking place in the market).

Place

The place or location of a retail outlet should be easily visible to vehicular and pedestrian traffic. The location of the store depends on the type of business. For example, it is profitable for retail stores like grocery or department stores to be located near residential areas. A corner site may be suitable for businesses in which prominent displays are required, e.g. for apparel, jewelry, etc.

Promotion

Promotional strategies of retailers include various forms of communication to attract customers. Promotion can be through advertising, sales promotions, personal selling, or public relations. Promotional strategies should be in accordance with the objectives to be achieved by the organization such as short-term sales, increasing customer awareness, enhancing store image, etc. The budget for promotion should be based on how much the retailer can afford and it should be appropriate to the tasks to be accomplished. Sometimes the budgetary allocations of competitors have also to be considered.

Activity: Assume that one of your friends is planning to set up a retail store in your city. He/She has a dilemma in deciding about the products to be made available, the place where the store should be set up, and the promotional strategies to be adopted. Help your friend to analyze the market situation in your city and make the right market decisions?

Answer:

Check Your Progress-4

14. As part of product assortment decisions, the retailer decides on the category of products to be displayed in the store. What does width and depth imply in product assortment strategy?
- Width refers to the number of categories of products
 - Depth refers to the number of product varieties under each product category
 - Width refers to the number of product varieties under each product category
 - Depth refers to the number of categories of products.
- i & ii
 - ii & iii
 - iii & iv
 - i & iv.
15. Pricing is a vital aspect of any retail strategy. First, macro-environmental factors like pricing strategies of competitors should be considered by a retailer. The retailer should then develop a stage-wise pricing strategy that includes five stages. Identify the correct sequence of stages.
- Implementation of pricing strategy - Developing pricing objectives - Decision of the retailer on the basis of pricing - Price adjustments - Developing a broad framework for the price policy
 - Developing pricing objectives - Decision of the retailer on the basis of pricing - Price adjustments - Developing a broad framework for the price policy - Implementation of the pricing strategy
 - Developing pricing objectives - Developing a broad framework for the price policy - Decision of the retailer on the basis of pricing - Implementation of the pricing strategy - Price adjustments
 - Developing pricing objectives - Decision of the retailer on the basis of pricing - Developing a broad framework for the price policy - Implementation of the pricing strategy - Price adjustments.

18.7. Private label

Private label is a product that is sold under the name of a wholesaler or retailer. Private label is a brand developed by retailer or wholesaler. Private label brand is often called as retailer's brand. The private label trend is fast catching up among Indian Retailers such as, Reliance, Pantaloons, Life Style, Shoppers

Stop, Aditya Birla Retail etc. Exhibit 18.3 delineates how Reliance Retail is creating its private labels.

Exhibit 18.3: Reliance Retail's Private Labels Revolution

In Reliance Retail stores, little-known food and home cleaning brands take pride of place on shelves alongside global labels owned by giants Coca-Cola, P&G, Unilever and Nestle. According to Forrester Research, Indian grocery market which is \$608bn, is set to grow more than 20% by 2024. Mukesh In Reliance "Snac-tac" Ready in 2mins" sit next to Nestle's Maggi "2-Minute Noodle." Both in yellow coloured packaging with an image of red bowl full of noodles, with Snac tac costing roughly 18% less. Bottles of Yeah! Colas stood beside Coca-Cola and Pepsi Co's offerings, almost at half the price. Ambani is pitching on brands that are basic, yet still aspirational at mom and pop stores which serve around 80% of the Indian retail market.

Source: <https://timesofindia.indiatimes.com/business/india-business/reliance-retails-private-labels-revolution-spooks-global-consumer-goods-makers/articleshow/81625638.cms>, updated on March 22, 2021

Reasons for the Success of Private Labels:

Low price: Private label can be offered at much lower price because promotional costs are less. Promotional costs such as advertising and other marketing expenses can be minimized in private labels. Retailers find more margins in private labels up to 40% hence promote more in the store.

Local tastes: National brands fail to understand local tastes. Retailers, due to their proximity with local needs are able to understand customers better hence Retailers offer local tastes with their private labels.

No slotting fee: National brands have to pay huge rent for retailers in the form of slotting fee and other promotional expenses. Private labels, since promoted by Retailers can avoid paying slotting and other promotional expenses. Westside offers nearly 75% of goods under private labels.

Premium brand: There are some retailers that are known by their premium brand often called as signature brand that gains prestige. The differentiation of the retailer is done based on its signature brand.

18.8. Global Trends in Retailing

Global retailing industry has undergone substantial changes over the years. Analyzing these changes will help predict future trends in retailing. Retailing in the conventional form was through local merchandisers, who maintained huge inventories and offered extended credit periods to customers. But the prices of products were high due to provision of these benefits to customers.

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The primary change in the retail industry has been the development of departmental stores which were a convenience for customers as they offered many products at one place.

Later developments such as catalogue retailing, discount departmental stores, and internet marketing have also brought significant changes to the retail industry.

Catalogue retailing was initially targeted at rural customers but later became a successful model for the entire retailing industry.

Discounted departmental stores used to offer lower prices all through the year. In places like the US, outlets were established where real estate prices were low thus reducing operational costs.

Internet marketing has been a disruptive development in the retailing industry. Companies offer a variety of products to customers through websites. The stockholding costs for companies are very low and customers can shop from their homes or offices at any convenient time. Online retailers are expanding their businesses into a departmental store format, so that customers don't need to browse various specialized sites. Internet marketing has the potential to change the future of retailing. However, some products which the customers want to feel and touch cannot be offered through the internet. Exhibit 18.4 briefs on growth of E-commerce industry in India.

Exhibit 18.4: The World is Shopping in an Unconventional Way

Online shopping has spread phenomenally over the last few years. Amazon.com was the pioneer in online selling, when it set up the first online book retailing company in 1995. The company's website provides information about a sea of books, and customers can select the books they want by browsing. Today the American multinational conglomerate focuses on e-commerce, cloud computing, digital streaming, and artificial intelligence. Over the years, through its e-commerce platform, the company has moved into a wide range of products in categories like apparel, accessories, kitchenware, jewelry, CDs, digital devices, toys, etc. The company attracts new customers to online shopping every day. Online shopping enables customers to buy virtually anything and everything just by a click of the mouse. The world is moving onto e-tailing (electronic form of retailing). India's e-commerce order volume increased by 36% in the last quarter of 2020. E-commerce in India is at all-time high in 2021 owing to the country's 780.27 million internet users as of May 2021. E-commerce has transformed the way business is done in India. The Indian E-commerce market is expected to grow to US\$ 111.40 billion by 2025 from US\$ 46.2 billion as of 2020.

Source: <https://www.ibef.org/industry/ecommerce.aspx>. Updated on Oct 4, 2021.

18.9. Trends in Retailing in India

The retail industry in India was largely unorganized till the 1980s. Later, many established organizations started realizing the growth potential of the sector and started entering the retail sector. The retail industry in India is poised to grow at 28 percent per annum over a period of five years starting from 2001-02. Factors such as increased urbanization, penetration of branded goods into market, and the growth in customers' demand for new and varied products have helped the growth of the retail industry in India.

In the year 2000, strong growth was seen in the retailing of home appliances and consumer electronics as well as food outlets, in India.

As competition has increased in the Indian retail industry, retail outlets are adopting differentiation strategies in store layouts. Stores are being designed to reflect the culture of the area in which they are set up. Advances in technology are helping to improve merchandise management, inventory management, sales forecasting, etc. for retailers. Retailers are increasingly focusing on television shopping and online shopping.

Corporate giants like the Tatas, Reliance and others have entered the retailing business in India over the last few years. Organized retailing in India is growing substantially.

18.10. Summary

- Retailing involves the selling of products or services to customers for their non-commercial, individual or family use.
- Retailers are classified into different types based on ownership, extent of product lines handled, services vs. goods retail strategy mix, and non-store based retailing.
- Franchising is allowing a franchise to do business with the trade name, trademark, product or services of the franchiser by signing an agreement according to mutually agreed terms. The types of franchises are: product distribution franchise, business format franchise, and trade name franchise.
- Strategic issues in retailing relate to objectives, location, store image decisions, etc.
- Retailers' market decisions should be made after analysis of competitors' strategies in relation to pricing, promotion, etc.
- Global trends in retailing have been influenced by advances in technology.
- Retailing in India is growing and many established corporate houses are entering into retailing.

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18.11. Glossary

Automatic vending: An impersonal form of non-store retailing in which money- or credit-card-operated machines provide products or services.

Department store: A large general merchandise retailer selling a wide variety of products at full price with full service.

Direct exporting: Selling goods or services directly to another country without the use of an intermediary.

Independent retailers: Retailers that are not part of large retail organizations, but are owned by one person, two or more partners, or a family.

Market penetration: An intense growth strategy based on increasing the intensity of the firm's marketing effort in its current markets with current products.

Merchandising: The process of planning the merchandise assortment for a retail store, making sure the right products are available for target customers; also refers to the presentation of products in retail environment.

Nonstore retailing: A retailing method that creates a marketing channel between producers and consumers without physical stores.

Penetration pricing: A value-pricing technique in which you set prices aggressively low in order to gain as much market share as possible; the opposite of skim pricing.

Personal selling: In-person communication between a seller and one or more potential buyers.

Public relations: Promotion that uses non-paid communication, especially publicity, to influence public opinion of a company and its products.

Supermarkets: Stores that sell primarily food items with selections wide enough to meet most customers' grocery shopping needs.

Vending machines: Customer-operated machines that distribute products automatically upon payment.

18.12. Self-Assessment Test

1. Retailers are usually of different types. Describe the various types of retailers and the concept of franchising in detail.
2. Retailing strategy involves drawing up plans for conducting business efficiently. What are the strategic issues in retailing? What are the factors to be considered while making market decisions?

3. Retailing trends across the globe and in India have undergone substantial changes over the years. With this in mind, discuss the global trends in retailing and also trends in retailing in India.

18.13. Suggested Reading / Reference Material

1. Philip Kotler, Kevin Lane Keller, Alexander Chernev, Marketing Management, 16th edition Pearson 2021
2. Roger Kevin, Steven Hartley, Marketing: The Core, 9th edition McGraw Hill 2021
3. Swapna Pradhan, Retailing Management: Text and Cases, 6th edition, McGraw Hill 2020
3. Callie Daum. Marketing Management Essentials You Always Wanted To Know. Vibrant Publishers; Second edition (1 January 2020)
4. Saxena, Rajan. Marketing management. McGraw-Hill Publishing Co Ltd, 2020.
5. V S Ramaswamy and S. Namakumari. Marketing Management: Indian Context Global Perspective. Sage Publications India Pvt Ltd; Sixth edition, 2018
6. Barry Berman, Joel Evans, Retail Management, Pearson, 13th edition 2017

18.14. Answers to Check Your Progress Questions

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

1. (d) Leased department

In leased department, a retailer takes a major portion of a store on lease or rent and is responsible for decorating that section. In return for the leased or rented space, the retailer pays an amount equal to a percentage of sales to the store owner. Consumer cooperatives are retail outlets that are owned and operated by a group of consumers. In chain retailership, retailers own several retail outlets. Vertical marketing units comprise all levels of independently-owned businesses along a channel of distribution.

2. (a) Discount stores offer products at a price less than retail price

The basic difference between department stores and discount stores is that discount stores offer products at a price less than retail price.

3. (c) Supermarkets

Automatic vending, direct marketing and direct selling are forms of non-store based retailing. However, a supermarket is a retail store where the method of selling is through self-service. Customers can pick

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up products according to their choice from among items displayed on the shelves.

4. (a) Direct marketing

In direct marketing, the customer is exposed to the product through mailers, telephone calls, etc. In the direct selling method, products are directly sold to customers by personally meeting them. Automatic vending is a type of non-store retailing in which vending machines are used to dispense goods or services to customers without the involvement of a salesperson. Vertical marketing units are not a type of non-store based retailing.

5. (c) Specialty store

Specialty stores offer a wide selection of specially chosen goods pertaining to a single product line. These stores therefore offer a narrow product line. Department stores are general merchandise retailers with large retail space with separate sections allocated for toiletry, food stuff, etc. They offer a wide range of products to customers. Discount stores are similar to department stores, except that they stores offer products at prices less than the retail price. Again, supermarkets display a wide variety of brands on the shelves.

6. (a) Vending machines only deliver products to customers

Automatic vending is a type of non-store retailing where vending machines are used to dispense goods or services to customers without involvement of salespersons. Vending machines deliver both products and services to customers.

7. (d) Discount store

Discount store is a retail institution which sells standard merchandise at lower prices by accepting lower margins and selling at a higher volume.

8. (d) All of the above

The factors that should be considered by companies before franchising their business are: franchisees should be selected on the basis of prior experience and local knowledge, a long-term contract should be made with the franchisee because it is likely to result in greater success, and companies must establish their brands in the market before venturing into franchising.

9. (c) iii & iv

The advantages of franchising for the franchiser are ability to control the quality (and not quantity) while having benefits like low capital, low risk (and not high risk), and extended market penetration.

10. (d) A franchisee has to pay a substantial sum of money to the franchiser to purchase the franchise business

The various disadvantages of franchising from the viewpoint of a franchiser include the enormous expense incurred pertaining to legal documentation during the agreement process, low profit potential because the actual business is carried out by the franchisee and high risk in the sense that failure on the part of a franchisee in maintaining quality standards would erode the franchiser's brand image. Paying a substantial sum of money to the franchiser to purchase the franchise business is a disadvantage to the franchisee and not the franchiser.

11. (c) Government regulations

Controllable variables are elements that can be controlled by the retailer like working hours, investment capital, location of the outlet, advertising and promotional strategies and so on. Uncontrollable variables, on the other hand, are elements that cannot be controlled by the retailer. They include technological advancement, competition, government regulations etc.

12. (c) i, ii, iv

Some major elements in retail strategy are identification of target markets as well as consumers, developing an overall strategy taking into consideration controllable and uncontrollable variables, setting objectives in areas like retail sales, profits, customer satisfaction and store image, situation analysis, suitable control strategies for control, and finally developing specific activities on the basis of day-to-day operations and business environment. Deciding the store location is a strategic issue in retailing and not an element involved in development of retail strategies.

