T.Y.B.COM.

BUSINESS MANAGEMENT

PAPER III

MARKETING MANAGEMENT

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For IDE Students applicable from 2008- 2009

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MARKETING MANAGEMENT

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- To develop conceptual clarity of marketing management area at a fairly advanced level.
- To create marketing consciousness among students.
- To explain the macroeconomic relevance of marketing in a developing country like India.
- To develop skills in case study analysis.

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INTRODUCTION TO MARKETING MANAGEMENT

Module – 1

i. Definition of marketing management
ii. Need and importance of marketing management
iii. Core concepts – Need, demand, value, satisfaction, exchange and transaction
iv. Supply chain
v. Customer satisfaction
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vii. Case studies

INTRODUCTION

Marketing is a dynamic activity which is essential for the existence and survival of business. Marketing involves a thorough knowledge of the market and its environment on the part of the firms which must adjust their production, finance and HRD assignments in their proper contexts. Marketing is the mother tongue of modern industry.

Customers are heart of the business. Today's marketing is customer oriented. Customer relationship is an important activity in today's marketing.

Definition:

1. American Marketing Association defines marketing as, "Marketing is the process of planning and executing the conception, pricing, promotion and distribution of ideas, goods and services to create exchanges that satisfy individual and organizational objectives."
2. According to Peter Drucker, "The aim of marketing is to know and understand the customer so well that the product or service fits him and sells itself. Ideally, marketing should result in a customer who is ready to buy. All that should be needed then is to make the product or service available."

Need and importance of marketing management:

Marketing is important to business as well as non-business organizations. It is also important to customers as well as society. The importance of marketing is explained as follows:

(A) IMPORTANCE TO BUSINESS FIRMS:

1. Accomplishment of objectives:

Proper marketing management helps the organization to achieve its objectives. By having effective marketing activities firm can achieve its various objectives like increase in profits, increase in market share, customer satisfaction, earning goodwill etc.

2. To face market competition:

Marketing management facilitates use of effective marketing strategies by business firms. With the help of these strategies firm can face the market competition successfully.

3. Goodwill and reputation:

With the help of proper marketing activities, business firms are able to maintain good and long term relationships with their customers. This helps the firms to maintain and enhance their corporate image in the market.

4. Market information:

Marketing management involves collection of market information through market research, reports from dealers, customers etc. This information is used by the firms to make important business decisions relating to pricing, promotion, distribution etc.

5. Introduction of new products:

Customers always prefer to purchase the products of those companies in which they have confidence and faith. Marketing management facilitates sound and long term customer relationships. This results into easy purchase of products by the customers. Thus with the help of marketing management firm can easily introduce new products in the market.

6. Market expansion:

With the help of marketing management firm can easily expand its market area. With the help of proper advertising, sales promotion and distribution strategies firm can expand its market from local level to regional level, from regional level to national level and from national level to international level.

(B) IMPORTANCE TO NON-PROFIT ORGANIZATIONS:

1. To build image:

Marketing can help the non-profit organizations to create good image in the society. This organization can make use of advertising and promotion activities to promote its name and image in the society.

2. **To educate the people:**

Marketing can also help the non-profit organizations to convey its social objectives to the mass audience. With the help of marketing these organizations can educate the people. For e.g. AIDS Awareness campaign by the Government, 'save petrol' by Hindustan Petroleum etc.

3. **To gain public support:**

Most of the non-profit organizations manage their activities with the help of donations received from the society. With help of marketing activities these organizations can inform the society about their activities and can create confidence in the minds of general public. This may lead to collection of more donations from the society.

4. **To expand the scope of activities:**

Sometimes non-profit organizations want to enter into new operations. For e.g. a social institution may decide to enter into educational area for providing education facilities to weaker section of the society. This new entrance can be communicated to the society with the help of proper marketing activities.

5. **To provide information:**

With the help of marketing activities non-profit organizations can provide information to the society. This information may be relating to their working, social objectives, their achievements, future plans etc.

6. **To accomplish objectives:**

With the help of effective marketing strategies non-profit organizations can accomplish their objectives. For e.g. an educational institution that is having objective to upgrade educational standards of society, can achieve it by doing proper publicity of their institution so that many students will be attracted.

(C) IMPORTANCE TO CUSTOMERS:

1. **Satisfaction of wants:**

Marketing facilitates easy availability of goods and services in the market. These goods and services are consumed by the customers for satisfaction of their needs and wants. Thus marketing facilitates customer satisfaction.

2. **Reasonable price:**

Due to tough competition in the market companies are trying to reduce their cost o product. At the same time due to economies of large scale production and distribution, cost reduces. Thus consumers can buy the products at reasonable price.

3. **Quality products:**

Marketing facilitates improvement in product quality by having constant research and development. Thus marketing facilitates supply of quality products to the customers.

4. **Utility creation:**

Marketing creates form utility in form of shape, size etc. It also creates time and place utility by making available the goods at required place and time. Consumers also get possession utility due to the physical possession of the product.

5. **Regular supply of goods and services:**

Marketing facilitates regular supply of goods and services in the market. Effective distribution facilitates easy availability of goods and services for consumption by the customers.

6. **Higher standard of living:**

By making availability of variety of goods and services, marketing increases standard of living of the customers. With the help of effective marketing strategies customers can enjoy variety of products of higher quality.

(D) IMPORTANCE TO THE SOCIETY:

1. **Employment generation:**

Marketing facilitates generation of employment opportunities either directly or indirectly. It creates employment in production, distribution, advertising etc.

2. **Spread effect:**

Due to marketing production and distribution of products increase. This results into increase in transportation, banking, insurance, finance etc. industries. Thus marketing facilitates increase in job opportunities in other industries.

3. **Higher standard of living:**

By making availability of variety of goods and services, marketing increases standard of living of the society. With the help of effective marketing strategies people of the nation can enjoy variety of products of higher quality.

4. **Economic growth:**

Marketing facilitates increased production and distribution of goods and services which mobilizes maximum resources. This results into economic development of the nation.

Core concepts in marketing management:

1. **Needs, Wants and Demands**

a) Needs:

A need is basically a requirement of items which are necessities of life. For e.g. need for food, clothing, shelter which come at basic level in human life. Whenever a person felt lack of goods and commodities to satisfy these requirements, need emerges. As needs emerge on their own, there is no need for marketing to create them. People have to satisfy these needs and therefore marketing has very little role to play.

b) Wants:

Want may be referred as deficiency of something. Need can be translated into want. For e.g. if there is need for food, the want can be to have pizza, burger etc. If there is need for clothing, the want can be to have jeans, belts etc. Marketing provides variety of products to the customers out of which they can select as per their choice. So marketing tries to convert customer needs into customer wants.

c) Demands:

Demand emerges after need and want. People demand the product when they know that they have ability to purchase that. Demand depends upon purchasing power of the customers. As purchasing power of the people increases, demands also increase. For e.g. if there is need for shelter, then want can be to have a big flat and finally when purchasing power increases the same customer may demand bungalow

2. **<u>Value, cost and satisfaction:</u>**

a) Value:

Value can be defined as capacity of the product to satisfy the customer wants. If the level of satisfaction derived from use of product is high, value of that product to the customers will be more. Whereas if a customer derives less satisfaction from use of product, value will be less.

b) Cost:

Cost is monetary value of the product. If the product is offered free of cost or at fewer prices, many customers will purchase it. The concept of cost is very important n marketing as many a times cost is sacrifice by the customers of one alternative with another one. For e.g. if a customer wants to purchase a car and his son wants to go for some educational course which is having equal cost, then that person will mostly sacrifice the alternative of purchasing a car and will use that money for his son's educational course.

c) Satisfaction:

Satisfaction is measured in terms of fulfillment of customer needs and wants from use of product. If customer is able to fulfill more of his wants with the product use, satisfaction level will be high and vice a versa. Satisfaction is related with the minds of customers. It is a relative term. Customer satisfaction will change from customer to customer, from time to time, from situation to situation etc. For e.g. if a customer gets less satisfaction from a use of a particular pen, another customer may get higher satisfaction from the same pen.

3. **<u>Exchange and Transaction:</u>**

Marketing involves give and take process. Exchange is the basic requirement of marketing transaction. For a marketing transaction to take place there should be give and take process between buyer and seller. Buyer should have money to pay to seller and seller should have product to offer to buyer. Marketing transaction is meaningless without exchange between buyer and seller. Cases of charity, gifts and donations are not covered by marketing as there is no exchange. Moreover when a person arranges for his own requirements, there is no question of marketing. For e.g. a person may grow the required vegetables in his own garden for his own use.

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CURRENT MARKETING ENVIRONMENT IN INDIA

Module – 1 : Micro and Macro Environment

A marketing oriented company looks outside its premises to take advantage of the emerging opportunities, and to monitor and minimize the potential threats faced by it in its businesses.

The environment consists of various forces that effect the company's ability to deliver products and services to its customers. The microenvironment of the company consists of various forces in its immediate environment that affect its ability to operate effectively in its chosen markets. This includes the company's suppliers, distributors, customers and competitors. The macro environment consists of broader forces that not only affect the company and the industry but also other actors in the micro environment. These shape the characteristics of the opportunities and threats facing a company. These factors are largely uncontrollable by the company.

The environment can affect the company in dramatic ways. The company can have the best technologies, the best employees, and the best of suppliers but it fan fail miserably if any of the factors like exchange rate, policies of the host government or changing needs of customers, start to act against it. Similarly, Medicare company can be spectacularly successful if the factors in the external environment start favouring its strategies and policies. It is imperative that companies keep a close watch at the environmental factors that may affect them and prepare themselves adequately to face the emerging challenges

AN ORGANIZATION AS A SYSTEM

An organization is a sub-system in the larger socio-economic environment. It receives human, material and financial resources from the environment and converts them into useful products and services to serve their target customers, In this process, the organization has to interact with a host of suppliers, competitors publics customers and government. All these agents and institutions act as the environment of the organization. They act as facilitators as well as impediments in the marketing efforts of the organization.

A marketing oriented company looks outside its premises to take advantage of the merging opporttnities and monitors and minimizes the potential threats faced by it in its businesses.

The environment consists of various forces that affect the company's ability to deliver products and services to its customers.