13. (c) Spatial choice model along with gravity model

Spatial choice model along with gravity model takes into consideration the competitive advantage regarding the choice of a suitable location for a retail outlet. But the analog model does not.

14. (a) i & ii

Width refers to the number of categories of products and depth refers to the number of product varieties under each category.

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15. (c) Developing pricing objectives - Developing a broad framework for the price policy - Decision of the retailer on the basis of pricing - Implementation of the pricing strategy - Price adjustments

In the first stage, pricing objectives should be developed. In the second stage, a broad framework for the price policy is worked out. In the third stage of the pricing strategy, the retailer has to decide whether to price products on the basis of customer demand, costs involved or on the basis of competition. The fourth stage involves implementation of pricing strategy. The fifth stage involves price adjustments. It helps retailers adapt to pricing patterns by reducing or increasing prices owing to changes in market dynamics like competitive price changes, demand fluctuations, seasonal changes and so on.

Unit 19

Communication Mix in Marketing

Structure

- 19.1. Introduction
- 19.2. Objectives
- 19.3. Communication and Promotion Process
- 19.4. Types of Communication Channels
- 19.5. Promotion Tools
- 19.6. Integrated Marketing Communication (IMC)
- 19.7. Developing a Communication Program
- 19.8. Marketing Communication Mix
- 19.9. Summary
- 19.10. Glossary
- 19.11. Self-Assessment Test
- 19.12. Suggested Reading / Reference Material
- 19.13. Answers to Check Your Progress Questions

19.1. Introduction

In the earlier unit, we discussed the concept of retailing and the various issues related to it. In this unit, we shall discuss the concept of marketing communication mix, the different promotional tools used by marketers, and how to develop an effective communication program.

Marketers use promotion to communicate with the existing as well as the potential consumers regarding their products. It is about communicating value to the customers. The marketing communication process has several components like communication source, receiver, coding process, medium of transmission, etc. The promotional channels could either be personal channels like face-to-face interactions, emails or non-personal channels like electronic media, print media, and outdoor advertising. Marketers can use different types of promotional tools like advertising, sales promotion, public relations, direct marketing, etc. The communication message is affected by several factors like message content, structure, format, and source. For a marketing program to be effective marketers should develop marketing communication mix by

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considering factors such as product market, pull push strategies, product life cycle, and effectiveness of advertising.

In this unit, we shall first introduce you to the concept of marketing communication mix. We shall then discuss the kinds of promotional tools available to marketers and the process of developing an effective communication program. We shall conclude the unit by discussing about marketing communication mix.

19.2. Objectives

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

- Explain the communication and promotion process
- Discuss the different types of communication channels
- List the different kinds of promotional tools
- Illustrate the process of developing an effective communication program

19.3. Communication and Promotion Process

In the marketing communication process, a sender sends the encoded message through a medium for a receiver to receive and decode. Often, the marketing communication is followed up by some form of feedback. For instance, a sales person visits a customer and makes a sales presentation with a view to sell his company's product. In the event, that the sales person makes a good presentation, the customer may choose to purchase the product. Feedback is generally in the form of the customer's response to the product.

The Communication Process:

The communication process has the following components –

- Communication source
- Receiver
- Coding process
- Medium of transmission
- Decoding process
- Noise
- Feedback

Communication source: The communication process is initiated by the sender, when he / she intends to communicate a message to the receiver. Therefore, the source of communication is the sender and the destination is the receiver. The sender may use any kind of medium to facilitate communication such as

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telephone, e-mail, face-to-face interaction, etc. In the marketing communication process, the message must be conveyed appropriately because any form of miscommunication would lead to the product's failure in the market.

Receiver: The receiver is the destination of the message sent by the sender. The perceptions of the receiver play a vital role in the manner in which the message is received.

Coding process: It involves the selection of the right amount of information, the type of information and the organization of information that has to be sent to the receiver.

Medium of transmission: Senders choose a variety of medium to communicate their message depending upon the type of message. Marketers can choose any media like print, online, television, etc. Of late, marketers are leveraging the use of SMS as a popular medium of communication.

Decoding process: In this process the receiver analyzes or interprets the information that has been sent by a sender.

Noise: The effectiveness of the communication process is hindered by the disturbance during coding, transmission and decoding process. The receiver may not receive the intended message accurately due to noise in the communication process. For instance, during a telephonic conversation, the message might be distorted by a bad connection.

Feedback: A receiver feedback helps the sender in recognizing and analyzing the receiver's perception of a message. This further helps the sender to take any corrective actions, if necessary, to make the communication process more effective.

Activity: Explain the process of marketing communication.

Answer:

Check Your Progress-1

1. The marketing communication process consists of all the following components, except one. Identify the **wrong** component.
 - a. Source
 - b. Coding and decoding processes
 - c. Noise
 - d. Situation analysis.
 2. Which step in the communication process helps analyze the way in which the receiver interprets information and helps the sender take corrective action, if necessary?
 - a. Coding process
 - b. Medium of transmission
 - c. Decoding process
 - d. Feedback.
 3. In the marketing communication process, two components are coding and decoding processes. What are the correct definitions of coding and decoding processes?
 - i. Coding is a process in which the sender analyzes information sent by a receiver
 - ii. Decoding is a process in which the receiver analyzes information sent by a sender
 - iii. Decoding process is a process, which involves selection of the right amount of information, type of information and organization of information that has to be sent by the sender
 - iv. The coding process involves selection of the right quantity of information, type of information and organization of information that has to be sent by the receiver.
 - a. i & ii
 - b. iii & iv
 - c. ii & iv
 - d. i & iii.
-

19.4. Types of Communication Channels

Communication channels can be categorized into –

- *Personal channels*: Personal communication channels include face-to-face interactions, telephone conversations, communicating through mailers, e-mails, etc. The message can be personalized to the audience's tastes and preferences.
- *Non-personal channels*: Non-personal communication channels are electronic media (television, the Internet, mobile phones, radio, etc.), print media (newspapers, magazines, journals, etc.), and outdoor advertising (hoardings, sign boards, banners, etc.).

Check Your Progress-2

4. There are two types of marketing communication channels. Identify them.
 - a. Personal and non-personal channels
 - b. Professional and non-professional channels
 - c. Formal and informal channels
 - d. All the above.
5. Identify the incorrect combination with reference to types of marketing communication channels.
 - a. Television - Non-personal channel
 - b. Telephone conversations - Non-personal channel
 - c. Face-to-face interaction - Personal channel
 - d. Mobile phones - Non-personal channel.

19.5. Promotional Tools

The different types of promotional tools that marketers make use of to facilitate the marketing communication process are –

- Advertising
- Sales Promotion
- Publicity
- Public Relations
- Personal Selling
- Direct Marketing
- Digital Marketing
- Word-of-mouth Marketing

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Advertising: It is a paid form of non-personal presentation of goods or services produced by a firm. Marketers can advertise their products on television, print or electronic media. For instance, one can find the advertisements of Zomato in the newspaper (print), on television as a commercial, etc. The advent of the Internet and increase in the number of Internet users has resulted in the rising popularity of online advertising.

Advertising is a favorite promotion tool of marketers. Advertising helps them reach a wider audience cost effectively. A company can also tailor its promotional strategy to suit the target audience.

Although, advertising is a very helpful and economical tool for reaching a wide audience, its interactivity with the audience is negligible. Also, the response and feedback in advertising is indirect in nature.

Sales promotion: In this method of promotion, firms offer incentives such as coupons, rebates, discounts, samples, etc., along with the main product. Sales promotion is a popular tool used by the marketers to improve their short term sales. However, it is observed that sales promotional activities like trade shows, event sponsorships do have long term benefits for the company. Examples for sales promotion can be – offering a suitcase on purchase of a washing machine, allowing a certain discount on the prices of the products, offering a combination package that contains a related product along with the main product (for instance, offering a tooth brush free on the purchase of a tooth paste), offering additional amount of the product for same price, etc.

Publicity: It is a non-paid form of form of communicating information about the company or the product or both as a news article in newspapers or television or radio. Generally, consumers more influenced by published articles than advertisements, as these non-paid articles are perceived as more credible.

Public relations: The main objective of a public relations program is to build a positive image for the firm in the eye of the public. Public relations help the company in creating a suitable environment and build goodwill in the market. For example Whisper's flagship program "Mother Daughter Menstrual Health & Hygiene Program" aims to reach out to extent of 5 crore girls by the end of 2022, is a perfect PR campaign.

Personal selling: Personal selling is the form of selling a product or a service directly to the consumer by demonstrating the features of the product to him/her. In this method, the salesperson details the features of the product/service to the customer. For instance, Eureka Forbes in India is very popular for its personal selling initiatives. The company's salespersons go door-to-door explaining the product features and also demonstrating product usage to potential customers in order to close a deal. Life Insurance Corporation of India (LIC) is another organization that relies on personal selling through the use of company agents to sell its insurance policies. Office equipment, raw materials, installations and

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heavy equipment, and major fabricated parts sold to manufacturers are normally sold through personal selling.

Direct marketing: Direct marketing, as the name suggests, involves selling products and services directly to the customers. However, unlike personal selling, this method does not involve a face-to-face interaction with the customer. Companies market their products by sending mailers, catalogues, placing telephone calls, etc. With the advent of the Internet, direct marketing is gaining popularity as more and more consumers are becoming net savvy. The Internet is proving to be a boon for marketers as they can send personalized e-mails to potential customers.

Digital Marketing: Digital marketing includes all the online activities and programs performed in order to make the customers aware and persuade them directly or indirectly to buy the products or services. This is being considered as a new model of marketing communication. For instance, when Heinz introduced its new flavour of ketchup, they didn't use any traditional mode of promotion; instead they spread the word among their 825,000 Facebook followers.

Now-a-days customers spend most of their leisure using mobile phone while browsing through internet or spend time on social networking sites. If a customer is buying something online, he or she most probably will buy using app in their mobile phones. Therefore, having presence through not just a website but with the mobile app is very important. Mobile phone has become the most popular one through which the marketers may make their customers aware about the products they offer through advertisements and call for action.

For instance, if a customer wants to buy a laptop, then there is a possibility that he might have received some promotional email or message from various e-commerce websites and mobile apps available like, Amazon, Flipkart, and Snapdeal etc. Going through any of these promotional messages a customer may explore the list of available laptops and offers associated, also may access complete detail about the product. And based on the choice he can make the order, pay online or pay through cash or debit/credit card on delivery. The product will be delivered to the customer's home.

Types of Digital Media:

- **Paid Media:** This is the traditional one where the brand pays for the media space like, banner ads, sponsored posts.
- **Earned Media:** This is based on publicity and public relations, wherein third party popularizes the brand among the consumers. Exhibits are publicity activities, media coverage, Search Engine Optimization (SEO) etc.

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- Owned Media: This is where the company's becomes publisher of their own content for maximizing customer value. Like, social media presence, blogs, websites etc. (Refer Exhibit 19.1).

Exhibit 19.1: Motorola's unique promotion

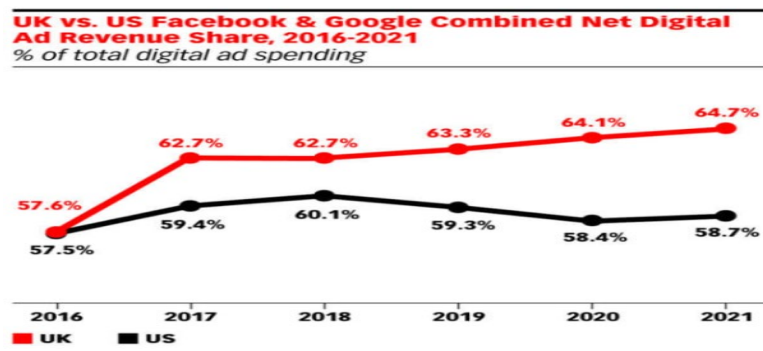
Motorola came up with a unique promotional method at Hong Kong International Airport, which had given an opportunity to the people, they can 'Say Goodbye' to their loved ones via photos and messages sent from their phones to digital billboards located at the airport's departure area. When travelers enter into the gate area, they felt amazed to see the photos of their loved ones as part of digital billboard in the image of the giant Motorola mobile phone.

Source: Marketing Management (14e) - Book by Kotler, Keller, Koshy & Jha

Latest Trends in Digital Marketing:

The previous years' data related with digital marketing has shown positive results in contributing towards the overall revenue of the companies. as shown in the figure 19.1

Figure 19.1: Trends in Digital Marketing



Source: eMarketer, 2019

This has given the opportunity to the marketers to explore digital marketing more and achieve success for all. Following are some latest trends which will work well for having impactful marketing practices:

- Always on lifecycle marketing*: This practice suggests creating awareness among the buyers for the products or services, you wish them to buy and experience. Rather than pushing something in the brain of customers, it's always better to go with speed of buyers.
- Conversational Marketing*: This is about having conversations with the customers on online platforms, like chat box on the website, where the customer experiences as if he is chatting with a human being but actually it is not the case. This happens with artificial intelligence technology.

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- *Marketing Technology (Martech)*: It is about the software services which help a company to manage its digital media related aspects in the most beneficial manner. A correct blend of marketing technology also helps in having a edge over the competitors. And if not, then a company may miss out on various insights and automation processes used by their competitors.
- *Consumer Safety and Privacy*: This has been a challenge and in past we all have experienced privacy issue with our personal data which we register sometimes with various websites and apps to avail their services. Therefore, the customers are now wisely aware about the same and companies as well. After the issue happened with Facebook and Google, both the companies have assured the customers regarding their privacy.
- *Digital Transformation*: Digitization has become the key to success but on reality grounds employees are unable to perform well on the task. Therefore, a defined roadmap to digitization where step-by-step the processes will change, will help in succeeding well.

Word-of-mouth Marketing: It is about the communication or spread of information that happens from people-to-people. Oral, written and electronic, any of the communication may take place. The information includes experiences, merits or demerits of the product, usage of the product etc. It is one the most impactful method of marketing but it starts from a customer, not from a company. And it's a normal human psychology if something is considered worth by somebody and if he is sharing his positive experiences with his friends, it's likely that his friends might end up buying the same product because they heard something positive about it.

Check Your Progress-3

6. Several promotional tools are widely used by organizations for marketing activities. These activities include all the following except one. Identify it.
 - a. Advertising and sales promotion
 - b. Public relations
 - c. Franchising
 - d. Personal selling and direct marketing.
7. Which type of promotional tool is used to communicate information about the company or the product without any payment being made?
 - a. Advertising
 - b. Publicity
 - c. Sales promotion
 - d. Personal selling.

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8. Most pharmaceutical companies in India target doctors to promote their products. What type of promotional tool have these companies adopted?
 - a. Publicity
 - b. Personal selling
 - c. Direct marketing
 - d. Advertising.
9. What is the basic difference between publicity and direct marketing?
 - a. Publicity is a non-paid form of communicating information about the company or the product using newspapers, television or radio; while in direct marketing companies communicate directly with customers through telephone or Internet
 - b. Publicity is a type of promotional tool where companies communicate directly with the customers through mail or telemarketing whereas direct marketing is a non-paid form of communicating information about the company or product using newspaper, television or radio
 - c. Publicity is a paid form of non-personal presentation of goods or services by an identified sponsor whereas in direct marketing, companies communicate directly with customers through mail or telemarketing or marketing through the Internet
 - d. In publicity, customers are attracted by offers or by adding value to products, whereas in direct marketing, companies communicate directly with customers through mail, telemarketing or through the Internet.

19.6. Integrated Marketing Communication (IMC)

American Marketing Association defines Integrated marketing communication (IMC) as “a planning process designed to assure that all brand contacts received by a customer or prospect for a product or service, or organization are relevant to that person and consistent over time”.

The elements of marketing communications mix such as advertising, sales promotion, personal selling, direct marketing, digital marketing etc. promote a product or service in isolation to influence the customers without noticing the effects of cross communication among tools of communications mix. Sometimes conflicting messages from different tools may confuse customers about understanding a product or brand image. The whole is greater than the summation of the parts reminds the shortcomings of isolated approach. Integrated Marketing Communications (IMC) fuses all the elements of marketing communications mix to deliver the same brand message to influence target market with right perspective.

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Today's consumers are exposed to an expanding, fragmented array of marketing touch points across media and sales channels. Imagine that while viewing a TV spot for a Maruti Suzuki Baleno, a consumer uses his mobile device to Google premium hatchbacks. Up pops a paid search link for Baleno, as well as car reviews. He clicks through to *Autocar India* website to read some reviews, and while pursuing, he notices a display ad from a local dealership but doesn't click on it. One review contains a link to YouTube videos people have made about their Balenos. On YouTube he also watches Suzuki's Baleno ad. During his commute to work that week he sees a Baleno billboard he hadn't noticed before and then receives a direct-mail piece from the company offering a time-limited deal. He visits local dealership's websites, including those promoted on *Autocar India* and in the direct-mail piece, and at last heads to a dealer, where he test-drives the car and buys it.

Integrated marketing communication ensures the correct balance of all messages in a cost-effective way for maximum impact (Refer Exhibit 19.2).

Exhibit 19.2: Red Bull's Energy Drink

Integrated Marketing communication strategies of Red Bull has played a major role in not just making the brand popular and become a multi-billion dollar brand but also in creating a separate new drink category- functional energy drinks. This brand had won the race from a set of established brands like, Coca Cola and Pepsi. The major reason behind becoming the market leader is, the company is able to connect very well with the youth around the globe. They have followed the strategy of offering just one product for years in a fixed packaging, also very minimalistic level of traditional advertising was done to attract the customers without being pushy about the products. The other tactics they had utilized are seeding program, grassroots marketing, viral marketing etc. This company had achieved success due to fixed product and target market while continuous effort to attract young customers.

19.7. Developing a Communication Program

Marketers cannot afford to utilize all the tools to promote their products or services as the costs would be too huge. Therefore, marketers need to identify the right mix of promotional tools that would ensure that the communication reaches the consumer at the right time and right place. For this, it is necessary that marketers develop a proper communication program.

Activity: Classify the following promotional tools –

- Gender equality campaign launched by P&G in 2017.
- Banner ads that are placed either on top or at the sides of the web page you are viewing while surfing the Internet, which communicate about a product.

Cotd.

The Marketing Mix – II

- 123Greetings.com is a website that offers free electronic greetings to the users of Internet. Once a consumer uses the services of the website, he/she begins to receive e-mails that contain details about the new additions on the website.

Answer:

Target audience identification: It is essential that marketers identify the target market and its needs accurately. This would help them in devising a successful marketing program. While attempting to identify the target customers, marketers should keep in mind such aspects as age, gender, occupation, income, etc. In addition, marketers must also attach relevance to lifestyle and psychographics of the target audience. However, it is not feasible for a marketer to target each and every customer. Therefore, marketers identify groups of customers who have similar attributes so that they can be targeted more effectively.

Determination of communication objectives: The marketer must know exactly in what stage the consumer is. The marketer will then be able to develop communication objectives by deciding what type of communication should be at what stage. These objectives should be in tune with the company's marketing strategies. The following constitute the different communication objectives of marketers –

- **Awareness:** Companies may choose to focus their communication strategy on creating awareness about a new product or improvements made to an existing product. For instance, when UTI Bank became Axis bank, they changed their logo and came up with an integrated marketing programme to make sure that the customers register and remember the name, Axis. Exhibit 19.3, delineates how Kia India drove awareness with interactive voice mobile ads.

Exhibit 19.3: Kia India's Interactive Voice Mobile Ads

The 2020 version of Kia India's flagship sub-compact SUV, Kia Sonet, was launched, it comprised of five cutting-edge features that were new to the segment, including a 26.03cm HD touch screen navigation, ventilated seats, a voice assistant, a Bose speaker setup, and a smart air purifier with virus protection. Kia could sell 2 lakh cars in 17 months of its operations in India and became the fastest brand to reach this milestone. Kia to take advantage of the connected consumers, introduced AI voice Command feature – Hello, Kia. Through this feature, drivers can control the key features of the vehicle with voice command. .Kia partnered with InMobi to promote this

Contd.....

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feature. With InMobi Audiences, the brand combined demographic, technographic, and location signals to identify niche audiences aged between 25 to 45 years who were upscale dwellers, urban residents, high-income users, and users with premium smartphones priced above INR 25,000. What truly set this campaign apart was the immersive experience it offered. The full-screen interstitial ads simulated the experience of the AI Voice Command on the primary device of connected consumers.

Source: <https://www.exchange4media.com/marketing-news/learn-how-kia-motors-drove-awareness-with-interactive-voice-mobile-ads-114325.html>, July 16, 2021.

- *Knowledge:* When consumers have little or no knowledge of an existing product, then the marketers attempt to increase the consumer's knowledge through their communication message. For instance, in 2021 Wow Skin Science unveils campaign for its Onion Black Seed Oil hair care range. In their campaign they highlighted what they are best known for in the space, "Being Natural". Accordingly, the company made its campaigns in such a way that they educated the consumers about the benefits of using Onion Black Seed Oil Hair Care. Furthermore, the campaigns gave consumers the details regarding the usage of the product.
- *Liking:* If consumers do not accept a product despite its knowledge, marketers then attempt to communicate to the consumers the value additions incorporated into the product.
- *Preference:* Sometimes, prospective customers may like a product but may not convert to consumers due to the high price of the product. Therefore, in this case, the marketer would attempt to develop the preference of potential customers for the product. For instance, P&G's detergent brand 'Tide' was positioned as a premium product. Therefore, to change the product's positioning and to attract the price conscious consumers the company reduced the price of the product and also communicated the same in its advertisements.
- *Conviction:* Sometimes, customers may like a product but may not have the conviction to buy it. In such cases, the marketer would attempt to build up this conviction in the potential consumers.
- *Purchase:* At this stage, the objective of the marketer is to reinforce the purchase decision of the consumer with the help of reminder advertising.
- *Stimulate demand:* It is imperative that all the communication and promotional activities stimulate the demand for the product and lead a potential customer to take the final step, i.e., purchase the product.

Developing marketing communication budget: Companies may follow any of the following methods for effectively formulating a marketing communication budget –

Objective and task method: In this method, the company first determines the objectives of the communication and accordingly sets the tasks that need to be

The Marketing Mix – II

done to accomplish the objectives. Finally, the company devises a comprehensive budget depending upon the tasks of the communication program.

Competitive parity method: In this method, the marketer's budget is equivalent to the budget set by the competitor.

Percentage of sales method: The marketers estimate the current and future sales of the company and accordingly allocate a budget as a certain percentage of the estimated sales.

Affordable method: The marketers set the communication budget as per the affordability of the company.

Factors influencing the designing of communication message: The following factors influence the design of communication message –

Message content: The content of the message should be appealing in order to capture the fancy of the consumers. Marketers generally use three types of appeals to convey their message. Marketers must use novel ideas, eye-catching pictures, and distinctive headlines or formats, to attract the attention of the customers. Appeals are generally of three types to convey their message. They are –

- *Rational appeal:* According to this approach marketers believe that the consumers make logical and rational decisions. Therefore, they attempt to communicate the various benefits that the product promises to deliver. For instance, Horlicks commercials convey the power of milk in Horlicks, and it conveys a message to concerned parents that giving Horlicks to children ensure that their children will grow “taller, stronger and sharper.”
- *Emotional appeal:* A company may make use of emotional appeal in a positive or negative manner in order convert potential consumers into buyers. For example, Head&Shoulder s use emotional appeals to influence its consumers. It portrays how people can go embarrassed in social circle with falling dandruff on their clothes.
- *Moral appeal:* Through this communication approach, the marketer conveys moral or ethical values to consumers.

Structure: According to Philip Kotler, a communication message must address the following three structure issues:

- Whether the message must draw a conclusion or should it be left to the discretion of consumers
- Whether the message must show both positive as well negative aspects of a product or service or should the message be confined to positive aspects alone, and

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- Whether to put forth the strongest points first or the weakest in the message

Format: The format of the message should be strong and supportive of the type of medium being used for communication i.e., print, television or online.

Source: Consumers lay great importance on the communicator of the message. They accept the message only when they believe that message is being delivered by a credible source. This is the reason why most companies insist that their sales personnel are in formal attire while making presentations to the customer. Many marketers sign celebrities to endorse their products, as the consumers are more inclined to accept the credibility of a product when it is endorsed by their favorite celebrity.

Check Your Progress-4

10. The factors influencing the design of the communication message are message content, message structure, message format, and message source. Tender Cuts plans to use the print media to make people aware of its new range of ready to cook non vegetarian snacks. What kind of message format would be most appropriate for print ads to gain maximum attention from readers?
 - a. Use of short, crisp and sweet words with clear pronunciation
 - b. Focus on the text of the message, its alignment and placement, pictures to be used
 - c. Focus on audio visual effects
 - d. Focus on the text of the message.
11. Sapola Corporation increased its sales by 20 per cent from last year. As a result, the finance manager decided to increase the marketing communications budget of the company proportionately. What type of marketing communications budget is the company using?
 - a. Objective and task method
 - b. Competitive parity method
 - c. Percentage of sales method
 - d. Affordable method.
12. Most traditional advertisements of the Life Insurance Corporation made use of which type of appeal?
 - a. Rational appeal
 - b. Moral appeal
 - c. Fear appeal
 - d. Humor appeal.

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13. Which of the following doesn't constitute the communication objectives of marketers?
- a. Awareness
 - b. Preference
 - c. Conviction
 - d. Increasing supply.

Activity: Yamaha Motor India (Yamaha) is expected to launch Yamaha 2021 MT-09. The bike was targeted at the youth segment and is priced at Rs.11.5 lakh. The company intended to position the product as a '*lifestyle bike*' and not as a 'utility bike.' Assume that you are entrusted with the task of developing a marketing communication program for the launch of Yamaha's new bike. Keeping the product specifications in mind, how would you develop a marketing communication for Yamaha 2021 Mt-09?

Answer:

19.8. Marketing Communication Mix

A marketing program is effective only when the marketer develops a marketing communication mix by taking into consideration factors such as product market, pull push strategies, the product life cycle, and effectiveness of advertising.

Product market type: The communication strategy varies according to the type of product market. Product market can be categorized into – consumer markets and industrial markets.

Pull-Push strategy: In a pull strategy all the communication efforts are aimed at the consumer. The marketers design the promotional program to directly influence the demand for the product. In push strategy all the promotional efforts are directed toward the intermediaries. Marketers try to attract distributors, wholesalers, and others through discounts, recognition and awards, etc.

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The product life cycle: The stage of product life cycle in which the product is situated also influences the marketing communication program. For instance, a product in the introductory stage of its life cycle needs the aggressive support of a promotional.

Effectiveness of advertising: As buyers follow a typical purchasing process, the effectiveness of a communication program depends on which stage of the purchasing process, the buyers are in.

Check Your Progress-4

14. Companies adopt either a pull strategy or a push strategy or both for marketing products. Identify the correct statements about these two strategies.
- i. In a pull strategy, all promotional and communication efforts are directed towards intermediaries or distribution channel members
 - ii. In a pull strategy, all promotional and communication efforts are directed towards customers
 - iii. In a push strategy, all promotional and communication efforts are directed towards intermediaries or distribution channel members
 - iv. In a push strategy, all promotional and communication efforts are directed towards customers.
- a. i & iii
 - b. i & iv
 - c. ii & iii
 - d. ii & iv.

19.9. Summary

- In the marketing communication process, a sender sends the encoded message through a medium for a receiver to receive and decode. The communication process consists of the following components – communication source, receiver, and coding process, medium of transmission, decoding process, noise and feedback.
- Marketers use a variety of promotional tools such as advertising, sales promotion, publicity, public relations, personal selling, and direct marketing.
- Developing a communication program involves the following – target audience identification, determination of communication objectives, developing a marketing communication budget, and factors influencing the designing of the communication message.