COMPONENTS OF AN ORGANIZATION'S MARKETING ENVIRONEMENT

The environment can affect the company in dramatic ways. A company may have the best technologies, the best employees, and the best of suppliers but it can fail miserably if the external environmental factors like exchange rate, policies of the host government or changing needs of customers are poised against it. Similarly, a mediocre company can be spectacularly successful if the factors in the external environment favour its strategies and policies. It is imperative that companies keep a close watch at the environmental factors that may affect them, and prepare themselves adequately to face the merging challenges.

Marketing environment for a company consists of :

> The company and its own environment – Organizational cultural environment
>
> Company's task environment – Suppliers, intermediaries and markets
>
> Competitive environment – Competitors in a market
>
> Public environment – Various publics
>
> Macro environment – Uncontrollable variables

The microenvironment of the company consists of various forces in its immediate environment that effect its ability to operate effectively in its chosen markets. This includes the company's suppliers, distributors, customers and competitors. The macro environment consists of broader forces that not only affect the company and the industry, but also other acts in them microenvironment. These shape the characteristics of the opportunities and threats facing a company. These factors are largely uncontrollable by the company.

INTERNAL MICRO ENVIRONMENT

This consists of the environment within an organization i.e. the organizational culture. Marketing is a function or a function or a department in an organization, which impacts and is impacted by decisions of other departments of an organization.

Shared values and beliefs, which form the culture of an organization, are necessary prere3quisites for successful marketing orientation. Every employee in every department should believe that business goals can be achieved only through heightened awareness of customer needs and a tireless zeal to serve those needs. Customer orientation cannot be drilled in employees overnight. Fables have to be created and circulated, extolling customer care. Top executives have to repeatedly demonstrate concern for customers in their strategic and operating decisions and their own behaviour. People should feel proud and good about themselves that they go out of their way to serve cust0mes. This can be a problem for long established companies that did not put the customer first. Such companies have to be patient. They should not expect their employees to change overnight from ignoring uso0mers to serving them.

EXTERNAL PROXIMATE MACRO ENVIRONMENT

This includes the suppliers, marketing intermediaries, publics and competitors.

Suppliers Environment

Every organization has suppliers. For a manufacturing concern, the suppliers provide raw materials, components, machinery and equipment, for wholesalers the manufacturer is the supplier and for the retailer the manufacturer or the distributor is the supplier.

Business buyers draw a product specification and ask suppliers to make their products to meet them. Usually suppliers are selected on the basis of strict specifications that are based on economic and technical criteria. Usually, the buyers and suppliers enter into long term relationships due to the nature of the products being bought and sold in business markets.

Marketing Intermediaries Environment

Marketing intermediaries are those organizations who facilitate the distribution of products and services from producers to customers. There are three types of marketing intermediaries – Agents and brokers – Wholesalers and retailers, and Facilitating organizations such as transporters, warehouses, financing companies and freight forwarders.

Producers need to consider not only the needs of the ultimate customer but also requirements of marketing intermediaries.

Competitive Environment

The competitive environment consists the number of competitors a company faces, the relative size of competitors and the degree of interdependence within the industry. The marketing department of a company has little control over the competitive envir0nment confronting it.

Companies should be ready to encounter competitive environments which would be very different from the ones that they have been facing. Most companies have faced domestic competition and done well in the limited competitive milieu that they have been operating in. But now all companies will face competition from companies all over the world. Governments will be unwilling to protect domestic companies because they have realized that they will be doing a great disservice to their economies and people by limiting competition in their countries. Most governments are going overboard in making their countries attractive destinations for foreign capital technologies and companies. The game is clear Only the best companies will survive. The nationalities of companies will not matter and country markets will become intensely competitive.

There will be another type of competition which is more difficult to contend with because it comes from unexpected quarters. New technologies are pouring out of laboratories and development centers. These new technologies do not respect the boundaries of existing businesses. They solve customers existing and even unarticulated needs in fresh ways. Customers lap up the products and services made with these technologies because they are decidedly better than the products and services they are using. Thus cellular telephone operators have decisive advantages over the landline phone operators and the later would not find many new subscribers. Sending a document by e-mail has definite advantages over the sending the same document by courier and fax. Video conferencing is a much less costly and cumbersome activity than getting the people engaged in the video conferencing to travel from distance places and arranging fort their meeting and stay. In that sense video conferencing is a direct threat to air travel and hotel industries. Companies need to keep a track of development of technologies in varied areas, because there is no way to find out which one of them is going to hit them.

Customers needs are changing because their economic status and their views about themselves and the world is changing. Cust0mers are reinventing themselves more frequently these days, and hence their whole being and their rationale of existence is changing. This reflects in the products and services they buy and their motivations in buying those products and services also change. They want their needs to be served differently and in most cases by different providers. A family used to go on a holiday once in a while for a change. It essentially used to be a meaningless outing. But now a families will goon a holiday with the avowed purpose of recuperating and energizing. Certain activities have to be part of this holiday. There has to be yoga sessions, mountain climbing, bonfires et. The holiday planner that served the family will have to reinvent his business or there will be another provider waiting to grab his client. Any has to keep track of his customers changing attitudes believes needs and see if he will be attracted to another provider.

Public Environment

A public is any group that has some interest in the organization and its activities. It is crucial for the organization to not only understand and develop good relations with its target markets and its intermediaries but also to understand various publics that affect its business. By communicating to other groups, the company creates a environment in which it is easier to conduct marketing.

A Company has to understand the importance of stakeholders other than its customers, suppliers and channel partners. A Company's very existence as a business entity will be in jeopardy if these stakeholders do not have positive perceptions of the company. For instances, it will not be allowed to set up its factories and offices if it has antagonized the community in which the business is to be set up. Aggrieved media and pressure groups can be rate the company to the extent that its suppliers and other partners would not want to do business with it. And all these stakeholders shape customers opinion to some extent In sum a company would find it impossible to do business if its major stakeholders are aggrieved with it, even if the company has very good product and marketing program in place.

Customer Public

These are the target customers of the company. The maintenance task of the company for this group is to satisfy and retain them. The company realizes that customers are habitual story tellers. If a cust0mer is not treated well by a company he will spread the story far and wide. And if he perceives that the company has gone out of its way to be of help to him, he will be equally profuse in its praise. The need to maintain good public relations ensures that customers presented with useful information are treated well and have their complaints dealt with fairly and speedily.

Local Public

This includes the local community, usually in geographical proximity of a company's office premises and surrounding its factories or manufacturing units. The firm needs to be careful about maintaining good relations with this group and following environmental norms and safety standards.

General Public

It is important for markets to create positive perceptions among the general publics, who may be in a position to influence the purchase decisions of consumers, even if they are not customers themselves. Companies build corporate image to achieve this goal.

Media Public

Though a company can manage to get talked about in the4 media without doing anything which is newsworthy, it will not helps cause if the readers or the viewers do not find the story about the company stimulating enough to take a note of it and register it in their minds. A big portion of the publicity budge tis spend on maintaining relation with media with the hope that media will feature the company more frequently and prominently. This is wasteful, instead the company should expend its resources stating events, building associations and doing other things depending upon the type of business the company is in that the public would be genuinely interested in knowing about.

Savvy companies know the triggering points of public and the media attention and conduct themselves in a manner that invites the attention of the public and media. Their publicity endeavour does not end with courting the media. Media anyway, will carry the stories that its readers and viewers will want to read and view.

Financial Public

Public and banks would not finance the Company's operation if it lacks credibility. Therefore, the company must build credibility among these stakeholders.

Government Public

A Company's policies must always comply with the rules and regulations laid down by the government. Else, it can invite the wrath of the government, which can lead to severe negative publicity.

Citizens Action Public

These include consumer action groups, forums, associations, trade unions and environmental groups. Consumerism is a movement that is defined as seeking to increase the rights and powers of buyers in relation to sellers. A combination of consumer concern over rising prices and over the problems of product performance and quality are viewed as chief reasons for consumerism. Consumers are concerned about the marketing activities efforts result in consumer confusion. Despite problems consumers are seen as still able to make sensible buying decisions. Many consumers feel that marketers sometimes manipulate consumers into unwanted purchase but companies strongly contend that consumers still hold the ultimate weapon of not buying products executives support propositions to make advertising more factual and informative. They seek consumerism as leading to major modifications in advertising's content that will make it more truthful.

Business is considered primarily responsible for both causing consumer problems and resolving them. Business self regulation is still the most favoured route. Improving product quality and performance is viewed as the most constructive consumer oriented program that companies can undertake. There has to be increased sensitively to consumer complaints.

Internal Public

The company creates and maintains respectability in the eyes of public so that best people are attracted to work for the company. It promotes the sense of identification and satisfaction of employees with their company. Talented employees will stay in an organization only if they are proud of belonging to the organization. An employee will not feel proud of his organizations if stories of the organization's sordid deeds and its shoddy behaviors are out in the open. But when the public respects his organization he feels good to be a part of it. Activities such as internal newsletters recreation actiovi9iesand awards for service and achievement can be used.

COMPANY'S MACRO ENVIRONMENT

These include external factors that are beyond the control of the company.

Demography

Demography is the study people in terms of their age, gender, race, ethnicity, and location. Demographics are significant because people constitute markets. Demographics characteristics strongly affect buyer behaviour. Fast growth of population accompanied with rising income means expanding markets. The longer life span means a growing market for products and services targeted to the elderly.

Adolescents

The new age teens are marketers' delight. They do not earn but they are fond of spending, and most of them have their own budgets. They spend lavishly on clothes, eating out, going out, latest gadgets and are very keen to catch on with their friends in terms of possessions and lifestyles. They do not feel guilty of spending their parents money and put on real pressure on their parents to shell out money for them. They will put their parents in financial inconvenience but they will have their motorbikes and fanciful mobiles and will hang out at eating joints, theaters and malls. They are stylish and fashion conscious and submit to peer pressure. They will latch onto the next hot item. They feel they need to have a life of their own and it should not be denied to them just because they are not earning.