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- An effective marketing communication mix should take into consideration the product market type, pull/push strategy to be adopted, the product life cycle, and the buyer readiness stage.

19.10. Glossary

Decoding: The process an audience goes through to translate a message into an idea with personal meaning; reverse of encoding.

Noise: Anything that detracts from the effectiveness of communication, ranging from actual audio noise to competing advertisement.

Pull strategy: A promotional strategy that primarily builds demand with the final customer and relies on that customer to request the product from the marketing channel; the opposite of a push strategy.

Push strategy: A promotional strategy that relies primarily on pushing products through each stage of the marketing channel, from producer to wholesaler to retailer to customer; push strategies can also be used in direct channels, with sales people presenting products to customers.

Reach: A measure of the portion of the target audience that will be exposed to an advertisement.

Source: The person or organization that originates and encodes a message.

19.11. Self-Assessment Test

1. What are the different promotional tools? Describe briefly the importance of promotional tools to a marketer.
2. What are the factors involved in developing an effective marketing communication program?

19.12. Suggested Reading / Reference Material

1. Philip Kotler, Kevin Lane Keller, Alexander Chernev, Marketing Management, 16th edition Pearson 2021
2. Roger Kevin, Steven Hartley, Marketing: The Core, 9th edition McGraw Hill 2021
3. Callie Daum. Marketing Management Essentials You Always Wanted To Know. Vibrant Publishers; Second edition (1 January 2020)
4. Saxena, Rajan. Marketing management. McGraw-Hill Publishing Co Ltd, 2020.

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5. V S Ramaswamy and S. Namakumari. Marketing Management: Indian Context Global Perspective. Sage Publications India Pvt Ltd; Sixth edition, 2018
6. Kirti Dutta, Integrated Marketing Communication, Oxford, 2016
7. Kruti Shah, Advertising and Integrated Marketing Communications, McGraw Hill, 2015
8. What's new? What's next? 6 essential marketing trends for 2020
<https://www.smartinsights.com/managing-digital-marketing/marketing-innovation/6-essential-marketing-trends-for-2020/>

19.13. Answers to Check Your Progress Questions

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

1. (d) Situation analysis

The components of the marketing communication process are communication source, coding and decoding processes, feedback, receiver, medium of transmission and noise.

2. (d) Feedback

Feedback is the step in the communication process that helps analyze the way in which the receiver interprets information and helps the sender take corrective action, if necessary. The coding process involves selection of the right amount of information, type of information and organization of information that has to be sent to the receiver. Medium of transmission is the interface between the sender and the receiver. Decoding is the process in which the receiver analyzes the information that has been sent by a sender.

3. (c) ii & iv

The coding process involves selection of the right quantity of information, type of information, and organization of information that has to be sent to the receiver. Decoding is a process in which the receiver analyzes information sent by a sender.

4. (a) Personal and non-personal channels

The two types of marketing communication channels are personal and non-personal channels.

5. (b) Telephone conversations - Non-personal channel

Personal communication channels include face-to-face interactions, telephone conversations, communicating through mailers, e-mail, etc.

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6. (c) Franchising

The various promotional tools widely used by organizations for marketing activities are advertising, sales promotion, publicity, public relations, personal selling and direct marketing. Franchising is associated with distribution channels.

7. (b) Publicity

Advertising is a paid form of non-personal presentation of goods or services by an identified sponsor. Publicity is a tool by which a company communicates information about itself or the product without any payment being made. In sales promotion, marketers attract customers by giving offers or by adding value to products. In personal selling, a product or a service is directly sold to the customer by explaining or demonstrating the features to them.

8. (b) Personal selling

In personal selling, a product or a service is directly sold to the customer by explaining or demonstrating its features to them. Salespersons are appointed for this purpose.

9. (a) Publicity is a non-paid form of communicating information about the company or the product using newspapers, television or radio, while in direct marketing companies communicate directly with customers through telephone or Internet

Publicity, a type of promotional tool, is a non-paid form of communicating information about the company or the product using an article in the newspaper, television or radio. In direct marketing, companies communicate directly with customers through mail, telemarketing or marketing through the Internet.

10. (b) Focus on the text of the message, its alignment and placement, pictures to be used

In case of print media, not only the text of the message, but also alignment and placement of the text and pictures should be appropriate. If a radio is used instead of a print media, crisp and sweet words should be used with clear pronunciation. Audio-visual effects are used for television advertisements.

11. (c) Percentage of sales method

The percentage of sales method is a process in which the current and future sales of a company are estimated. Some percentage of the sales figures is allocated as the budget for the marketing communication process.

12. (c) Fear appeal

Most insurance advertisements in the past used fear appeal focusing on the situation of a family in case of the unfortunate death of the principal earning member.

13. (d) Increasing Supply

The various communication objectives of the marketers are: Awareness, knowledge, liking, preference, conviction, purchase, and stimulate demand.

14. (c) ii & iii

In a pull strategy, all promotional and communication efforts are directed towards customers, while in a push strategy, all promotional and communication efforts are directed towards intermediaries or distribution channel members.

Unit 20

Advertising, Sales Promotion and Public Relations

Structure

- 20.1. Introduction
- 20.2. Objectives
- 20.3. Benefits of Advertising
- 20.4. Developing an Advertising Program
- 20.5. Advertising Agencies
- 20.6. Sales Promotion
- 20.7. Public Relations
- 20.8. Sponsorship
- 20.9. Summary
- 20.10. Glossary
- 20.11. Self-Assessment Test
- 20.12. Suggested Reading / Reference Material
- 20.13. Answers to Check Your Progress Questions

20.1. Introduction

In the previous unit, we discussed about communication mix, the different promotional tools and the process of developing a communication program. In this unit, we shall discuss about the three promotional tools, advertising, sales promotion, and public relations in a detailed manner.

Advertising is a paid form of non-personal promotional channels. Advertisements are used by individuals or businesses to promote goods, services, ideas, issues, etc. There are several benefits of advertising like creation of awareness and interest, adding value to a product, boosting the sales of a product, changing the perception of the product, etc. The development of an advertising program involves different steps starting from identifying the target audience and defining the objectives of an advertising campaign to evaluating the effectiveness of an advertising program. Advertising campaigns can be directly handled by a firm or delegated to an advertising agency. An advertising agency is a firm whose job is to develop and run advertisement campaigns on behalf of other organizations.

Sales promotion involves activities like offering free gifts, distributing free samples, offering temporary price discounts, etc. with the aim of increasing the

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sales of the product. Public relations refer to the efforts made by the firm to build a positive image for itself in the eye of the public.

In this unit, we shall first discuss the benefits of advertising and the different steps in the development of an advertising program. We shall then discuss about sales promotion and public relations.

Before studying this unit, student should recall the different types of promotional tools that marketers use to facilitate marketing communication process (Unit 19).

20.2. Objectives

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

- Explain the benefits of advertising
- List the steps in the development of an advertising program
- Analyze the benefits of sales promotion by companies
- Discuss the importance of public relations in marketing

Digitization has changed the face of promotional activities, as the customers are also becoming techno-savvy, giving birth to various opportunities to marketers. (Refer Exhibit 20.1)

Exhibit 20.1: Insight- Latest Trends in Advertising: Year 2019

Over the years, advertising trends have changed from advertising on radio and newspaper to television ads to online advertising. This transition has undoubtedly taken away the interest of all the advertisers in order to be successful. Following are some latest trends followed by advertisers:

- *Digital video:* This is about the video ads that appear while consumer watch some education, entertainment, etc. related video on an online platform like, YouTube, Facebook, Google, LinkedIn etc. This practice of advertising is becoming very successful based on the facts mentioned below:
 - US consumers (13 years+): 74 percent of consumers watch streaming or online videos atleast once in a week.
 - 78 percent of consumers are ready to watch digital videos in exchange of free content.
 - Consumers watch advertisement with close attention while watching educational videos.

Contd.

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- *Social Influencers:* These are the people who are popular on social media and works well to influence the consumers. Brands are associating with such people and get promoted by them. This is also becoming very evident these days.
- *Reach Diversification:* This is about moving ahead with multiple types of media reaching different segments of customers. As different customer segments watch and experience different media. Like, for youngsters, it is about mobile phone where they access social media websites, education websites, entertainment websites etc., for housewives, it is about TV ads, radio ads and digital platforms.

AI and VR: Artificial intelligence (AI) and Virtual Reality (VR), both are going to make the advertising industry at new levels. Some practitioners are speculating about the phase where the customers will be able to interact with television and radio advertisements.

Source: Forbes Article on 'Digital Advertising Trends to Watch in 2019 and Beyond'

Refer Exhibit 20.2 for Coca Cola's ad campaign

<https://www.forbes.com/sites/forbescontentmarketing/2019/05/28/digital-advertising-trends-to-watch-in-2019-and-beyond/#4ff8e70be1ee>

Exhibit 20.2: Coca Cola's Drinkable Ad Campaign

In the year 2015, Coca Cola came up with a unique Drinkable Ad Campaign for millennial. As the population was rising in this particular customer segment, company's marketers felt the need to capture their attention towards one of their product, that is, Coke Zero. As per the data, 85 percent of millennial never tried Coke Zero and when the drinkable campaign was run by the company, around 50 percent had tried the product and also become monthly customers of the same. The way this ad works, was very unique in itself for giving out samples in collaboration with a famous music detection app 'Shazam'. Coke displayed the ad on various mediums like, television, radio, digital billboards etc. This ad contained the sound of pouring the drink into a glass. Therefore, a customer may detect this sound using 'Shazam' app on their mobile phones and once the detection happens, one quantity of coke zero gets credited to the customer. Then the customer may redeem a coke zero at Domino's, 7-Eleven stores, Speedway etc. This ad campaign has grabbed attention of different segments of consumers and they consumed the sample product. Out of them, many came back and became regular customers of the product.

Source: Icfai Research Center

20.3. Benefits of Advertising

The significant benefits of advertising can be listed as follows:

- Creation of awareness and interest among customers about the products or services.
- Advertising helps reach a vast number of audiences cost effectively. For example, an advertisement given in a newspaper is targeted at the readers of that newspaper and cost effectiveness increases with the readership rate of the paper.
- Repeated message through advertisement influences the mind of the customer.
- Advertising helps in value addition for a product.
- Advertising can boost the sales of a company.
- Advertising also helps in reducing post purchase dissonance by reassuring the customer about purchase decision made.
- Advertising helps change the perception of a product by the customer.
- Advertising helps in building up the image of a brand or product along with an increase in sales.

Exhibit 20.3 lists few advertising mantras by experiences advertising people.

Exhibit 20.3: Insight- Advertising Mantras

Many a successful marketing and advertising people have shared their experiences which guides the other advertisers to excel in their work. Following are some mantras from the popular and the successful people of the world:

- “Creative without strategy is called ART. Creative with strategy is called Advertising”.
- *Jef L. Richards*
- “The man who stops advertising to save money is like the man who stops the clock to save the time”.
- *Henry Ford*
- “Good advertising does not circulate information. It penetrates the public mind with desires and belief”.
- *William Bembach*
- “Make it simple. Make it memorable. Make it inviting to look at. Make it fun to read”.
- *Leo Burnett*

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- “Never stop testing. And your advertising will never stop improving”.
 - “Doing business without advertising is like dancing in the dark. You know what you are doing, but nobody else does”.
- Stuart H. Britt

Source: Advertising Mantras <https://efy.in/advertising-mantras-2/>

Examples of Ads which Helped in Establishing Brands

- Seagram’s Imperial Blue’s “Men will be Men” ads were a huge success and boosted the brand remembrance among customers.
- The advertisement of *Alpenliebe* candy featuring members of a family eating the chocolate one after another while performing pooja conveys the message that *Alpenliebe* is tempting to all ages.
- The different *Titan* ads using the signature tune of *Titan* added to the familiarity of the product among the public.

The advertisements of *Raymond’s* suiting depicting a complete man helped immensely in reviving the brand.

Check Your Progress-1

1. Henkel India plans to launch a new detergent soap in the Indian market. The company launches an advertising campaign for the new soap brand. What would be the primary benefit for Henkel from the ad campaign?
 - a. To create awareness about the product
 - b. To increase sales of the company
 - c. To change the perception of customers about the product
 - d. To make the job of the sales force easier

20.4. Developing an Advertising Program

An advertising program is developed through a series of advertisements in different media, targeted at potential customers. Developing an advertising program involves different steps as discussed below:

Identify the Target Audience

Target audience is a segment of the market to which a product or brand image is communicated by the marketer. Identification of target audience is the first step in developing an advertising campaign. Advertising can target mass market or a niche market. Advertising programs are developed according to the specific needs of target audience. Before developing an advertising program, marketers should collect information related to geographic location, demographic variables such as age, gender, education, etc., and consumer attitude towards the products of the company and that of the competitors

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Define the Objectives of an Advertising Campaign

The objectives of an advertising campaign should be defined clearly in order to serve as guidelines and help the marketers in evaluation at the end of the campaign. An advertising campaign can have varied objectives such as to inform, persuade, or remind the customers about the products of the company.

Inform: An advertising campaign of a company can be used to inform the existing and potential customers about the launch of a new product, about services provided by the company, about any change in price, or to build the company's image by correcting false impressions about its' product.

Persuade: Advertising can also have an objective to persuade customers to purchase products by offering discounts or special offers, to convince customers to switch from other brands. Example 1, delineates how Phone Pe tries to increase its reach and persuade its customers through series of Aamir Khan and Alia Bhat Ads.

Remind: Advertising objectives can also include reminding customers about the benefits yielded by products in the future. For instance, advertisements related to insurance policies. Advertisements can even be used to reinforce the product's name in the minds of customers. Exhibit 20.4 tells us how Reliance Digital created reminder advertising through "My Kind of Tech" campaign.

Exhibit 20.4: Reliance Digital's My Kind of Technology Campaign

Reliance Digital understands that every customer who sets out to buy an electronic product seeks to fulfil a specific set of needs. With #MyKindOfTech, the brand has initiated a programme where the needs of a customer will be heard and understood in great detail before a product is recommended to them. It will also offer customers a host of shopping options through 'My Kind of Shopping', easy finance options with 'My Kind of Finance' and a brand-certified service experience through 'My Kind of Service'; effectively changing the paradigm of tech shopping in India," the ad agency L&K Saatchi & Saatchi said in a statement. The aim of the campaign is to make Reliance Digital be the first name that pops into every Indian's mind, when they think of finding tech.

Source: <https://www.exchange4media.com/advertising-news/reliance-digital-latest-campaign-mykindoftech-talks-about-personalising-technology-115650.html>, September 14, 2021.

Set the Advertising Budget

Advertising budget is the amount of money, which a firm allots for an advertising campaign during a specific period. The factors that influence the allocation of an advertising budget are the type of products advertised, size of market, sales volume in comparison with competitors' sales volume, geographic distribution of customers in market, etc.

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Advertising budget varies depending on the product lifecycle stage. For instance, new products require a high advertising budget to establish the product in the market by creating awareness in customers.

Allocating an appropriate advertising budget is difficult, as the benefits from an advertisement cannot be quantified. Common methods used by firms for setting advertising budgets are:

- Objective and task method
- Percentage of sales method
- Affordability method
- Competitive parity method

Objective and Task Method

In this method of allocating the advertising budget, marketers should define the advertising objectives, determine the tasks to be performed to achieve those objectives, and estimate the cost for performing those tasks whose sum total determines the advertising budget. The drawback in this method is that the quantity of efforts required to achieve the objectives is difficult to be determined. For example, it is difficult to set the advertising budget for packaged mass consumption goods such as soaps, detergents, toothpastes, etc., as it is not possible to calculate the response rates of advertisements.

Percent-of-sales Method

This method is often used for advertising budget allocation. The formula used in percent of sales method is:

$$(\text{Spending on advertisements in rupees} / \text{Sales in rupees}) * 100.$$

Analysis of past sales figures and understanding the pattern of relative budget helps in developing percent-of-sales method. Allocation of budget can be done based upon past performance and changes in budget are made according to the required increase or decrease in projected sales.

Affordability Method

In this method of advertising budget allocation, after allocating funds for all other expenses the remaining funds are allotted for advertising. This method may not give the desired results to the firm as there is high correlation between advertising expenditure and sales.

Competitive Parity Method

The advertising budget of companies is sometimes determined based on comparison with competitors' advertising budgets. The comparison can be in rupee terms or in terms of percent-of-sales. In this method, the collective knowledge of the industry is used by the company to determine the advertising

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budget. However, companies should be careful in allocating the advertising budget as the objectives and resources of the competitors may be entirely different.

Developing the Advertising Message

The advertising message should be developed considering the characteristics of target audience such as their age, gender, habits, education, income, occupation, etc.

The advertising message should be:

Meaningful: Customers should find the message of an advertisement relevant and meaningful.

Distinctive: The ad message should be distinct enough to catch the attention of the audiences.

Believable: The ad message should be able to convince the customers about the features of the product.

Approaches to creating advertising messages

Different approaches in developing an advertising message are:

- Comparative advertising in which two or more brands of same product category are compared based on their attributes. For example Dove compares its soap with every other soap in the market and asks target audience, “doesn’t your skin deserve better care?”
- Inoculative advertising aimed to retain customers by convincing them that the products offered by the company are superior to the competitors’ products. Example: *Head & Shoulders* shampoo ads
- Refutation advertising, which contains information supporting the company’s product while refuting competitors’ claims.
- Creating an emotional bond with the brand using the moods and feelings of the customers. Example: Titan Bandhan Couple Watch.
- Using endorsers to create a positive impact about products. Example: Virat Kohli endorsing Vivo products.

Message Structure

Ad messages can be one-sided, where marketers communicate their part of the story, or two-sided, where the marketer’s product is compared with that of the competitor. Some other forms of messages such as conclusion drawing messages raise issues or questions during the beginning of the ad and then attempt to answer them towards the end of the ad.

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Selecting the Right Media

Selection of the right media is crucial for the success of an advertising campaign. An advertising program should be developed by the company keeping in view issues like:

- Who are the target audience?
- Where are they located?
- Which medium is appropriate?
- When should the advertising campaign run?

Various aspects of selecting the right medium for advertising can be tabulated as follows:

Evaluation of Advertising Effectiveness

Evaluation of advertising effectiveness is done by marketers to measure the resultant effects of expenditure on advertising. Several intermediate measures are used by marketers to evaluate the effectiveness of advertising. They are called intermediate measures because the target audiences are tested after they are exposed to the ad and before they take a decision about purchase. Researchers probe the respondents about the receptiveness of the message in the ad, comprehension level of the audience, and the response of audiences to the message in the advertisement.

Other intermediate methods include recognition and recall tests, in which audience are tested on recognition and recall of a particular ad. (Refer Exhibit 20.5).

Exhibit 20.5: Insight- The 5 Ms of Advertising

The development and management of advertising programs can be understood while dividing the processes to be followed in five Ms. Marketers may end up succeeding in their advertising objectives, if everything is planned and implemented properly. Following is the description of 5 Ms:

- **Mission:** To define the mission statement of advertising is the first step in the process of advertising and it stands very important as well. This is generally based on sales goals and advertising objectives. Like, the marketer sets a goal of 20 percent increase in sales in next one year. Therefore the mission will be to increase sales.
- **Money:** This is about deciding on the advertising budget according to which further planning can be done. Some factors to consider are stage in PLC, market share and consumer base, level of competition, frequency of ads, and availability of product substitutes.

Contd.

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- **Message:** This has to be taken care of well, as it is something which will have impact on prospective consumers. There is a set of steps to be followed starting with message generation, evaluation and selection, execution.
- **Media:** This is a major part of execution and selection of the most appropriate media makes the advertisement successful leading to achieve the mission statement. It includes decision related to reach, frequency, impact. In current times, online platforms as media are the most popular ones like, website, social media page, Google ads etc.

Measurement: This takes place when the advertisement is in the market and might have made some impact. Therefore, now is the time for the advertiser to evaluate the impact of advertising and change in sales figure.

Source: Marketing Management (14e) - Book by Kotler, Keller, Koshy & Jha.

Exhibit 20.6: Phone Pe campaigns to push adoption of digital payments

Phone Pe ads aired during IPL 2020 featuring Aamir Khan and Alia Bhat were instant hit. There are 9 episodes and each episode breaks down a barrier between a skeptic and the believer. Playing the roles of a skeptic Inspector Desai - Aamir Khan and a savvy PhonePe user - Alia Bhatt, who with their playful banter and believable narrative teach something new and dispel a myth with each film, thereby nudging target audience to download the app and try it out for themselves.

Speaking about the campaign, Richa Sharma, Director - Brand Marketing, PhonePe said, “PhonePe’s objective behind running this campaign during the cricket season was to reach the massive audience that has not yet gone digital for payments. The key focus is to remind the audience that PhonePe stands at the vanguard of safe, easy and instant digital payments and financial services for each and every Indian.”

Source: <http://www.businessworld.in/article/PhonePe-s-new-campaign-with-Aamir-Khan-and-Alia-Bhatt-encourages-everyone-to-switch-to-digital-payments/02-11-2020-338542/> November 02, 2020.

Activity: Assume you are the creative head of Unique, an advertising agency of repute. One of your established clients, Motives Inc., gave an assignment to develop an advertisement for a car being newly launched by the company. Create an appropriate ad aptly using the steps in developing an advertising program.

Contd.

The Marketing Mix – II

Answer:

Check Your Progress-2

2. One of the objectives of an advertising campaign is to 'persuade'. Different companies focus on different ways of persuasion. Which of the following is not associated with persuasive advertising?
 - a. Encourage customers to switch from other brands
 - b. Use offers and discounts to convince customers to purchase the company's product
 - c. Advertise to convince customers to take a phone call or take a product demonstration
 - d. Communicate the change in price of a product.
3. There are basically three objectives of advertising: to inform, to persuade, and to remind. Identify the correct combination.
 - a. Persuade - Correct the false impression about a product and build the company image
 - b. Remind - Retain a product in the customer's mind during the off-season
 - c. Inform - Encourage customers to switch from other brands
 - d. Persuade - Notify a change in product price.
4. What is meant by an advertising budget?
 - a. The amount of money allocated by a company for its advertising campaigns for a specific period of time
 - b. The amount of money allocated by a company for its advertising campaigns for an indefinite period of time
 - c. The amount of revenue collected by a company due to advertising campaigns for an indefinite period of time
 - d. The amount of revenue collected by a company due to advertising campaigns for a specific period of time .

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5. Several methods are used by companies to set an advertising budget like affordability method, percentage of sales method, etc. Among these, which method is fool proof?
 - a. Percentage of sales method
 - b. Affordability method
 - c. Objective and task method
 - d. None of the above.
6. The clarity of an advertising message is very important to create the right impact in the minds of the target audience. Which among the following is **not** a feature of a successful ad message?
 - a. Target customers should find the message relevant
 - b. The message should be unique
 - c. The message should be abstract in concept
 - d. Target customers should find the message meaningful.
7. Sapola Corporation increased its sales by 20 per cent from last year. As a result, the finance manager decided to increase the marketing communications budget of the company proportionately. What type of marketing communications budget is the company using?
 - a. Objective and task method
 - b. Competitive parity method
 - c. Percentage of sales method
 - d. Affordable method.
8. Which of the following is/are features of an advertising message?
 - a. Meaningful
 - b. Distinctive
 - c. Believable
 - d. All of the above.
9. An advertising program has seven steps, namely (in random order), (i) Specifying the objectives of advertising, (ii) Selecting the right media, (iii) Measuring the advertising effectiveness, (iv) Identification of target audience, (v) Developing the advertising message, (vi) Scheduling the advertisement and (vii) Setting the advertising budget. Identify the correct sequence of steps.
 - a. iv, v, vii, i, ii, iii, vi
 - b. iv, i, vii, v, ii, vi, iii
 - c. iii, i, v, vii, ii, vi, iv
 - d. i, iv, vii, ii, v, vi, iii.

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10. One of the methods of setting an advertising budget is the percentage of sales method. What is the formula for this?
- $\{(Sales\ in\ rupees / Spending\ on\ advertisement\ in\ rupees) \times 100\}$
 - $\{(Spending\ on\ advertisement\ in\ rupees \times Sales\ in\ rupees) / 100\}$
 - $\{(Spending\ on\ advertisement\ in\ rupees / Sales\ in\ rupees) \times 100\}$
 - $\{(Spending\ on\ advertisement\ in\ rupees / Sales\ in\ rupees) / 100\}$.

20.5. Advertising Agencies

An advertising agency is a firm, which specializes in developing and running advertising campaigns through various media. Advertising campaigns can be handled by the company itself on its own or an advertising agency can be given an assignment for handling the advertising campaign for the company. Advertising agencies usually charge a percentage of the total cost for running the campaign as a commission for service. Advertising campaigns can also be developed jointly by the advertising agency and its client (company).

Ad Agencies in India

In this competitive world, more and more companies are taking the help of advertising agencies to run their campaigns. Ad agencies in India charge ten to fifteen percent of the total costs as their commission. Ad agencies play a role in media planning of company, execution of the advertising campaign and evaluation of the campaign through consumer research. The ad agencies in India have acquired greater skills in terms of production and research and are providing quality service to advertisers. Indian ad agencies have tie-ups with international ad agencies allowing them access to Indian markets. Exhibit 20.7 talks about famous campaigns of Ogilvy & Mathur (India).

.Exhibit 20.7: Ogilvy & Mathur (India)

An advertising agency's creative work in making advertisements for its clients can help in establishing the brands of the client companies while winning accolades for the creativity of the agency. For example, Ogilvy & Mather (O&M) India is an ad agency which helped some top brands in India stay in people's mind through creative advertisements.

- Advertisement for *Fevicol*, an adhesive offered by Pidilite Industries Ltd., showing a large number of people clinging on to a bus, which has the caption "Fevicol –the ultimate adhesive, "*fevicol ka jodh hai tutega, nahi*" scolloed on its back, passes on the message aptly without even using any dialogues.

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- Asian Paints ads by O&M got wide accolades. The recent Match Maker feat campaign featuring Ranbir Kapoor as grandfather, trying to find the right groom for an NRI girl and how her search ends at the perfect house.

Source: www.youtube.com

20.6. Sales Promotion

According to the American Marketing Association (AMA), “in a specific sense, sales promotion includes those sales activities that supplement both personal selling and advertising and coordinate them and make them effective, such as displays, shows, demonstrations, and other non-recurrent selling efforts not in the ordinary routine.”

Sales promotion is a combination of activities like running advertising campaigns, offering free gifts, distributing free samples, conducting trade fairs and exhibitions, offering temporary price discounts, door-to-door campaigning, telemarketing, etc., all aimed at increasing the sales of a product. Sales promotional activities help in encouraging and attracting the customers to buy a product as the customers are more responsive to promotional offers and/or discount coupons. For example Joy Alukkas ran a series of Sales Promotional campaign for the year 2021. Pongal Festival of Gifts, Bridal Celebrations with free 1gram gold coin, Rs.72 off per gram on our 75th Independence Day, Exchange Old Gold for Hallmark Gold, Bridal Fest, Bangle Fest, International Jewellery Show, Joy Alukkas Price Lock and many more. These kind of offers persuade customers to advance their purchases and buy more than they planned.

Purpose of Sales Promotion

Sales promotion has the primary purpose to increase sales of a product by creating demand (both consumer demand and trade demand). It also helps in achieving the following objectives.

- Encourage the customers to try a new product.
- Attract new customers.
- Encourage the customers to use the product or service and ensure brand loyal.
- Counter competitors’ promotional activities.

Importance of Sales Promotion

Sales promotion plays a crucial role when new products or new brands are introduced into the market. When the economy is in a recession phase, marketers can sustain sales levels using sales promotional activities like offering gift or discount coupons, organizing contests, etc. Sales promotional activities also help in triggering the impulse buying behavior of customers. Companies also try to gain greater cooperation from retailers through sales promotion.