Youth

The current youngsters are growing in a more media influenced, brand-conscious world than their parents. They respond to advertisements differently and prefer to encounter those advertisements in different places. Companies have to take their messages to the places where these youngsters frequent, whether on the internet in a cricket stadium or television. The advertisements may be comical or may be disarmingly direct. But the advertisements should never suggest that the advertiser knows these youngsters better than they know themselves. These youngsters know what they want from their lives and the products and services they buy. They do jot mind information reaching them but they will reserve their right to make their choices. They hate to be persuaded and influenced. Companies would do well to leave them alone to take their decision. They will access and process desired information themselves and will let their choice known to the marketers. For these youngsters any one can be a star and most of themselves count themselves as one. They believe that every one deserves to have his say and own space. For them getting heard and becoming well known are not only easy but a natural way to go about with their lives. They create their own wed site, make a movie with their own webcam or digital camera post their thoughts, pictures and writing online and even be on television. Since they are sure about themselves and know what they want they prefer customized products and services companies are realizing that they have to provide something unique and deeply personal to win loyalty of current youngsters.

People between 35 and 45

People in the age group of 35 to 45 years are settled in their professions and have toddlers and growing children at home. They exert themselves in their profession because they realize that their career is likely to take off at this stage. They put long hours at office and they have to juggle endlessly between their responsibilities as spouses and parents and growing responsibilities at work. They may also have older parents to look, after. Parents may be staying with them or they may be living in different cities.

Income of people in this group rises at a good rate and they are good spenders. Some of them may be buying their first cats but most of them will be thinking of upgrading their carts. Similarly, they will upgrade their household gadgets like refrigerators, televisions and kitchen appliances when better products come along. They are also open to new gadgets for themselves and their households, People in this age group want to live a good life and are constantly on buying spree to improve their lifestyles. They dress well, will dine out frequently and will look for opportunities to go on old days. These days they are also keen to buy houses very early in their lives. They also plan to retire early and they plan their finances accordingly. They have a taste for good life and they do not want their lives pleasures to be disturbed by pressures of job.

People between 45 and 60

Some people in this age group will at the peak of their careers while some others will be struggling to keep their jobs. Children become a major priority for people in this age group. Children are ready to go to colleges and professional schools and some of these people will be willing to make scarifies in their careers to avoid unsettling their children. People in this age group will spend less as they will be saving resources to fund the higher education of their children. They will also be worried about their own future and will be making last ditch efforts to put a retirement plan in place because they will not see many years of career left ahead of them.

People above 60

People in this age group will live on small and steady income. Some of them will be living with their grown up children and will be part of their household. They will be contribute to the requirement of the joint household and they will not be spending much on themselves. The family looks after their requirements. Most of their money will be spend on buying gifts for their children and grandchildren. But quire a few of these people live alone and are visited by their children infrequently. They maintain their own household and their major spending is on running their households. They have to spend a substantial part of their earnings on health related issues and domestic help. Sometimes their children also supplement their income.

Economic Environment

The economic environment can have a major impact on businesses by affecting patterns of demand and supply. Companies need to keep a track of relevant economic indicators and monitor them over time.

Income

One of the most important factors in the economic environment is the income of customers. This indicates their ability to spend on the products sold by the marketer. The marketer not only needs to estimate the income of customers, but he also has to decipher the products on which the customer would be willing to spend his money. The rise in the number of dual income families in several parts of the words, including urban India has lead to a rise in the incomes for such families. This leads to higher demand for lifestyle and luxury products. However, marketers should be wary of making generalizations while using incomes as indicators of consumer spending as customers propensity to spend depends on cultural factors. The proportion of money spend by a customer on various products also vary across cultures. Some products or instance dishwashers that are considered to be necessities in Western marketers do not even fall into the consideration set-in the Indian markets. Therefore despite having a higher income customers will not spend on products that are not considered to be desirable.

Inflation

Inflation is an important economic indicator of an economy. Inflation refers to an increase in prices without a corresponding increase in wages, resulting in lower purchasing power of consumers. An economy should try to achieve low rate of inflation. The best way to achieve a low rate of inflation is to ensue that products and services are produce efficiently. When cost of production of products and services are low, they will be sold at lower prices and hence inflation will below. An artificial way to reduce inflation is by restricting supply of money in the economy by raising the interest rates at which consumers and businesses can borrow money. There will be less demand and supply will be higher, forcing suppliers to reduce their prices. But this can only be q short term approach because restricting the supply of money will reduce the outputs of businesses and level of economic activities. This will be dangerous to the economy. The effort should be to increase productivity and efficiency of all economic activities.

Inflation rate is higher when costs of producing products or services go up or when there is too much money chasing too few supplies prompting the suppliers to raise prices and earn higher profits. High inflation rate decreases real wages i.e. the customer can buy less goods with his income because the goods have become costlier, Inflation will reduce the demand for several products because the customer will ration his income on goods. But if wages and incomes increase at a rate greater than inflation rate, customers purchasing power will not be affected adversely In inflationary times customers stock items to save themselves from further increase in prices and abandon their favourite brands to buy more economical bands.

When costs of production goes up, they should try to withhold increasing pries for as long as possible because the customers do not start valuing the product more because they are more mostly In the long run, companies will have to look for better methods of production and chapter inputs so that cost of production an be brought down and if inflation is because the suppliers are less than the demand, the money supply can be restricted in the short run, but in the long run ,companies will have to expand capacities and increase their supplies.

Recession

A recession is a period of economic activity when income, production and employment tend to fall. Demand of products and services are reduced. Specific activities cause recession. The slowdown in the high tech sector, rising fuel prices, excessive consumer credit and terror attacks resulted in recession in America in 2001. Marketing strategies to counter recession are :

- Companies sh0uld improve existing products and introduce new ones. The idea is to reduce production hours, waste and the cost of materials so that companies can offer products at lower prices. Recession increases the demand for products and services that offer good value at lower prices. Business buyers buy products that are economical and efficient, offer value, help them to streamline practices and procedures, and help them to improve their services to their customers. The idea should be to prompt consumers and business cust0mers to buy more. The most potent way to end a recession cycle is to make it attractive for customers to buy more.

- In recession business buyers will postpone the purchase of new equipments and materials because they do not know if there will be demand for their products and services. Sellers should be willing to extend credit to buyers to get over their reluctance to purchase. In recession, sales of replacement parts and other services may become an important source of income.

- Companies should emphasize their top of the line products and should promote product value. Customers with less to spend will look for demonstrated quality, durability and capability to save time and money. High priced, high value items do well during recession.

- Companied should understand that though there are specific causes that trigger recession, it is perpetuated because consumers and businesses become uncertain about future and are reluctantly and scared to buy T to save for the worst time that will descend on them. Companies selling to consumers have special responsibility during recession. Once consumers start buying, businesses will start buying automatically. Therefore companies selling to consumers should generate confidence in the consumers by offering them high quality products and services at reasonable prices and also extend credit to them. Companies should be prepared to do whatever it will take to make the c0nsumers buy from them.

Interest rate

If interest rate of an economy is high, businesses will borrow capital at a higher rate and they will set up new businesses only when they are convinced that they can earn at a rate higher than the interest rate they are paying on the capital. Therefore if the interest rates are high new businesses will not come. Even in existing businesses operating costs would go up as their working capital requirements will attract higher interest rates. Therefore companies will be able to produce products and services at higher costs and will perforce sell them at higher prices. Therefore, there will be inflationary tendencies if interest rates are higher for long periods. Further consumers will have strong tendencies to save because of the prospects of earning higher interest rates from their deposits High interest rates have detrimental effects on the economy.

When the interest rate is lower, companies can get cheap capital and pressure to earn at a higher rate from their new businesses isles. Therefore new businesses are likely to be set up in low interest regime. Further companies are able to et their working capital at lower interest rate, and are able to produce products and services at loser costs. Companies are able to sell at lower prices and hence are able to attract larger number of customers. Cust0mersarealsoable to get loans at lower interest rates and are hence able to buy products and services which otherwise they would not have been able to by. when customers are able to avail loans at low interest rates sale of expensive items like houses and cars go up. Customers do not have to save and accumulate to buy these products. They take loans buy the products and keep paying back the loans in small installments Lower interest rate is one sure way to spur consumer purchases. Also consumers are not too keen to save because their money will not grow rapidly due to lower interest rate. They would be more keen to spend their money. And when they invest they are more likely to do so in equity markets because they are more likely to get higher returns there. Therefore business will get impetus because finance in the form of equity capital will be available to them.

Exchange Rate

Exchange rate becomes a very important driver of performance when a company exports its products and when it imports materials and components for making its products. It is more profitable to export when the currency of the exporting country is weaker than the currency of the importing country. But this advantage is nullified if materials and components are imported from a country whose currency is stronger. Accompany will run its most profitable operations when it exports its product to a country whose currency is stronger, and imports material and components from a country whose currency is weaker.

Exchange rate has become more important when supply chains of most companies are becoming global in scope i.e. companies are locating their manufacturing and distribution centers throughout the world, depending upon the advantages of each location. A company may have located its manufacturing facility in a country, say India, because of advantages of lower labour cost. But if the Indian currency appreciates, this decision will not fare well, because exports from India will be become costlier to the import. To minimize the adverse effects of exchange rate, a company will locate its manufacturing facilities in multiple locations throughout the world and have some extra capacity at each of the manufacturing location. The company will export from manufacturing locations in countries whose currencies are weaker than the currencies of countries where they are being exported.

Module – 2 : Socio Cultural Environment

Customers live in societies. A large part of being an individual is dependent on the society he resides in. Social factors include attitudes, values and life styles of people. Social factors influence the products people buy, the pries they are willing to pay for the products, the effectiveness of specific promotions and how, where, and when people expect to purchase products. But societies are hardly ever static. They change gradually and some changes will be imperceptible if not watched closely. Social change is the most difficult variable for marketing managers to forecast, influence and integrate into marketing plans. But it is important that marketer stake into account social changes happening in societies in which their customers life when they e framing of their marketing strategies. Societies can change in manners which can make companies current products and services totally redundant.

Values

A value is a strongly held and enduring belief. The majority of people living in a society uphold the values of the society. A person's values are key determinants of what is important and not important to him, how he reacts in a particular situation and how he behaves in social situations.