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Decisions in Sales Promotion

A sales promotion strategy should be developed keeping in view the characteristics of the product and those of target audience. Factors such as size of market, distribution network of the firm, political and legal environment in which the firm operates, etc., can also influence the decision in sales promotion.

Decision in sales promotion involves the issue of directing sales promotion towards consumer sales or distribution channels (i.e., trade sales).

Consumer sales promotion is a 'pull' strategy, which tries to attract customers to make purchase. The methods followed here are price discounting, free gifts or samples, money refunds and rebates, point-of-purchase displays, installment offers, consumer contests, trade shows, etc.

Activity: Assume that you are the proprietor of Delicious, a bakery store. Develop a creative sales promotional campaign to attract customers and increase the sales in the on-going festive season.

Answer:

Trade sales promotion is targeted at the distribution channel using the 'push' strategy to encourage channel members to stock the product. The methods of trade sales promotion are buying allowance (temporary price reduction offered to the retailer for purchasing a specific quantity of the product), buyback allowance (the channel members are offered a monetary incentive for each additional unit purchased after the initial deal), merchandise allowance in which resellers are paid a certain amount by the manufacturer for promoting the product, free merchandise in which addition of the product is offered without additional cost, dealer loader or a gift to a retailer given as a part of the display kit, dealer listing by the company to encourage customers to buy products from certain dealers/ retailers, etc.

Check Your Progress-3

11. In a trade sales promotion method, the advertisement of a company identifies and acknowledges its retailers. Identify the method.
- Dealer listing
 - Free merchandise
 - Merchandise allowance
 - Dealer loader.

20.7. Public Relations (PR)

Institute of Public Relations (UK) defined public relations as “the planned and sustained effort to establish and maintain goodwill and mutual understanding between an organization and its public.” Public of a firm are its’ employees, trade unions, stakeholders, customers (past, present, and future), general public, media, government, etc. Public relations of a firm play an important role in influencing opinions of the public by reinforcing the favorable opinions, transforming neutral opinions of the public into positive opinions, changing or neutralizing negative opinions.

Marketing and PR

Marketing managers in small firms handle the responsibilities of advertising, sales promotion, sales, and public relations. But in larger firms the roles of marketing manager and PR manager are distinct.

Functions of a marketing manager usually include developing a marketing strategy for the firm, demand for products offered by the firm, monitoring the trends and predicting the demand for products, new product development, identifying potential markets, promoting the products by working with the advertising and promotion managers.

Functions handled by a PR manager are a part of marketing activities. The PR manager is focused on maintaining relations of the firm with the public. The PR managers are involved in driving publicity programs to the target audience. A PR manager works in cooperation with the managers of other departments in the organization to prepare internal communications like newsletters, financial reports, company’s annual reports, etc.

Major decisions in PR include setting objectives of the company to build awareness of its’ products while maintaining minimal promotion cost, selecting the message and media vehicle to advertise the product and other information about the company, implementing the PR plan while maintaining a healthy relationship with the media.

Major Tools of PR

PR managers can use a variety of tools to communicate with the public. Some of the tools are newsletters, in-house magazines, annual reports, news releases, press conferences, sponsoring events for publicity, etc.

Various techniques are available to influence public opinion. The consumer communication tools used in PR are promotional videos, celebrity endorsements, product launch events, consumer exhibitions, web sites, etc. To communicate with business associates, PR managers use tools such as trade exhibitions, direct mailings, company and product videos, etc. PR managers communicate with their employees through in-house newsletters, magazines,

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notice boards, intranet and e-mails, employee conferences, company get-togethers and picnics, etc.

PR managers also focus on monitoring the amount of media coverage obtained, measuring the response received in the form of orders or enquiries in response to specific public relations efforts, measuring the attendance at meetings, conferences, etc.

Dealing with Unfavorable PR

The favorable public relations maintained by the company may get affected adversely when accidents like the Bhopal gas tragedy, controversial activities by employees of the company, products or activities of the company that are not environmentally friendly, and other negative events or situations. PR of a company should be maintained favorably to sustain the goodwill of the public. Effects of unfavorable PR can be reduced if organizations take safety measures, effective quality control measures, inspections at plant level to avoid accidents, etc. PR managers can also seek the help of media to reduce the impact of negative publicity to a firm.

Check Your Progress-4

12. What are the functions of a public relations manager in large companies marketing several products at the national or global level?
 - i. Handle new product development with the help of the sales manager and production manager
 - ii. Monitor the trend and predict the demand for existing products
 - iii. Prepare the company's annual reports
 - iv. Create tools like logos, business cards, etc.
 - a. Only i & ii
 - b. Only ii & iii
 - c. Only iii & iv
 - d. Only ii & iv.
13. There are several techniques available for public relations managers to influence public opinion. Some are more suitable in certain situations than others. Which of the following target-technique combinations is **incorrect**?
 - a. Consumers - Product launch events, customer press releases, celebrity endorsements, etc.
 - b. Businesses - Trade press releases, Shareholder meetings, Annual reports, etc.

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- c. Employees - Direct mailings, meetings with stock market analysts, fund managers etc
 - d. All the above .
14. The effectiveness of public relations can be measured in different ways. What are the different ways of measuring the effectiveness of public relations?
- i. Monitoring the amount of media coverage obtained
 - ii. Measuring attendance at meetings, and conferences of the company
 - iii. Measuring the number of inquiries received in response to a specific public relations effort
 - iv. Measuring the number of units moved through scanners or hand-held wands during a specific time.
- a. i, & ii
 - b. ii & iii
 - c. i, ii & iii
 - d. i, ii, iii & iv.

Activity: Daily Life is an FMCG company offering different products in the segments of personal care and healthcare. You are the marketing head of the company and you came to know that Vigor, a brand of health drink offered by Daily Life is getting contaminated due to the faulty storage at the retailers and the customers are dissatisfied with the product. What steps would you take in this situation ensuring the maintenance of positive public relations, which Daily Life has acquired through the years of its operation in the business?

Answer:

20.8. Sponsorship

Sponsorship is a tool of marketing communications in which a company pays for all or some of the costs associated with a project or program in exchange for recognition. Companies use their logos, company names, and brand names which are displayed alongside of the project or program, with specific mention that the company has provided funding. Sponsorship can be offered in the form of 'cash or 'kind' for a program as a means of enhancing corporate image. For example, for Indian Premier League (IPL), Start Sports signed 14 sponsors for

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IPL 14. Star Sports for IPL 14 has signed Dream11, Byju's, Phone Pe, Just Dial, Bingo, Kamla Pasand, Association of Mutual Funds in India (AMFI), Frooti, Asian Paints, Thums Up, Vodafone-Idea, Mondelez, Amazon Prime, and Groww as sponsors.¹

Companies allocate special budget for sponsorship because they find the benefits of wider reach and low risk in sponsorships. But choice of sponsorship program is important because it can incur huge costs. Sponsorships are categorized into three types:

1. *Event related sponsorships*: Sponsoring a match, a team, a player, an orchestra, an artiste, an annual craft exhibition, a rock concert etc.
2. *Cause related sponsorships*: Companies sponsor for the causes and at the same time interested in corporate image and profit-oriented expectations. World's most prestigious distance running event the Airtel Delhi Half Marathon 2020 saw a phenomenal success with more than 13600 amateur runners and around 60 elite runners.²
3. *Broadcast sponsorships*: Broadcasting of a sports program or a weather forecast. Cine actors use sponsor's product and endorses to enhance awareness in the sponsored program, often benefits the sponsor's brand more than the sponsored program

20.9. Summary

- Advertisement is a paid form of non-personal communication in oral, written or visual form, which is sponsored by an identifiable source.
- Developing an advertising program involves different steps such as identifying target audience, specifying the objectives, setting the advertising budget, developing the advertising message, selecting the media, and evaluating the advertising effectiveness.
- Sales promotional activities are taken up by companies to increase sales of a product. Sales promotion can be through price discounts, offering gift coupons or samples, door-to-door promotion, telemarketing, etc.
- Public relations of a firm are the efforts taken for maintaining an understanding with its public to sustain the goodwill of the organization. Publicity about the products and/ or activities of the company is used to maintain public relations. Tools for PR managers to communicate with the public are newsletters, in-house magazines, trade exhibitions, direct mailings, employee conferences, etc.

¹ <https://www.moneycontrol.com/news/trends/sports-trends/ipl-2021-star-sports-signs-14-sponsors-gets-new-brands-like-vodafone-idea-on-board-6676521.html>

² <https://timesofindia.indiatimes.com/spotlight/airtel-delhi-half-marathon-2020-paves-the-way-for-resurgence-of-sports-in-india/articleshow/79581840.cms>

20.10. Glossary

Advertising: Paid non-personal communication with a target market; advertising media include television, radio, newspapers, magazines, billboards, and direct mail.

Advertising agencies: Companies that specialize in providing various levels of advertising services; some agencies focus on specific services or market segments, and others offer a complete range of services covering a wide range of market.

Comparative advertising: A special case of competitive advertising the explicitly compare a product with one or more competitive products.

Point-of-purchase (POP) materials: Advertising, displays, and other materials that are placed in stores to catch shoppers' attention as they are selecting products.

Total cost: The sum of variable costs and fixed cost; represents all the expenses required to make a specified number of units.

20.11. Self-Assessment Test

1. Advertising is a very good communication process available for organizations. What are the benefits of advertising? How is an advertising program developed?
2. Companies often try to induce customers to purchase their products by resorting to sales promotions. What is the purpose of sales promotion for companies?
3. Maintaining public relations is one of the vital aspects of organizational survival in its environment. Discuss how can the companies maintain public relations?

20.12. Suggested Reading / Reference Material

1. Philip Kotler, Kevin Lane Keller, Alexander Chernev, Marketing Management, 16th edition Pearson 2021
2. Roger Kevin, Steven Hartley, Marketing: The Core, 9th edition McGraw Hill 2021
3. Janet Balis, 10 Truth About Marketing After the Pandemic, www.hbr.org, March 10, 2021
4. Callie Daum. Marketing Management Essentials You Always Wanted To Know. Vibrant Publishers; Second edition (1 January 2020)

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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

20.13. Answers to Check Your Progress Questions

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

1. (a) To create awareness about the product

Advertising helps a company make the target customers aware of its products and services, to increase the sales of the company and change the customers' perception of a product. In this case the primary benefit expected from the campaign would be to create awareness as it is a new brand. Once awareness is created, sales would increase and the sales force would find it easier to sell the soap. For a new product in the existing market, there is no necessity to change customer perception.

2. (d) Communicate the change in price of a product

One of the objectives of an advertising campaign is to persuade. As per this objective, a company uses advertising to encourage customers to switch from other brands, convinces them to purchase the company's product by announcing special offers or discounts and persuades them to take a phone call or a personal visit by the company's salesperson for demonstration of the product. Communicating the change in price of a product is associated with informative advertising.

3. (b) Remind - Retain a product in the customers mind during the off-season

A company uses reminder advertising to remind customers that a product will yield benefits in the future, retain a product in the customers mind during the off-season and remind buyers where to find a product. A company uses persuasive advertising to persuade customers to purchase their product/service by announcing special offers or discounts, persuade customers to take a sales call and encourage customers to switch from other brands. A company can use advertising to communicate the benefits of existing products in the market, inform a price change, correct false impressions about a product and build the company image, etc.

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4. (a) The amount of money allocated by a company for its advertising campaigns for a specific period of time

Advertising budget is the amount of money allocated by a company for its advertising campaigns for a specific period of time. It is not the amount of revenue, nor is it for an indefinite period of time.

5. (d) None of the above

Among the various methods of setting advertising budgets (like Percentage of sales method, Affordability method, Objective and task method and Competitive parity method), none of the methods are fool proof.

6. (c) The message should be abstract in concept

A successful advertising message should have the following characteristics. The message should have relevance and be meaningful, the message should be unique, and the message should be able to convince the customers about product features. Abstract messages are difficult to understand and comprehend.

7. (c) Percentage of sales method

The percentage of sales method is a process in which the current and future sales of a company are estimated. Some percentage of the sales figures is allocated as the budget for the marketing communication process.

8. (d) All of the above

The important features of an advertising message are that its should be meaningful, distinctive, and believable.

9. (b) iv, i, vii, v, ii, vi, iii

The correct sequence of an advertising program is: Identification of target audience - Specifying the objectives of advertising - Setting the advertising budget - Developing the advertising message - Selecting the right media - Scheduling the advertisement - Measuring advertising effectiveness.

10. (c) $\{(\text{Spending on advertisement in rupees} / \text{Sales in rupees}) \times 100 \}$

The formula for percentage sales method is:

Percentage of sales method = $\{(\text{Spending on advertisement in rupees} / \text{Sales in rupees}) \times 100 \}$.

11. (a) Dealer listing

In dealer listing, the advertisement of a company identifies and acknowledges its retailers. In the case of free merchandise, an additional quantity of the product is offered without additional cost, as

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an incentive to buy a minimum quantity. In merchandise allowance, a manufacturer pays the reseller a certain amount of money for promoting the company's product through advertising or displays. A dealer loader is a reward or a gift that is usually part of a display kit given to the retailer to display the product.

12. (c) Only iii & iv

The functions of a public relations manager are preparing the company's annual reports and creating tools like logos, business cards, etc. Handling new product development with the help of the sales and production managers, monitoring trends and predicting the demand for existing products are the responsibilities of a marketing manager.

13. (c) Employees - Direct mailings, meetings with stock market analysts, fund managers, etc

There are many techniques available to influence public opinion. The communication can be directed at businesses, employees or/and consumers. Direct mailings, meetings with stock market analysts, fund managers, etc., are techniques used to communicate with the business associates of a company and not for communicating to employees.

14. (c) i, ii & iii

The effectiveness of public relations can be measured by monitoring the amount of media coverage obtained, measuring attendance at meetings and conferences of the company and measuring the number of inquiries or orders received in response to a specific public relations effort. In a scan back allowance program, a trade sales promotion method, retailers are rewarded on the basis of the number of units moved through their scanners or hand-held wands during a specific time.

Unit 21

Personal Selling and Sales Force Management

Structure

- 21.1. Introduction
- 21.2. Objectives
- 21.3. Nature and Importance of Personal Selling
- 21.4. Types of Salespersons
- 21.5. Personal Selling Process
- 21.6. Improving Personal Selling Efforts
- 21.7. Sales Force Management
- 21.8. Summary
- 21.9. Glossary
- 21.10. Self-Assessment Test
- 21.11. Suggested Reading/Reference Material
- 21.12. Answers to Check Your Progress Questions

21.1. Introduction

In the previous unit, we discussed the concepts of advertising, sales promotion, and public relations. In this unit, we shall discuss the concept of personal selling, the personal selling process and the steps involved in effective sales force management.

Personal selling enables the marketers to establish direct relationship with the customers. Personal selling also enables the sales person to get an immediate feedback from the customer. There are different types of sales persons like Order takers, Order getters, and support personnel. The personal selling process has different stages and starts with prospecting for and evaluating the potential customer and ends with closing the sale and post sale follow-up. The management of the sales force of a company has many steps like establishing sales objectives, designing the sales force, recruiting and selecting salespeople etc.

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In this unit, we shall first discuss about personal selling and its importance, the different types of salespersons, and the personal selling process. We shall then discuss about sales force management.

Before studying this unit, student should recall the different types of promotional tools that marketers use to facilitate marketing communication process (Unit 19).

21.2. Objectives

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

- Explain the nature and importance of personal selling
- Identify the different types of salespersons
- Discuss the personal selling process
- Enumerate the various steps involved in the sales force management

21.3. Nature and Importance of Personal Selling

In personal selling, the salesperson persuades the consumer to buy the product through face-to-face interaction. The salesperson conveys various benefits of the product in a bid to convince the customer to make the purchase. Also, in personal selling, the salesperson gets an immediate feedback from the consumer. Accordingly, the salesperson's presentation may be modified or adjusted to suit the requirements of the consumer. Example 1, briefs how multi-level marketing works.

Importance of Personal Selling:

1. Personal selling gives marketers the freedom to make adjustments in the promotional message to satisfy the information needs of customers.
2. Personal selling facilitates two-way flow of information between the customer and the company.
3. The interaction between salespersons and customers helps the company identify the strengths and weaknesses of its new products.
4. An effective sales force also helps a company build and improve relationships with customers.

Exhibit 21.1 outlines the details of Multi-level marketing.

Exhibit 21.1: Multi-level Marketing

Multi-level marketing, also known as 'network marketing' is one of the popular forms of direct selling in today's global business environment. In this method, an individual or an independent business house (let us say a consultant) enters into a contract with a parent company. These consultants

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then purchase the company's products for their personal consumption and also sell these products to others. The consultants are not required to sell the products door-to-door. Instead, they try to sell the products to their friends and relatives. The consultants are paid a percentage on the sales made by them. In addition to selling the products, the consultants also communicate the benefits of multi level marketing to the buyers and make attempts to convince them to join the network. Once a consultant succeeds in adding new consultants to the parent company's network, he/she begins to receive a percentage on sales generated by his/her network (formed by the senior consultant and consisting of several consultants introduced by him/her to the parent company). In India, the some of the players in multi-level marketing are Amway, Modicare, Euerka Forbes, Tupperware, Avon.

Source: ICFAI Research Center

Check Your Progress-1

1. Which of the following are reasons why personal selling is important for a company?
 - a. It helps the company to make adjustments in the promotional message
 - b. It helps marketers to improve relationships with customers
 - c. It allows marketers to precisely target their promotional message at potential customers
 - d. All of the above.

21.4. Types of Salespersons

On the basis of the nature of functions they perform, sales personnel can be classified as –

Order takers

- These personnel are entrusted with the duty of handling routine sales orders and repeat orders
- The sales personnel perform functions such as restocking of products, arranging product displays, answering phone calls, and taking orders, etc.

There are two types of order takers. They are –

- *Inside Order Takers:* Sales people who function from within the company and do not make field calls are called as inside order takers. They include telemarketing personnel, real estate agents, retail sales clerks, etc.

The Marketing Mix – II

- **Field Order Takers:** They make field calls, interact with the customers and take orders. Insurance sales agents, sales agents for pharmaceutical companies, sales agents for hardware, office supplies, etc., are good examples of field order takers.

Order getters: The order getters are responsible for getting orders from new customers and increasing sales from the existing customer base. Therefore, the task of order getters is more complicated than order takers. Hence, organizations continuously need to enhance the skills of their sales staff through training.

Order getting involves achieving two types of sales –

- **Current Customer Sales:** Increasing sales from current customers.
- **New Business Sales:** It involves converting a prospective customer into buyers and getting new orders for the company.

Support personnel: Sales personnel facilitate the selling function. They provide after sales support, build goodwill for the company, etc. Support personnel are not involved in the actual sales of the product.

Activity: Classify the following into order takers, order getters, and support personnel.

- Salespersons of Eureka Forbes.
- Customer care executives attending to customer calls at Airtel's Customer Care Center.
- Service representatives of Aqua Guard, water purifiers.

Answer:

Check Your Progress-2

2. Sales personnel can be classified on the basis of the nature of functions they perform. Identify the sales personnel who are responsible for the growth of a company by getting orders from new customers and increasing sales from the existing customers.
 - a. Inside order takers
 - b. Field order takers

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- c. Order-getters
 - d. Support personnel.
3. Sales personnel can be classified into three types on the basis of their functions. Name them.
 - a. Order takers, order getters, and support personnel
 - b. Manufacturing sales representatives, retail sales representatives, real estate brokers
 - c. Order takers, order getters, and retail sales representatives
 - d. Manufacturing sales representatives, retail sales representatives, and supporting personnel.
4. Order takers are the sales personnel who handle routine sales orders and repeat orders. There are two types of order takers, namely, inside order takers and field order takers. Identify the function of field order takers.
 - a. They take orders on phones or through mails
 - b. They get orders from new customers and increase sales from the existing customers
 - c. They go to the customer and take the order for their products
 - d. They provide after sales support to the buyers.

21.5. Personal Selling Process

Although the personal selling process, differs from one salesperson to another and with different situations, a typical selling process generally consists of –

- Prospecting for and evaluating the potential customer
- Preparing before approaching the potential customer
- Approaching the prospect
- Making presentations to the prospect
- Handling the objections raised by the prospect
- Closing the sale
- Following up after the sale

Prospecting and evaluating: Prospecting is the process of finding and evaluating potential customers. While prospecting, the salesperson analyses the consumer's immediate need that can be satisfied by the company's product. The salesperson must also identify if the potential customer has the willingness, ability and authority to buy the product. Prospecting involves – generating sales leads, identifying prospects and qualifying prospects.

The Marketing Mix – II

Generating leads: A sales lead is a potential customer either in the form of an individual or an organization that might need the company's product. A salesperson can generate leads with the help of the following sources–

- *People:* Existing customers, former customers, suppliers, dealers, and other sales representatives, etc.
- *Events:* A salesperson may encounter potential customers at social events, seminars, conferences, trade shows, etc.
- *Published Information:* Newspapers, trade directories, telephone directories, business cards, computer databases, and other published information are a good source of generating leads.
- *Associations:* Becoming members of associations such as chambers of commerce, professional bodies (National Association of Sales Professionals, etc.) also help in generating leads. A salesperson can interact with potential customers in the meetings and seminars conducted by these associations.

Identifying prospects: Salespersons can identify a prospect by using a variety of tactics like writing to the prospective customer, or by making a phone call.

Qualifying the Prospects: After identifying the potential customers, the salesperson is required to recognize those customers who have the necessity, willingness, ability and authority to purchase the product. It is not a clever strategy to spend time and effort on all the potential customers identified by the salesperson. In order to qualify a potential customer, a salesperson uses various methods such as obtaining information about the prospect's occupation, place of residence, credit rating (in case of organizations), etc. Depending upon the information collected, the salesperson qualifies leads into –

- *Cold lead:* A prospect who cannot turn into customer
- *Warm lead:* A prospect who has a latent need to buy the product
- *Hot lead:* A prospect who is willing to make the purchase

Pre-Approach: In this stage, the salesperson plans and prepares to make a sales presentation to the customer. Pre-approach stage further involves the following sub-stages:

- Creation of the prospect's profile
- Deciding on the approach
- Establishing the objectives of the sales call
- Preparing for the presentation

Activity: Suraj Khanna (Suraj) works as a sales executive in Zapper Inc., an anti virus software company. He was recently transferred to the company's head office situated in Chennai. As Suraj is new to the city, it is not easy to

Contd.

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locate customers for the company's products. Suggest the various steps Suraj should take while prospecting and evaluating potential customers in the personal selling process?

Answer:

Approach: In this stage of the personal selling process the salesperson makes the initial contact with the customer. This is an extremely crucial stage as it lays the corner stone for the rest of the selling process. The salesperson emphasizes more on gaining a favorable opinion than on trying to push the product to the consumer. Personal characteristics such as appearance, mannerisms, etc., also play an important role. The salesperson may approach the customer either by giving reference of an acquaintance or by cold canvassing (approaching the customer without taking his / her prior consent for the meeting)

Presentation: The main objective behind making a sales presentation is to communicate to the consumer about the benefits of the product, generate an interest in the product, and create a desire to purchase the product. As a result, the customer may take action to fulfill the desire. An effective sales presentation can be made based on the AIDA (attention, interest, desire and action) concept. A salesperson may adopt any of the following sales approaches –

- *Canned sales approach:* In this approach the salesperson delivers a memorized talk to the customer. He delivers the same message to all the customers. This method is useful for products that are not too technical in nature.
- *Formulated approach:* Through this approach, the sales presentation is customized to suit the needs and buying styles of the customers. The message is formulated tactfully to convince the buyer that the product can satisfy his / her specific needs.
- *Need satisfaction approach:* This approach is based on the principle that every customer has a different set of needs. Therefore, the salesperson is required to recognize these needs by gathering information about the customer. This approach calls for customizing the sales presentation to cater to the needs of the individual customers.

The Marketing Mix – II

Handling objections: A salesperson needs to clarify any doubts or objections raised by the customer. In fact, the salesperson should welcome the queries as it indicates that the customer is serious about the purchase of the products. It must also be noted that objections may bring out the latent concerns of the buyer regarding the product's features and his own needs, which can be satisfied with the product.

Price objection is the most common type of objection faced by the salesperson. Although, price may be a genuine concern for most buyers, it may also be used as a guise by some buyers to conceal their other hidden concerns. An effective salesperson must effectively address all the concerns of a customer regarding the product.

Closing: In this stage, the salesperson attempts to close a deal with the customer and prompts the customer to make the purchase. Even in the closing stage, buyers may have certain apprehensions regarding the purchase of the product. In such cases, the salesperson may probe the customer further to determine the customer's true intention. The salesperson may follow any of the following techniques to close a sale

- **Silent close:** The salesperson makes the presentation and waits patiently for the customer to make the purchase decision.
- **Direct close:** The salesperson asks directly for the close of the sale. For example, the salesperson may ask the potential customer the question – “Are you ready to place an order?”
- **Assumptive close:** The salesperson assumes the customer's consent for the close. The salesperson just says “I have completed all the necessary paperwork. All you need to do is read through and sign the papers.”
- **Alternative close:** The salesperson seeks to close the sale by providing different alternatives. For example, questions like “Would you prefer this color over that?” Or, “Would you like the product to be shipped?,” etc., indicate an alternative choice.
- **Concession close:** The salesperson can offer to give some concession to the customers and tempt them to make the purchase decision.
- **Cautious close:** The salesperson carefully inquires about the close. The potential customer can be urged to ask any questions before closing the deal.

Follow-Up: Follow up after closing a sale helps in enhancing customer satisfaction. Since the purpose of every organization is to increase repeat sales, follow up can be appropriately used by the salesperson to achieve this objective. Satisfied customers would turn toward the same company for their future purchases. Therefore, follow up is a critical aspect of the selling process. The

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salesperson may follow up by inquiring about the promptness of delivery, any problems faced after installation, customer's satisfaction with the product, etc.

Check Your Progress-3

5. In which sales closing technique does the salesperson ask the potential customer if he/she would like to ask anything before closing the deal?
 - a. Assumptive close
 - b. Cautious close
 - c. Direct close
 - d. Concession close.
 6. Which sales presentation approach consumes a lot of time and requires an experienced salesperson for the presentation to be effective?
 - a. Formulated approach
 - b. Need satisfaction approach
 - c. Canned sales approach
 - d. Stimulus response approach.
 7. Prospecting is the process of finding and evaluating potential customers. What activities do sales personnel undertake in the prospecting stage of the personal selling process?
 - i. They generate sales leads
 - ii. They identify prospects
 - iii. They make presentations to the prospect
 - iv. They qualify prospects.
 - a. i, ii, iii
 - b. ii, iii, iv
 - c. i, ii, iv
 - d. i, ii, iii, iv.
 8. A salesperson identifies a prospect through e-mails, through telemarketing, visiting the customer, etc. When a salesperson approaches the customer without taking his/her prior consent for the meeting, it is known as _____.
 - a. Cool canvassing
 - b. Warm canvassing
 - c. Cold canvassing
 - d. Hot canvassing.
-

21.6. Improving Personal Selling Efforts

Sales people can enhance their personal selling efforts by undergoing professional training, improving negotiation skills, and through relationship marketing.

Professional training: Providing training to salespersons enables an organization in improving the performance of poor performers and also to enhance the performance of good performers. The main objective of a training program is to equip the sales personnel with skills that are required to convert prospective customers into buyers.

Companies may adopt any of the following two approaches to train their sales personnel:

- *Sales-oriented approach:* According to this approach customers are pressurized into making a purchase decision. This approach assumes that the customers' decisions can be influenced by making an effective sales presentation. Further, it also assumes that the customers are unlikely to complain about the product, once the deal is closed.
- *Customer-oriented approach:* According to this approach a consumer's unique and latent needs are recognized and the salesperson is trained to look at these needs as opportunities to serve the customers. Further, the salesperson should gain more insight into the needs of the consumers. A salesperson can come up with innovative solutions that strive to fulfill the needs of the consumer.