Values affect the goods that a customer buys and the ways he buys them. Customers themselves are part of organizations which are trying hard to become customer oriented. Customers who are conscientious marketers themselves will not tolerate ineffective products and sloppy behaviour of marketers of other companies. In this manner companies are putting pressure on each other to become more customer oriented. Customers are increasingly developing global outlook as more and more of them are working in multinational companies and are traveling more frequently to countries which are alien to their own countries in political economic and social parameters to cope in such an environment people have become inquisitive discriminating and demanding. They carry these values as buyers too. They carry out detailed search and ask uncomfortable questions before settling on a brand . there is no guilty in making lives of marketers miserable. Things are not easy in their lives and they do not want to make it easy for the seller. When children are pressurized to excel and be in front in their formative years, they are not going to be easily swayed to marketers' rhetoric. Performance has been demanded from them in all his growing years and he will demand performance from companies who want to sell them. Societies and businesses have become competitive within themselves. The buyer will expect the same competitiveness from companies. He will not take less because no body takes less from him. Companies should learn to expect tough customers.

Time starved Customers

Today fewer customers say that expensive cars, designer clothes are pleasure trips necessary components of a happy life. Instead they put value on nonmaterial accomplishments, such as having control over their lives and being able to take day off when they want. Dual career families do not have time for each other and most of them re unhappy, though they have all the trapping of supposedly good life. A scarcity of time means that people will decrease the amount of time spent doing things they do not like doing. This means doing less housework and home maintenance and dining out more. It also means paying more attention to brands names to make buying decisions quicker and easier Customers who are constrained for time are likely to favour small shops over large ones spend less time comparing prices use techno logy to reduce transaction time and patronize businesses that help them save time and make their life easier.

As work life gets longer and more stressful, people are going to spend their leisure time recuperating and making themselves fresh and energized for work i.e more and more people spend their leisure time getting ready for work. Casual Friday and home offices are further blurring the boundaries between work and leisure. Spending time with the family is becoming the most preferred leisure activity. People will increasingly place more value on time than money. More employers will have to offer off as an incentive companies which arrange holiday trips or provide leisure activities will have to provides something substantial for each member of the family. Even when on holidays or on leisure trips people want everything to be planned meticulously so that they can recuperate in a planned manner. There is no time to while away.

The Multiple Lifestyles

A lifestyle is a mode of living i.e. it is the way people decide to live their lives. Today people lead multiple lifestyles. They are choosing products and services that meet diverse needs and interests rather than conforming to traditional stereotypes. In the past, a person’s profession defined his lifestyle. Today, a person can be a teacher and also a gourmet fitness enthusiast, and so many other things. Each of these lifestyles is associated with different products and services and is a potential customer for companies. For example, for the gourmet, markets will offer cooking utensils, wines and exotic foods. The fitness enthusiast buys Nike shoes and special jogging outfits. Multiple lifestyles increase the complexity of consumers’ buying habits. A person may goon holidays to exotic holidays and may spend a fortune to travel to distant and inaccessible places, but may dine in very ordinary restaurants. He may buy fast food for lunch but may wear the most expensive suits. People are more willing to indulge in their passions and live they want to live. There is no stereotype lifestyle. This can be a nightmare for marketers. It is impossible t0 profile a customers in terms of occupation 0r income, or place of residence, or education and believe that he will buy a certain set of products and services. It is impossible to decipher that if a person has bought a certain product or service, he will also buy some other products too. It has become extremely difficult to categorize person and expect that he is a potential customers for certain products and services and not a potential customer for some other product and customers. A segment of just one customer may finally be becoming a reality.

The Changing Structure of Families

Multiple lifestyle have evolved because people can choose from a growing number of products ad services and most have the money to exercise more options. The growth of dual income families has resulted in increased purchasing power. More women are working outside homes and this number is only going to increase. The phenomenon of working women has had greater effect on marketing strategies and initiatives of companies than any other social change. As working women’s earnings grow, so do their expertise experience, and authority. Today’s working women are very different from the working women companies targeted a decade back. They want different things in life from their spouses from their jobs and from products and services they buy.

The growth in the number of working women means an increase in dual income families. The dual income families have greater household income but they have less time for family activities. More working women has meant an increasing demand for time saving devices and products, particularly for the kitchen. Their purchasing roles which defined the items traditionally bought by the man or the woman, are changing, their purchasing patterns are also changing. Products like cars which were traditionally thought of as male products are bought by women and companies are responding to their new buyers by designing cars specifically for them and by employing more women in the sales force. Women are making major economic decisions either independently or equally with spouse. Most women are not leaving important market place decisions to others. It is being discovered that cost is more prominent in decisions made by women, whereas quality is relatively more important to men. This will have important influence when companies design marketing mixes for products where the woman is the prime decision maker. In purchase of expensive and long term items women are active but they are likely to make decisions jointly with their spouses. Life experiences is an important factor in women's independence in long term planning ad decision making. Married women over the age of fifty are more likely to make decisions on their own than their younger counterparts.

Technological Environment

New technologies can be used very effectively to counter inflation and recession. New machines can reduce production costs. The increasing computing ad processing capabilities of personal computers is increasing the efficiency and effectiveness of businesses. Advances in information technology has made it possible to plan truly global supply chains in which manufacturing and are housing are disbursed through out the world depending upon where these activities an be performed best Companies will be able to make better products at lesser cost and will be able to distribute them economically when supply chains become global. An economy's ability to generate wealth will be largely dependent up0n the speed and effectiveness with they invent and adopt machines that improve their productivity.

Technologies for Nations

Economies will need to excel in both basic and applied research. Basic research attempts to expand the frontiers of knowledge but is not aimed at a specific problem. Economies Which are well off should concentrate more on basic research because they can remain ahead of other economies only by creating new businesses through inventing new technologies by basic research. Developed economies should be ready to relinquish businesses they are currently excelling in because other economies will catch up with them and the developed economies will not he able to charge premium prices for their products and services. America had to relinquish manufacturing as other nations were able to manufacture high quality products at lesser pries. It should be ready to relinquish services now as other economies are becoming more proficient at providing services. Less developed economies should focus more on applied research and develop better products and services with existing technologies.

Technologies for Product and Services

New products and services are possible because of new technologies. These help to increase revenues and profits of companies. At different times in history, technologies have created new businesses like automobile, railways telephones, computers etc. currently were seeing new products and services being developed by emerging technologies like interest mobile connectivity nano-technology, genetic engineering etc. these technologies are likely to fuel growth in the near future.

Technologies for Business Models

But companies also use new technologies to do business differently and more effectively. Dell computers is able to sell its product directly to business cust0mers because internet enables it to be in contact with its cust0omers without incurring much expense. It gleans valuable information about its customers from the interactions it has with them. Dell uses these information to segment its market further and then it focuses its attention on the most profitable customers. Thus by using internet Dell is able to earn greater profits by serving only the most profitable customers. There are companies in fragrance and other business which have equipped their customers with design tools. The customers design their own products and services and their companies manufacture them. Through these tools these companies are able to lock their customers in long term relationship. Some other companies have used the poser of internet to create virtual design teams. The members of the term are experts in different technologies and they are stationed in different locations. The team members interact through the new tools of information technology. like e-mail chat rooms ,video conferencing etc. It has been found that these virtual teams are able to design better products because best people can be put on these terms without constraints of location and lot of interpersonal conflicts of real teams are avoided in virtual teams. There are lot of other ways in which technologies like internet are impacting businesses. Therefore when evaluating new technologies companies should ask two questions – What new products and services can be produced by using these technologies, and how the technologies can be used to run businesses better.

Political and Legal Environment

Political legal environment provides the legal framework within which the marketing department has to function. The political legal environment of a country is influenced by political structures and organizations, political stability, government’s intervention in the business, constitutional provisions affecting businesses, government’s attitude towards business, foreign policy, etc. The viability of businesses depends upon their ability to understand the laws of the land and to abide by them, while not becoming less innovative in their marketing endeavours due to fear of their infringing some laws.

Stability of the government is a very important factor in a company’s decision to locate its businesses in a country or a state.

Businesses prefer to operate in countries where there is political stability and where rule of law prevails. Businesses are very worried about the strength of the legal system of a country. They want to be sure that the judiciary is strong enough to force a party to a contract to abide by the tenets of the contract. Businesses feel helpless in countries where contracts cannot be enforced by the judiciary of the land or it takes excessive time or there is lot of hassles in the judicial proceedings.

Businesses need government regulations to protect the interests of society in general innovators of new technology, one business from another and consumers. Governments will need to provide an environment in which businesses can flourish. In turn, government needs businesses, because the market place generates taxes that support public efforts to provide essential services like health and education to their people Government also need businesses because they cannot produce everything that their people may require and also because prosperity of societies depend on businesses to a very large extent Governments and businesses need each other. The decentralization of power inherent in a private enterprise system limits the might of government, which is very essential for survival of democracy. Governments would become all powerful if all the economic activities were controlled by them.

Every aspect of the marketing mix is subject to laws and restrictions. It is important that marketing managers and their legal assistants understand these laws and conform to them, because failure to comply with regulations an have major consequences for a company. It is also impor5ant that a company is able to sense trends and take corrective action before a government agency decides to act against the practices of the company. The players of tobacco industry have largely been reacting to governments imposing one sanction after another. They could definitely have anticipated some of these sanctions and been prepared to face them.

The challenge is not simply to keep the marketing department out of trouble, but to help it implement creative programs to accomplish marketing objectives. It is all too easy and convenient for a marketing manager to say no to a marketing innovation that may actually entail little risk. An overly cautious manager can hold up sales of a desirable new product by warning that the package design could prompt a copy right infringement suit. Thus it is important that the marketing mangers have a through understanding of the laws of the land.

Ecology (Natural Environment)

A free society needs both – high standard of individual wealth and clean environment. The private enterprise system has to develop the capability of providing the elements of an improved quality of life. Industries have to meet environmental demands and yet maintain their capacities to compete internationally. The demand for environmental improvement offers opportunities to nearly all types of companies to participate in this huge market. Properly developed, these market will create economic growth, which can pay for the environmental improvements sought.

There are two different types of opportunities. The first opportunity comes from the fact that the companies will not be allowed to pollute the environment. Companies will have to identify processes whose outputs are being released in the environment and hence polluting it. Companies have believed that to reduce the emissions or make them harmless before releasing into the environment, is always going to cost more. But this is not the case. When companies use new technologies to carry out their emission producing processes, they find that the effectiveness and efficiency of the process is improved, in addition to reduction of emissions from them. Therefore, the company is able to recover the investments that it made in redesigning the process. The idea is that processes which cause polluting emissions are inherently ineffective and inefficient processes and better processes should be designed using new technologies. Companies have to believe that investing in technologies that help them to reduce emissions make business sense. Their processes become more efficient and effective and they reap the economic benefit of improved processes for all times to come.

The second opportunity will come to those companies which will develop the technologies that will enable companies to carry out their processes in environment friendly ways. These companies will have to invest heavily in research and development, but they can be assured of a huge success when they come up with technologies that reduce or eliminate polluting emissions from processes. Just imagine the pay off if a company were to invent an automobile engine that would not emit any polluting gas or if a company invented technologies to make plastics which would be biodegradable. And there are numerous such opportunities waiting to be tapped.

Consumers have to play an important role if companies have to be made responsible for preservation of the environment. They should stop buying products of companies which are polluting the environment. And more importantly, they should be willing to pay an extra amount if a company is incurring extra costs in making the product with environment friendly processes. They have to understand that if companies have to bear all the cost of preserving the environment, they will find ways to comply with laws, while they will continue to pollute the environment. NGOs also have very important roles to play. While they can be very strident and intimidating, their real role is to form partnerships with companies to protect the environment. Members of NGOs are very knowledgeable and resourceful in their areas of concern and if companies ad NGOs are very knowledgeable and resourceful in their areas of concern, and if companies and NGOs start cooperating instead of being at loggerheads, real p[progress can be made. NGOs should progress from being mere watchdogs to becoming partners in the efforts to save the environment. They should carry out research and tell the companies how they can make their process more environment friendly.

We all owe it to be environment. All of us draw resources from the environment which we cannot get from anywhere else, howsoever much we may be willing to pay for them. And there are no man made sources from which we can get those resources. We are not anywhere making our own air and water. Preserving the environment is vital for our own preservation.

Central Pollution Control Board (CPCB)

The Central Pollution Control Board)CPCB) statutory organization, was constituted in September, 1074 under the Water)Prevention and Control of Pollution) Act, 1974. Further CPCB was entrusted with the powers and functions under the Air (Prevention and Control of Palliation) Act, 1981.

It serves as a field formation and also provides technical services to the Ministry of Environment and Forests of the provisions of the Environment (Protection) Act, 1986, Principal functions of the CPCB, as spelt out in the Water (Prevention and Control of Pollution) Act, 1974 and the Air(Prevention and Control of Pollution)c Act, 1981 (i) to promote cleanliness of streams and wells in different areas of the States by prevention, control and abatement of water pollution, and (ii) to improve the quality of air and to prevent control or abate air pollution in the country.

Air Quality Monitoring is an important part of the air quality management. The National Ambient Air Quality Monitoring (NAAQM) Programme has been established with objectives to determine the present air quality status and trends and to control and regulate pollution from industries and other source to meet the air quality standard It also provides background air quality data needed for industrial sitting and towns planning.

Besides, this CPCB has an automatic monitoring station at ITO intersection in New Delhi. At this station Respirable Suspended Particulate Matter (RSPM), Carbon Monoxide (CO), Ozone (O_3) Sulphur Dioxide (SO_2) Nitrogen Dioxide (NO_2) and Suspended Particulate Matter (SPM) are being monitored regularly. This information on Air Quality at ITO is updated every week.

Fresh water is a finite resource essential for use in agriculture, industry propagation of wildlife and fisheries and for human existence. India is a riverine country. It has 14 major rivers, 44 medium rivers and 55 minor rivers besides numerous lakes, ponds and wells which are used as primary sources of drinking water eve without treatment. Most of the rivers being fed by monsoon rains, which is limited to only three months of the year, run dry throughout the rest of the year often carrying waste water discharges from industries or cities/towns endangering the quality of our scarce water resources. The parliament of India in its wisdom enacted the Water (Prevention and Control of Pollution) Act, 1974 with a view to maintaining and restoring wholesomeness of our water bodies. One of the mandates of CPCB is to collect, collate and disseminate technical and statistical data relating to water pollution. Hence, water Quality Monitoring (WQM) and surveillance are of utmost importance.

Functions of CPCB

- To advise the Central Government on any matter concerning prevention and control of water and air pollution and improvement of the quality of air.

- To plan and cause to be executed a nation wide program for the prevention, control or abatement of water and air pollution;

- To co-ordinate the activities of the State Board and resolve disputes among them;

- To provide technical assistance and guidance to the State Boards, carry out and sponsor investigation and research relating to problems of water and air pollution and for their prevention control or abatement;

- To pan and organize training of persons engaged in program on the prevention control or abatement of water and air pollution.

- To organize through mass media, a comprehensive3 mass awareness program on the prevention, control or abatement of water and air pollution

- Collect compile and publish technical and statistical data relating to water and air pollution and the measures devised for their effective prevention control or abatement.

- Prepare manuals codes and guidelines relating to treatment and disposal of sewage and trade effluents as well as for stack gas cleaning devises stacks and ducts.

- Disseminate information in respect of matters relating to water and air pollution and their prevention and control.

- Lay down, modify or annul, in consultation with the state Government concerned, the standards for stream or well and lay down standards for the quality of air; and

- Perform such other function as may be prescribed by the government of India.

Module – 3 : Liberalisation, Globalization and Privatisation

It is difficult to forget the Benetton advertisement. One remembers it is not only for the colourful clothes displayed but also for the colourful faces that started down at us from the hoardings, bill boards. TV commercials and print. What it said in effect was that youngsters all over the world whether a black or a south Asian or an American etc. wore the same brand of clothes. That's globalization. In the lat 1990's. McDonald Food Corporation's advertisement campaign showed images of Russian soldiers and American grandfathers, young Mexican women and Australian aboriginal children celebrating a mutual love for McDonald food. According to the advertisement, every one around the world is saying "its Mac time now". What it rally portrayed was a universal market for merchandise produced by a transnational corporation. McDonalds thus became a symbol of globalistion.

History of Globalisation

Adelman believed that the globalization of the world economy started about 1600 AD. Global trade expanded rapidly from 1600 to 1800, Forbes magazine (1997) indicates that between 1870 and 1910 the free flow of labour was impressive and capital moved freely among major countries.

"National boundaries did not disappear …..But for the first time in history people, money and goods were able to flow across them quite freely". Forbes declares that Richard Cobden – a19th century British liberal who dedicated his life to free trade, can be considered as the father of globalization, because Cobden's zeal helped a setoff a world wide flow of people, capital and goods similar to the recent world economic situation. Forbes also estimates that in the second half of the nineteenth century 15 million people crossed the Atlantic to settle in North America.

Nevertheless, most scholars seem to agree that the use of the term 'globalization' is a recent phenomenon. It is believed that it was not recognized as a significant concept until the 1980's. However today there is a wide acknowledgement of the fat that globalization is the key to understanding the transition of human society into the third millennium

Meaning and \definitions of Globalisation

As is well known the word 'globe' refers to a spherical object and more specifically the earth, our earth, so logically the term 'global' is an adjective, meaning worldwide or involving the whole world or all embracing. Globalization the e watch word of the 21st century refers toan economic phenomenon a unifying process that has drawn lives all around the world into its fold.

In economics, Harris (1993) defines globalization as “the increasing internationalization of the production, distribution and marketing of goods and services..

Rhodes (1996) view globalization as “the functional integration of national economies within the circuits of industrial and financial capital”.

McGrew and Lewis define globalization as “a set of processes which embrace most of the globe or which operate worldwide, the concept therefore has a spatial connotation …..On the other hand it also implies an intensification In the levels of interaction, inter connectedness or interdepe3ndence between the state and societies which constitute the world community”.

Waters(1995) defines it as ‘A’ social process in which the constraints of geography on social and cultural arrangements recede and in which people become increasingly aware that they are receding”.

The term globalization as such denotes :

- The integration of the national economy with that of the global economy.
- The conversion of a national market into an international one, which facilitates the international mobility of factors like production or commodities.
- An economic as well as a political social and cultural process.

Globalization is best understood, in terms of developing markets deregulating business activities, privatizing state enterprises lowering national barriers and expanding world trade and investment, all creating a world community. Global economy thus helps people to link themselves and ensure a decent life for themselves and a better life for their children. So global brands of blue jeans, colas and stylist athletic shoes are as much on the mind of the taxi driver in Benares, as they’re in the kitchen or the closet of the school teacher in Stockholm or Shanghai.

Implication of Globalization

- At the macro level it is possible for (financial) capital to be shifted or moved instantaneously. This means that :

a) capital flows no longer need to be tied to the physical movement of goods.

b) the traditional forms of trade represent only a minute and decreasing fraction of cross border economic activity.

* At the company level they have changed what managers can know in real time about their markets products and organizational processes. This means managers an be far more responsive to what their customers want and far more flexible in how they organize to make and provide it.

- At the market level these developments have changed what customers everywhere can know about the way other people live; about the products and services available to them and about the relative value such offerings provide.

Factors that led to Globalization

According to the celebrated author and consultant Kenichi Ohmae there are what he calls the “four I’s that an explain the phenomenon :

1. Investments

The capital markets in most developed countries are flush with excess cash for investment. Japan for example had the equivalent of US$ 10 trillion stored away. Even poor, debt ridden countries often have huge funds blocked in pension funds and life insurance programmes. The problem is that suitable large investment opporttnities are not often available in the same geography as that of the money. Thus capital markets developed variety of mechanisms to transfer it across national borders.

Today nearly 10% of US pension funds are invested in Asia. Ten years ago such participation in Asian markets would have been unthinkable. So investments are no longer geographically constrained – as long as there is an attractive opportunity anywhere in the world investments can be made. Earlier the flow of cross border funds was primarily from government to government or from multi lateral lending agencies to government. That is no longer these, because most of the money moving across the borders is private and governments do not have to be involved at their end.

2. Industry

Globalization is a phenomenon of the nineties. In the past companies did not think global. They were nationalist in attitude and approach and would strike deals with host governments to bring in resources and skills in exchange for privileged access to local markets. All that has changed because the modern corporation today is compelled by desire and ambition to serve attractive international markets and tap lucrative pools of resources wherever they may be. So governmental subsidies, old fashioned tax breaks are becoming irrelevant deciding factors. The Western firms now moving in to India and China are there because they think that is where the future lies and not because the host government has dangled a carrot in front of their nose.