Negotiations: It is a process through which the buyer and the seller bargain on conditions such as price, quantity, etc., of goods or services and close a deal after agreeing upon the terms and conditions of the sale.

Relationship marketing: Of late, marketers are beginning to believe that it is more profitable to retain an existing customer than to make efforts to attract new customers. According to relationship marketing, marketers have to establish a long lasting relationship with the consumer and must also enhance the quality of future interactions. Since the salespersonnel are in direct contact with the consumers, organizations can build lasting relationships with the customers with the co-operation of the sales personnel.

Activity: Steve is a newly recruited sales representative at TriStar Pharmaceuticals Limited, a leading manufacturer and marketer of pharmaceutical products. Being new to the job, Steve faces problems coping up with the demands of the job. However, Steve is determined to improve his job performance. Suggest some ways for Steve to hone his selling skills and enhance his job performance.

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Answer:

Check Your Progress-4

9. In high performing companies, training is considered to be an important tool for improving the performance of the sales personnel whose performance is poor. There are two basic approaches for training sales personnel. Identify them.
 - a. Sales-oriented approach and customer-oriented approach
 - b. Sales-oriented approach and revenue-oriented approach
 - c. Seller-oriented approach and buyer-oriented approach
 - d. Seller-oriented approach and customer-oriented approach.
10. Which of the following is the process of creating, maintaining and enhancing strong, value-laden relationships with customers and other stakeholders?
 - a. Relationship marketing
 - b. Global marketing
 - c. Transaction marketing
 - d. Personal marketing.

21.7. Sales Force Management

The following are the steps involved in sales force management

Establishing sales objectives: Sales objectives are statements of what the sales team expects to achieve in a specified time period. However, the personal selling objectives may not be the same for all the companies. Sales objectives are set to be compatible with the overall objectives of the company. Individual or team objectives may be set for the sales personnel. One of the most crucial objectives of the sales personnel is to generate interest in the consumer, build consumer confidence in the quality of the product, and persuade the consumer to purchase the product.

The Marketing Mix – II

Fixing the sales quota: Sales quotas are quantifiable objectives set for measuring and appraising the effectiveness of sales personnel. With the help of sales quotas, firms set targets for sales personnel, which in turn are useful in measuring their sales performance. Sales quotas must always reflect the firm's selling objectives, its overall plan, and size of the sales force and the nature of the sales territory.

Designing the sales force: The sales force is organized differently in different companies. Exhibit 21.2 talks about how Avon relies on women to create its sales teams. The common criteria for organizing the sales force are:

- ***Geographic territory:*** This is the simplest method of organizing the sales force of a company. According to this method, the company assigns a specific geographical area to a particular salesperson or sales team. A geographic territory can be a city, district, state or even a country.
- ***Customer:*** In this method, the company assigns the salesperson based on the needs and requirements of the customer. For instance, the sales force can be divided depending upon institutional or individual customers. However, different sales personnel may end up serving the same geographic territory.
- ***Product:*** In this method, the salesperson is assigned a specified product out of the entire product line of the company. In this method, it is essential that the salesperson have a specialized knowledge of the product being dealt with.

Determining the sales force size: Deciding upon the exact number of sales personnel required is a difficult task for the sales manager. If more staff is hired then it might increase costs and on the other hand, hiring less number of people might increase the burden on individual sales personnel. Therefore, sales managers should determine the optimum number of sales personnel for the sales team. The following two methods are used by sales manager to accomplish this task:

- ***Equalized workload method:*** According to this method, every salesperson should have equal workload. This may imply that each salesperson is required to make the same number of sale calls and has to meet the same deadlines. The size of the sales force is dependent upon the number of potential and actual customers in a given territory.
- ***Incremental productivity method:*** According to this method, it is assumed that the addition of a salesperson is justified when the additional sales generated by him/her exceed the cost of hiring him/her. Therefore, sales managers recruit sales personnel as long as the sales generated by them exceed the cost incurred on them.

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Recruiting and selecting salespeople: Recruiting the right people is essential for developing an efficient sales team. Companies may opt for internal or external recruitment, where internal recruitment implies recruiting the company's own sales force (for higher posts), identifying personnel from other functional departments, etc. On the other hand, external recruitment can be in the form of advertising in newspapers, references from suppliers, professional associates, recruiting through placement consultancies, employee-referrals, campus recruitments, etc. Selection procedure can vary from a simple informal interview to a structured process consisting of written test and an interview followed by a physical examination.

Exhibit 21.2: Avon Ladies

Avon Products Inc., is a leading cosmetics company in the world. The company follows the direct selling method to sell its products worldwide. The company proclaims that it is a company 'for women.' Avon recruits women as sales representatives. An individual can become an 'Avon Lady' by registering with the company. The representatives are given a business pack (containing product samples and other material useful for making a sales presentation) to commence their operations. Further, they are not required to stock goods and can start selling directly from the brochures. The company, however, offered to provide demonstration products. The new recruits became members of an existing representative group managed by a 'sales leader.' The compensation for representatives was in the form of percentage on the sales made by her. In addition, high performers gained entry into the company's President's Club. On becoming a member, the representatives could take advantage of benefits like special recognition dinners, free gifts, extra discounts, luxury trips, etc.

Source: www.avoncompany.com.

Routing and scheduling: The sales manager must specify the sales territory, the number of customers and their geographic distribution within the territory before routing and scheduling the sales calls to be made by the salesperson. Once this is done, the sales manager must set the frequency and the duration of the sales call to be made. Schedules may be set in advance by the sales manager in collaboration with the sales personnel. However, taking into consideration the convenience of customers, it is beneficial to set flexible schedules for the sales personnel.

Training sales personnel: Imparting training to sales personnel is important due to the following reasons:

- Training helps the sales personnel, both old and new, to perform more effectively.

The Marketing Mix – II

- It helps the sales personnel in gaining a better understanding of the market conditions, the tastes and preferences of consumers, etc.
- Training enables the salesperson to know the company's product as well as the competitor's product. This knowledge in turn can be utilized in improving the effectiveness of the sales presentation.
- Training enhances skills such as personal selling skills, time management skills, and sales forecasting skills.

Training can be given to the entire sales team or to selected sales personnel. Depending upon the need, firms can give training to sales personnel in the form of induction training (to newcomers), training regarding new products, advanced selling techniques, change in company policies, etc. Training can be conducted on the field, in educational institutions, or companies may set up their own training facilities within or outside the organization. Finally, every training program must be evaluated for its effectiveness. Evaluation helps in assessing if the program has been fruitful in bringing about a desired change in the individual.

Compensation: It is the reward given to the salesperson for the results achieved and the efforts made to accomplish the given tasks. Compensation is used to motivate the sales force to enhance their performance. Every organization follows a distinct compensation procedure. Most common methods of sales compensation are:

- *Straight salary compensation:* A fixed amount of salary is given to the sales personnel at the end of the week or month.
- *Straight commission compensation:* Compensation paid for achieving specific targets in a given time is known as straight commission compensation.
- *Salary plus commission:* It provides a specific salary and also enables the employee to earn a commission for achieving a specific target that is over and above the regular target.

Evaluating sales force: Through evaluation, the firm compares the actual sales achieved as against the sales targets of the salesperson. The company can thus assess and appraise the performance of the sales personnel.

Motivating the sales force: Motivation acts as a driving force in achieving the desired goals and objectives of the sales personnel. Therefore, sales managers attempt to motivate their sales force to achieve the firm's sales objectives. Financial incentives like bonus, commission, etc., and non-financial incentives like job security, recognition, etc., can be used as means to motivate the sales

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personnel to perform better on the job. Modi Care the multi-level marketing giant runs different campaigns to keep its salesforce motivated, Exhibit 21.3 talks about one such program.

Exhibit 21.3: Modicare's Sapno Ki Azadi Campaign

Direct selling company, Modicare released a women empowerment campaign - 'Sapno Ki Azadi'. The campaign celebrated the journey of women who have listened to their hearts' true calling and chased their dreams against all odds, 'Sapno Ki Azadi' campaign ran for ten days on radio and digital, across eleven cities. Modicare and Mirchi collaborated to encourage and honor such women who relentlessly pursue their dreams and forge their own destiny. Modicare is been recognised amongst India's 50 Best Workplaces for Women.

Source:

<https://brandequity.economictimes.indiatimes.com/news/marketing/modicare-and-mirchi-collaborate-to-celebrate-the-journey-of-women/81394964>, March 08, 2021

Check Your Progress-5

11. Compensation is the reimbursement for the efforts put in by a salesperson. Which method of compensation is preferred by marketers of industrial products?
 - a. Straight salary
 - b. Straight commission
 - c. Salary plus commission
 - d. All of the above.
12. Which of the following activities is **not** associated with the selection process of sales personnel?
 - a. Written test
 - b. Interview
 - c. Advertisements
 - d. Physical examination.
- 21.13. Which of the following is related to the analysis, planning, implementation and evaluation of sales force activities?
 - a. Salesmanship
 - b. Sales-force management
 - c. Sales force recruiting
 - d. Sales-force development.
14. What is the main aim of routing and scheduling sales calls?
 - i. To maximize the productivity and minimize the sales call time
 - ii. To maximize the productivity and sales call time

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- iii. Maximize the expenditure invested in each sales call
- iv. Minimize the expenditure invested in each sales call
- a. Only i
- b. i & iii
- c. i & iv
- d. ii & iii.

21.8. Summary

- Personal selling is the face-to-face interaction of the seller with the buyer, wherein, the buyer persuades the seller to purchase the product manufactured by the company he/she is representing.
- There are different types of salesperson. They are – order takers, order getters and support personnel.
- The process of personal selling includes – prospecting and evaluating consumers, generating leads, identifying prospects, qualifying prospects, pre-approach, approach, presentation, handling objections, closing and follow-up.
- The skills of sales personnel can be improved with the help of professional training, negotiations or relationship marketing.
- Effective management of the sales force involves the following steps – establishing sales objectives, fixing sales quotas, designing sales force, determining the sales force size, recruiting and selecting sales people, routing and scheduling, training sales personnel, compensation, evaluating sales force and motivating the sales force.

21.9. Glossary

AIDA model: An acronym for awareness, interest, desire, and action, which represent the psychological steps a customer goes through on the way toward making a purchase.

Incremental productivity method: A way of determining personnel needs based on the assumption that the addition of salesperson is justified when the additional sales generated exceed the cost of hiring the salesperson.

Need-satisfaction approach: An approach to selling that focuses on identifying the customer's needs and then creating a presentation that addresses those needs.

Sales lead: The name of an individual, organization, or business that might be likely prospect for the company's product.

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21.10. Self-Assessment Test

1. What is personal selling? List out the different types of salespersons.
2. Briefly explain the different steps involved in the personal selling process.
3. Elucidate the importance of training and compensation in sales force management.

21.11. Suggested Reading / Reference Material

1. Philip Kotler, Kevin Lane Keller, Alexander Chernev, Marketing Management, 16th edition Pearson 2021
2. Roger Kevin, Steven Hartley, Marketing: The Core, 9th edition McGraw Hill 2021
3. Callie Daum. Marketing Management Essentials You Always Wanted To Know. Vibrant Publishers; Second edition (1 January 2020)
4. Saxena, Rajan. Marketing management. McGraw-Hill Publishing Co Ltd, 2020.
5. V S Ramaswamy and S. Namakumari. Marketing Management: Indian Context Global Perspective. Sage Publications India Pvt Ltd; Sixth edition, 2018

21.12. Answers to Check Your Progress Questions

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

1. (d) All of the above

Personal selling helps the company in adjusting the promotional message, enabling two-way flow of information, identifying the strengths and weaknesses of its products, and improving the relationships with the customers.

2. (c) Order-getters

Order-getters are sales personnel who are responsible for the growth of a company by getting orders from new customers and increasing sales from the existing ones.

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3. (a) Order takers, order getters, and support personnel

Sales personnel can be classified into three types on the basis of their functions. They are order takers, order getters, and support personnel. Often, a single salesperson performs all the three tasks.

4. (c) They go to the customer and take the order for their products

Field order takers go to the customer and take the order for their products. Inside order takers take orders on the phone or through mail. Support personnel identify the prospective buyers, educate them about the company's products, build up goodwill toward the company, and provide after-sales support to the buyers. Order getters get orders from new customers and increase the sales from existing customers.

5. (b) Cautious close

In a cautious close, the salesperson becomes careful in inquiring about the close. Here, the salesperson asks the potential customer whether he/she would like to ask anything before closing the deal.

6. (b) Need satisfaction approach

The need satisfaction approach calls for customizing the sales presentation to cater to the needs of individual customers and it consumes a lot of time. Therefore, this is better suited for experienced and sophisticated sales personnel.

7. (c) i, ii, iv

Prospecting involves generating sales leads, identifying prospects, and qualifying prospects. Making presentations to the prospect is another stage in the personal selling process.

8. (c) Cold canvassing

In cold canvassing, a salesperson approaches the customer without taking his/her prior consent for the meeting.

9. (a) Sales-oriented approach and customer-oriented approach

The two basic approaches for training sales personnel are the sales-oriented approach and customer-oriented approach.

10. (a) Relationship marketing

The main objective of relationship marketing is to create, maintain and enhance strong, value-laden relationships with customers and other stakeholders.

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11. (a) Straight salary

Straight salary compensation is preferred by industrial marketers. This is because it takes a long time (weeks/months) to convert a prospect into a customer in industrial marketing, unlike in consumer marketing. This is due to the complexity of the product and involvement of many decision-makers in organizational buying. In this case, commissions-based salary would not be appropriate as the salesperson would get a commission only when the product is sold.

12. (c) Advertisements

The selection procedure can vary from a simple informal interview to a structured process consisting of a written test and an interview, followed by a physical examination. Issuing of advertisements is part of the recruitment process.

13. (b) Sales-force management

Sales-force management is related to the analysis, planning, implementation and evaluation of sales-force activities.

14. (c) i & iv

The main aim of routing the sales calls is to maximize productivity and minimize the time and expenditure invested in each sales call.

Marketing Management

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| Unit 29 | Marketing Analytics |