It logically follows, therefore that when corporations move they bring with them working capital, technology and managerial know, how, which are the essential raw materials companies need, to do their work.

3. Information Technology

The movement of both investment and industry has been greatly facilitated by the their ‘I’ – ‘information technology’, which now makes it easy for a company to operate in various parts of the world without having to build up an entire business system in each country, where it has a presence. Engineers or product designers at their work stations in the US can control pant operations and factories in new parts of the world like India or Bangladesh. Armies of experts do not have t0he transferred, workers do not have to be trained, on the contrary the expertise and knowledge resides in the network and an be easily downloaded anywhere as needed. Sophisticated technology brought in connectivity, which brought in speedy and widespread communications, and that in turn helped globalization take root.

4. Individual Consumer

The fourth ’I’, the consumers have also become global in their taste. With better information to lifestyles around the globe they want access to the same. They are much less likely to buy goods because of their national loyalties. Consumers increasingly want the best and the cheapest products no matter where they come from. Besides as they say, the grass is always greener on other side of the fence. So even if there is a good product at home qualitatively speaking, they prefer the one with an international tag and are willing to pay for it.

The other factors, which made business global, are :

5. Depletion of domestic markets

Every market has a certain capacity. When the market is exploited to the full and cannot yield further, it becomes necessary to look for greener pastures. Cuba Geigy, for example could not survive only in Switzerland where the population at that time was just 6 million. It was forced to go in search of international markets and consequently set up overseas production facilities. So when the domestic market is depleted it necessitates the search for international markets.

6. Product-cycle theory

The theory suggested by Raymond Vernon explains that globalization is a logical extension of growth. The need to tap untapped markets and regions and to diversify urges entrepreneurs to look beyond their domestic base. The process of diversification begins with the home product being introduced in other regions and graduates into related and other products too, in other regions.

7. Domestic uncertainties

Sometimes a company acquires foreign production facilities as a hedge to protect itself and its assets from the fluctuations of the domestic market. Political and economical upheavals often create such situations.

8. Industry specific

For example certain petroleum and mining companies often go global to secure a reliable or cheaper source of raw materials. Cheap labour in other countries may also compel companies to shift base. Most of the Asian countries form a heap labour pool. Many European and American companies have set up manufacturing units in Korea or (Mexio) South America.

9. Acquire expertise

Companies also enter international markets to seek technological expertise and know how. Many of the Indian IT majors have a base in the US to enhance their knowledge and acquire the same level of expertise as their American counterparts. Similarly many American companies are looking to Japan for new technological and managerial perspectives.

10. Reduce costs

Some businesses set up plants close to the source of their raw material supply, rather than transport them through long distances as it makes better economic sense. Major oil Companies have built refineries in Europe (a major market) and the Middle east (a major source) to help reduce costs. In the same way companies set up plants overseas to reduce transportation costs.

Impact of Globalization

Any phenomenon brings in a wind of change and no change can be absolutely good or absolutely bad. Any change brings with it both advantages and disadvantages and either an outweigh the other.

Advantages of Globalisation

Globalization has benefited us in the following ways :

1. Borderless world

Physical and geographical boundaries are rumbling and the world is becoming a global village. Before the advent of globalization economic activities took place within the political borders of nation states, for example. England with its wool, Portugal with its wine. France with its perfumes etc. Nation states today no loner have to play a market making role, so wool, wine, perfumes an belong to any market anywhere in the world.

2. Powerful Corporations

Purely due to globalization, bodies other than states have secured a powerful role on the international stage. With the end of the 'cold war' and the socialistic era, the nations had to let their border guard down and open their gates to individuals groups and non state entities to exploit their territory commercially.. We now have a surge of institutions including corporations – the MNC's/TNC's, NGO's and other agencies. The corporate actor and NGO's increasingly negotiate codes of conduct, with elaborat3monitoring mechanism for government organizations.

To give you an idea – the combined revenue of \general Motors and Ford – the two largest automobile corporations in the world exceeds the combined Gross Domestic Product (GDP) of sub Saharan Africa. Similarly, the combined sales of Mitusbish, Mitsul, Itochu, Sumitomo, Marubeni and Nissho Iwal – Japan's top six trading companies are nearly equivalent to the combined GDP of all of south America. Overall 51 of the largest economies in the world are corporations. According to the UN development Programme, 500 corporations now control 70% of the world's trade and 80% of its foreign investments.

3. Global citizens

With nation states and nationalities disappearing, ethnicities and national loyalties are fading out. It is being replaced by brand and market loyalties. Because of seamless communications, individuals no longer identify themselves with a state or at least not to the extent they have in the past. They are able to get information from all corners of the world and an see for themselves what the tastes and preferences are in the other countries, the styles of living, fashion, sports et. So people want to write with a waterman or a Mont Blanc or travel with a Delsey suitcase not out of any nationalist sentiments but only out of preference. Customers are only concerned about the product's quality, price, design, value and appeal, It is immaterial where it comes from, whether British sneaker by Reebok was made in Korea or a German sneaker by Adidas in Taiwan.

4. Interlinked economies

In terms of economic, welfare globalization has created an economically inter dependent international environment. The inter Linked Economy(ILE) of the Triad (the US, Europe and Japan) joined by aggressive economies such as Taiwan, Hong Kong and Singapore have become a successful union. The ILE is a flooded with super liquidity and has become so powerful that it has swallowed most consumers and corporations ,made traditional national boundaries disappear and pushed bureaucrats politicians towards the status of declining industries.

Each country's prosperity is interlinked with the rest of the world and no nation can exist in isolation solely dependent on its domestic market.

5. Global legal regimes

To keep up with the demands of the hanging and dynamic global market practices, legislations both nationally and internationally had to be reshaped Laws had to be changed to pave the way for emerging trade blocks like the European Union and the rise of regional economies. For example :

- The European Union and the new currency Euro have changed the economics of entire Europe. It is an integrated single market of 15 countries and their 0mbined GDP exceeds either that of the US or Japan.

- United States, Canada and Mexico have signed the North American Free Trade Agreement (NAFTA) that will remove all barriers to trade among those countries and create a huge North American market. Chile, Latin American countries, Argentina and Brazil are likely to join NAFTA thus creating a bigger American market.

- The creation of WTO (World Trade Organization)has opened up new vistas in international trade. It can enforce rulings on trade disputes and create a more efficient system of monitoring trade policies. Most of the world economic powers have joined the WTO and its members collectively account for two thirds of the international trade.

- Central and Eastern Europe, Russia and other republics of the former Soviet Union are trying to revive their sagging economies by opening their doors to MNC, and other agencies.

6. Deregulation and lowering of trade & tariff barriers

In a pre-consumer era, the country's government dominated and determined market practices, along with the lives of the people who lied in it. But in a interlinked global economy the key success factors shift from resources to the market place In which one must participate in order to prosper. It also means that people are the only true means to create wealth and therefore governments everywhere have to only ensure access to the best and the cheapest goods and services from anywhere in the world. That means less interference in business decisions, lowering of trade tariffs and custom barriers and deregulation of certain sectors to increase abundant supply of goods and market place competitiveness.

7. Privatization

A logical corollary to globalization has been the increasing trend towards privatization of the manufacturing and services sectors. Government owned and managed business were bogged down in legal do's and don'ts suffered from an attitude of complacency lack of enterprise and so were performing poorly. To get rid of loss making units especially public sectors, businesses were handed over to private entrepreneurs who were given greater access and freedom and were able to show better results. Thus privatization became the result of economic compulsion.

8. Efficient technological Innovations

Today's products rely on so many different technologies that it becomes essential for companies to change and innovate their technologies to sustain themselves. The business software that made IBM personal computers such an instant hit was not an IBM product. In fact IBM outsourced most of their components, Just as IBM needs to rely on any army of external vendors so each vendor needs to sell to a broad array of customers. The inevitable result is the rapid dispersion of technical know how. Because new technologies generally become available more quickly time has become a critical element in strategy. Thus operating globally means operating with partners, which in turn means a further spread of technology.

Disadvantages of Globalization

Contrary to the general belief globalization has not really created a picture perfect situation in the world. Economies continue to stagger, markets remain depressed and people in general are still unhappy. Considerable evidence suggests that globalization has in fact intensified in equalities both within and between states and that on the whole it has undermined the position of the poorest, most of whom live in the third world countries.

1. Market inefficiencies

Inspite of globalization and free markets a good 1/5th of humanity lives below the poverty line (a good part from India itself) and another fifth is just floating near or above it. So the trickle down effect of the benefits is taking a long time to reach them. In the ILE (mentioned earlier) most of the wealth of the world is created, consumed and redistributed. According to a report, the world's richest men – Bill Gates, Warren Buffet, and Paul Allen, own assets equivalent to that owned by 600 million in the world's 48 least developed countries.

2. Company closures

Globalization has rendered many companies and their operations redundant. So either they are closed(wholly or partly) or are hived off or their ancillary units are declared sick. For example the decision of Hindustan Organic chemicals to cease its benzene operations has caused closure of many related units. This in turn adversely affects the lives of their employees.

3. Unemployment

A backlash of globalization has been widespread unemployment either due to technological innovations or diversifications or relocations or closure of companies. Employees have also been retrenched because of the companies cost cutting measures due to the recent global slow down.

4. Corporation backed government policies

In today's market dominated environment it is not uncommon for MNC's/TNC's to influence politicians and bureaucrats to decide in their favour. Which means most often than not legislations cover the corporations and other agencies to their advantage. A Greenpeace or Motorola that enjoys state cover may have all the power it needs to influence standard setting processes. If they fail at the negotiating table they simply turn around and reject the validity of the institutional result not to their liking, like a court ruling or order.

5. Human rights violation

As the supremacy of many states decline and that of corporations rise, the capacity of the latter to violate the rights of people or to create conditions in which rights become harder to exercise or protect has increased tremendously. Against this backdrop it is not surprising that shocking reports surface about MNC's making considerable profits at the expense of the pe9ple.

Both Nike and Reebok companies had sub contracted in Asia the production of athletic shoes and soccer balls, among others to firms that operated sweatshops, employed child labour and otherwise violated internationally recognized labour rights. The Bhopal gas tragedy of December, 1984 killing over 8000 pe9ple was the worst corporate human rights violation and the MNC involved was none other than the chemical glant – Union Carbide.

Meaning of Liberalisation

What liberalization means

One of the most important trends leading to world integration in recent years is liberalization. Governments in developing, transition and market economies have accelerated the liberalization process. The scope of liberalization, however, differs in speed and depth among these economies.

In market economies such as those of US and Britain liberalization has become an urgent matter. The respective governments initiated a widespread program to deregulate economies and to reform regulations in the areas of environment health banking and insurance In societies in transition like Czech Republic Poland et. Governments initiated privatization programs and enacted laws to attract foreign investors and create an environment conducive to growth.

Developing countries differ in their approach to liberalization. Countries like Egypt Turkey and argentine have dismantled many state enterprises and deregulated their economies while encouraging private enterprises to play a more positive role.

Whereas countries like India andiron have been cautious about liberalization

To liberalise literally means to incline towards policies that favour progress or reform. A country cannot be part of the process of globalization by keeping its doors closed and not allowing in the winds of change. Liberalization then is the internal process of reforms and removal of controls to facilitate the existence of a free market, which would positively impact the economy of the state. The political system, should be oriented to private enterprise and freedom of operations. Therefore why it generally suggests is this

- Controls of all kinds to be dismantled – deregulation
- Freedom of entry and exist with free flows of foreign funds to be ensured
- Free market régime should be for the building up of state strength
- Transparency and accountability of the various sectors of the economy.

Liberalisation and India

The term liberalization has been to India what Khul ja sim sim was to Alibaba. In the Indian context economic liberalization means and includes the following :

1. Dismantling of industrial licensing system built over past four decades

2. Reduction in physical restrictions on imports and import duties

3. Reduction in controls on foreign exchange both current and capital account.

4. Reform of financial system

5. Reduction in levels of personal and corporate taxation

6. Reduction in restrictions on foreign direct and portfolio investments

7. Opening up public sector domains like power transport banking etc.

8. Partial privatization of public sector units.

9. change in approach towards industrial sickness

10. Softening of MRTP regulations.

When we say free market economy we mean removal of controls and not of regulation. In fact regulation is needed to tighten up the control free regime and guide the market policies. Some examples are :

1. SEBI guidelines

2. Banking and financial sector regulations

3. Stricter restrictions on unfair trade practices and

4. Replacement of physical controls by some amount off financial controls.

In India, five years of reforms have had mixed results so far. There are some positive achievements and some negative. Since the initiation of economic reforms there has been a high economic growth of 6.3% in 1994-95 as against a mere 0.8% in the crisis year of 91.92 and a decline in the 8nflation rate to a single digit. However on the negative side there has been a steady fall in the purchasing power of the rupee as against the dollar, there is a huge fiscal deficit to the tune of Rs.70000 Crores.

Effects of Liberalisation

1. Liberalisation was reinforced by the conclusion of the Uruguay Round of multi-lateral trade negotiation in 1994 and the establishment of WTO

2. The expansion of regional integration efforts also stimulates the trend towards liberalization

3. Liberalization policies have significantly widened the effective economic space available to producers and investors.
4. Producers and investors behave as if the world economy consisted of a single market and 0rodution platforms with regional or national subsections, rather than as a set of national economies linked by trade and investment flows.

5. However liberalization is also endangered by the rise of national protectionism and the use of economic sanctions by the leading economic powers.

Module - 4 e-Marketing Global Marketing

Today, businesses are operating in a globalized economy.

Our markets have become hyper competitive. New technologies pose challenges to every business. The digital Revolution and management of information influences marketing decisions.

There is a substantial increase in buying power of consumers. Internet has made buying easier and convenient. The buyer can order almost anything over the Internet. They are exposed to a great amount of information. It is possible today to place orders from home, office or on phone.

Electronic networking on the global sale has in fact changed the fundamentals of business, It has overcome the limitations of time and distance It has also enabled small innovative enterprises compete on equal footing with large established enterprises.

Media explosion has enabled many companies to sell products directly to the customers without the help of intermediaries. Traditional methods have been supplemented by e-mail Internet and online services.

A revolution in direct marketing has taken place in the form of e-commerce. E-commerce describes wide variety of electronic platforms such as placing orders through the electronic data exchange, use of fax and e-mails to conduct the transactions use of ATMs and smartcards and so on.

It has been observed that the Internet population is y9unger, more affluent better e4ducated and more informed than the general population. In other words this medium is for the future generation. Thus the study of e-commerce becomes imperative.

Retails management as the concept of retail marketing is changing from just availability of product to shopping delight with the growth of superstores and multiplex complexes. What is more, globalization has given new dimensions to marketing. It has brought the world closer. With trade barriers being reduced day by day products and people are freely moving across the globe.

Lastly, consumer behaviour in this media explosion has to be studied properly. The aspirational levels of consumers are increasing day by day. The cultural barriers are being reduced. The 1st century consumer is far Savvy informed and demanding than of the last century.

E-COMMERCE

e-business describes the use of electronic means and platforms to conduct a company's business. Internet has played a key role in 0pening new vistas globally. Through the internet, companies regardless of their size, can communicate with each other electronically and cheaply.

The revolution in computer technology has promoted Electronic commerce (E-commerce)

E-commerce over the past few years has grown and evolved to become a technological and business powerhouse It is a revolution that is sweeping across the world, hanging the way we shop and even the way we think. E-commerce is paving the way for a new global electronic market place. It has been described as the biggest development in commerce since the invention of money.

In simple words, E-commerce Involves the exchange of products, services, information and payment through the electronic medium of computers. It includes electronic data interchange, electronic payment systems, order management, information exchanges and other business applications, with electronic/paperless documentation..

Definitions – E-commerce

1. Any form of business transaction in which the parties interact electronically rather than by physical changes or direct physical contact.

2. Electronic commerce is a general concept covering any form of business transactions or information exchange executed between companies, between companies and their customers and between public administration. Includes electronic trading of goods services and electronic material.

Categories of E-commerce

Electronic commerce can be sub divided into four district categories

- Business to business
- Business to consumer
- Business to government
- Consumer to government

1. Business to business

The business to business kind of e-commerce refers to accompany selling or buying from other companies. An example in the category would be a company that uses a network for ordering from its suppliers receiving invoices and making payments. This category of electronic c0mmerce has been well established for several years particularly using electronic data interchange over private or value edit networks.

2. Business to consumer

The business to consumer kind largely refers to selling directly to consumers through the internet. This category has expanded greatly with the increase in personal computers and internet connections throughout the world. There are now shopping malls all over the internet offering all kinds o consumers goods from calculators to computers and motorcars.

3. Business to government

The business to government category covers all transactions between companies and the government organizations. For example in USA the details of forth coming government procurements ae publicized over the Internet ad companies an respond electronically. Currently this category is in its infancy in India but it would expand quite rapidly as governments use their own operations to promote awareness and growth of electronic commerce. In addition the government may also effect operations of electronic interchange for transactions as payment of corporate tax, electronic filing of tax returns etc.

4. Consumer to government

The consumer to government category has not yet emerged. H9wever in the wake of a growth of both the businesses to government and business to consumer categories, government may extend electronic facility to such areas s welfare payments and self assessed tax returns.

Benefits of e-commerce or Web Marketing

E-commerce or marketing through web constitutes a reliable easily accessible and an inexpensive means of bringing together buyers and sellers throughout the world. Let us see th4e benefits of e-commerce.

a) To the seller

1. Global market

Due to e-commerce, the whole world has become a single market place. E-commerce has helped in overcoming the geographical barriers. Opening a website is like having a marketing office which anyone throughout the world can access.

2. Economical

Opening a website is more economical than opening marketing branches throughout the world. Hence, through e-commerce, a small manufacturer with limited resources an make an effort to approach consumers spread all over the world.

3. Customisation possible

Customisation is the need of the hour. E-marketing enables the marketer to target the customers individually and thereby know about their preferences. This will enable him to devise the product according to the requirement of the customer and thereby delight him.

4. Services

A web marketer can offer variety of services on line. He can also provide a path for agencies which provide such services.

5. Quick and enhanced service

Success in the modern competitive world depends not only upon how the service is but also on how quickly it is rendered. E-commerce ensures quick procurement and delivery of the order thereby giving a competitive edge over others.

6. Building long term relationship

Web marketing is an interactive, one to one medium of promotion and sale. It enables the mark4ter to communicate and understand the consumers better and thereby develop a long term relationship with them.

7. Proper co-ordination

E-commerce enables proper co-ordination between the marketing staff. They are able to share ideas and opinions electronically and thereby device uniform strategies. Proper co-ordination leads to an increase in efficiency of the employees.

8. Effective medium of communication

Web is an effective tool of communication. It combines the advantages of various media like newspaper, television, telephone, radio et. The consumer can get as much information as required at his door steps and that too in the most economical manner.

b) To the consumer.

1. Convenience

The consumer can purchase any product by sitting in his house. Thus he can save time, money and effort that is involved in conventional shopping.

2. Product demonstration

Some complex products need demonstrations. Such demonstrations are possible on line. This helps him in decision making.

3. Wide choice

Conventional marketing restricted the choice of products to a limited shops. However e-marketing has enabled the consumer to search for the products throughout the w0rld by just operating on his computer. The consumers through cross linkage are able to get details of all competing offers.

4. Bargaining possible

Web marketing, being an interactive medium enables bargaining on the t. this enables the consumes to get the best deal. Many companies even auction their brands on the net. This is common in the airlines and hospitality industry.

5. Transparency

Web marketing allows transparency. The details of the product as well as terms and conditions of the sale are explained on line making the deal transparent.

Limitations of Web Marketing/E-Commerce

Web marketing has following limitations :

1. Not equally suitable for all products

Web marketing is not equally suitable for all the products. For example, if the product is of a very small value say pen costing Rs.10. In this case, the cost of dispatch would he more than the price of the pen.

2. Substantial costs

Even though the cost of starting a website is less than starting a marketing outlet, it is not inconsequential. In other words it is expensive. The cost does not end with setting up of a website. Additional costs are involved in running, maintaining and updating the site. Moreover websites have to be kept operational throughout the day.

3. Difficult to earn profit

Experience of different markets world wide has shown that it is difficult to earn profit online. In fact most of the business to consumer websites are finding it difficult to remain viable. For example the world's biggest online marketer. Amazon is finding it difficult to stay afloat.

Web Marketing and India

Various studies regarding the prospects of e-commerce have been conducted in India. These include BCG – Nasscom study, CII/MRB study and so on.

In India web marketing is still in a nascent stage. This is clear from the statistics given below:

1. As on 2001, there are 58 personal computers per 10,000 population.

2. Internet users are 68.16 per 10,000 population.

3. There are 60 lacs credit cardholders.

4. There are 438 phone subscribers per 10,000 population

5. There are 63 cell phone subscribers per 10,000 population.

The above figures clearly suggest that we still have a long way to go. On line marketing is possible. If people have personal computers or/and are internet users. In both cases not even 1% of population has computer or use internet. Further more, payment on the product purchased on line is done through credit cards and out of the population of 100 crores. Only 60 lacs are credit card holders. According to Boston consulting Group – Nasscom survey the volume of online transactions by individual consumers is likely to touch Rs.3,000 Crore in India by 2005.

Problems of Web Marketing in India

Following are the problems of web marketing in India :

1. e-documentation in India is not yet legally admissible. Indian laws do not provide sanction to digital signatures, digital certification, online filing of statutory documents and so on.

2. In India people are not sure about security relating to credit cards. This hampers the rapid growth of e-business.

3. In India the government has yet to come up with taxation laws for e-commerce.

4. The usage of telephone, personal computers is low in India.

5. The bandwidth available is not enough to met the user load.

6. Networking is crucial for e-commerce. Even though many companies do have their own network, India's telecom policy does not allow sharing.

7. Infrastructure like roads, rail and airways are not up to the mark which creates problem of quick delivery of goods.

8. Low density of credit and debit cards create payment problems.

9. In India, buyers are not sure whether the seller would dispatch the same quality and type of product variant that he has ordered due to the various unethical practices adopted by Indian business persons.

However, inspite of the limitations mentioned above, there is a hope that e-market is likely to grow in India due to the following developments :

1. In order to facilitate web marketing the government has introduced a New Telecom Policy in 1999. this policy is likely to develop connectivity which is needed for development of e-commerce.

2. In case of business to bus89ness. It has been observed that the requests orders schedules delivery instructions et. Freely flow over the net.

3. Major banks in India have started doing e-business. They have their own websites. Even some cinema houses permit ticket booking via net. These are indications of things to come in near future.

4. Even a number of stock broking firms have started trading over the net. SEBI has set up committee to work out regulations for Internet trading.

5. Many airlines and hotels permit online booking indicating that e-commerce is percolating indifferent sectors.

So on can see a change taking place **albeit** slowly.

Electronic commerce over the past few years, has grown and evolved tremendously It is a revolution that is sweeping across the world, changing the way we shop and even the way we think. E-commerce is paving the way for a new global electronic market place.

B. Retail Management

Introduction

Retailing includes all the activities involved in selling goods or services to final consumers for ultimate consumption. A retailer is any business organization involved in retailing. Retailers link the producers and the ultimate consumers and provide services for both. Lakhs of retailers are spread throughout the country. They form an important link in the distribution of goods. It is with their help that the manufacturers can reach most of the prospects.

According to William Stanton, “Retailing consists of the sale and all activities directly related to ultimate consumers for personal, non business use.

Any firm i.e. the manufacturer the wholesaler or retailer that sells something to ultimate consumers for their non business use is making a retail sale. It is immaterial how the product is sold (personally, by telephone, mall etc) or where it is sold (in a store or at the consumer’s residence).

Success of retail operations is governed by two parameters i.e. (a) Margin (b) Turnover. A retailer in order to be successful must be strong in atleast one of the above mentioned parameter.

How far a retailer an succeed depends upon the type of the product, the style and size of the operations.

Using margin and turnover as the two parameter Ronald Gist, a marketing expert has provided has given a conceptual frame work which can be used in understanding the retail structures and in formulating the retail strategy. The grid is as under :

	High Turnover	
	a) Low margin – High Turnover e.g. A discount store	b) High margin – High Turnover e.g. Food outlet
Low Margin --		High Margin
	d) Low margin – Low turnover Closure	c) High Margin – Low turnover e.g. car showroom
	Low Turnover	

a) Low Margin – High turnover

Such a retail outlet charges low price for the products sold, thereby earning low margin. Since the price is low, the turnover trends to be high. E.g. Big Bazaar in Mumbai. Such outlets deal with a wide variety of fast moving branded products. A high turnover ensures good profits inspite of low margins.

b) High margin – High turnover

In case of such a retail outlet, the outlet earns a high margin on a high turnover. A food outlet is the best example of such an outlet. They store few products but the locational advantage gives them not only high margin but also a high turnover.

c) High margin – Low turnover

In this case, the margin per unit is quite high but the turnover i.e. the number of units sold is less. The risk due to low turnover is offset by high margin in each unit. For example car showroom.

d) Low margin – Low turnover

These retail outlets are forced to charge low price due to intense competition in near by area, Inspite of low margin sales are low due to competition.

Major Retailer Types

Following are major types of retail outlet :

1. Department stores

A department store is a large sale retailing institution that offers several product lines such as clothing home furnishing and household goods. Each line operates as a separate department It provides a wide array of customer products and services e.g. Akbarallys.

2. Speciality stores

This type offers a narrow product line with a deep assortment It often concentrates on a specialized product line or even a part of specialized product line egs. Dress shops, footwear stores, a men's clothing store etc.

3. Super market

Super market is a retail organization that provides a relatively large low cost, low – margin, high volume self service operation designed to serve the needs for food ,laundry and household products. Most supermarkets emphasize price super markets generally dominate grocery retailing e.g. Big Bazar in Mumbai.

4. Convenience stores

These emerged a few decades ago to satisfy increasing consumer demand for convenience, especially in suburban areas. This type of organization provides groceries and non food items. They charge a ls lightly higher price and offers few customer services.

5. Discount stores

Such a retail organization offers standard merchandise at lower prices with low margins and higher volumes. They render few customer services. Some discount stores have moved into speciality merchandise stores such as electronic stores, book stores, home furnishings, sports goods etc.

6. Offprice retailer

Such a retail organization offers a narrow deep product assortment at low prices and few customer services. Off price retailers are common in the areas of apparel and footwear. They concentrate on well known producer's brands. They often buy left over goods or irregular merchandise at lower than normal wholesale price and sell the same to the customers at low prices.

Factory outlets are a special type of off price retailer. They are owned and operated by manufacturers and normally sell the surplus, discontinued or irregular goods.

A recent trend is the grouping of numerous factory outlets in a single shopping genre.

7. Category killer stores

Such type of a retail organization deals with a deep assortment in a particular category e.g. Planet M. in Mumbai. It concentrates on a single product line or several closely related lines. It offers different sizes. Models, styles and colours or products at low price.

Trends in Retailing

The major developments taking place in retailing can be summarized as under :

1. New retail forms

New forms and combinations of retail organizations have emerged e.g. some super markets include bank branches and fitness clubs, petrol pumps include food stores, shopping malls include mini threats and so on.

2. Increase in competition

There has been a tremendous increase in competition in retailing. Different types of stores such as discount stores department stores, all compete with each other by dealing in the same type of merchandise.

3. Growth of giant retailers

Retail organizations like superstores and category killers are growing rapidly. Due to better financial back up, superior information system and buying poser, they are in a position to deliver varieties of products and services at reasonable price to the masses.

4. Expanding computer technology

Revolution has taken place in computer and information technology. Many retailers are using computers in their day to day functioning. This increases their efficiency. The data is not only permanently stored but also can be referred to quickly.

5. Emphasis on lower pries and lower costs

Many retailers follow this strategy to attract customers. They resort to cost cutting as earning profits by increasing the profit margins is not advisable in this competitive marketing environment.

6. Entertainment

Shopping malls, these days provide means of entertainment such as coffee shops, food courts, mini theatres, pubs, bowling alleys, children's play spaces et. This enables the customers to enjoy shopping It gives them fun and joy while shopping.

7. Growth of non store retailing

Retailing activities resulting in transactions that occur away from a retail store are called non store retailing e.g. telemarketing internet marketing automatic vending etc.

Around 15% of the retail sale is from non store retailing. This proportion is growing steadily.

Contemporary Retailing Scenario in India

1. There is a rapid growth in number of retail outlets

   In 1990 therewere33 lacs retail outlets. It increases to 51 lacs in 1996 and crossed 60 lacs in year 2000 It works to around 6 shops per 1000 cust9mers the highest for any country in the world.

2. Small outlets measuring 500 sq.ft. category contribute to 96% of sales.

3. According to ORG – MARG survey more than 4,00,000 shops in urban India sell goods worth over Rs.40,000 a day and over 40,000 shops sell goods worth more than Rs.1 lakhs a day.

4. According to McKinsey Global Institute in collaboration with its local office, the $ 200 billion Indian retail market has been growing at 5% annually in real terms.

5. In urban India, 14.40% of retail outlets are general stores. 17% are paan plus shops, 6.31% are chemists. 5.80% food outlets, 4% cosmetics stores and so on.

6. Retailing in India is gaining lot of sophistication by the day. This is evident from the ft that global consultants in retailing like A.T. Kearney and Kurt Salman Associates have become actives in India.

   Furthermore many business schools are running courses in retailing in India.

7. The cost of retailing i.e. investment and operating cost have gone up Modern retailers adopt a contemporary approach to marketing thereby increasing the cost.

8. Retailers nowadays bargain had with manufacturers by forming associations and indulging into collective bargaining.

9. India's Public distribution system is the largest retailing network of its kind. Through Public distribution system fair and equitable distribution of essential goods at reasonable price is undertaken.

10. In India cooperatives have played a major role in retailing both as a part of the Public Distribution system and as an independent arm.

11. New forms of retailing like supermarkets, shopping malls, department stores et. Have come up in the last 10 to 20 years. Not only a variety of products are now available under one roof but also retailing is moving towards shopping with entertainment like music stores coffee hops restaurants and so on.

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Module - 5 CASE STUDY

Maruti : A Success Story

Maruti Udyog Ltd. Is one of the largest automobile manufacturer in India. Sine its inception, it has grown leaps and bound and has acquired a name for producing**.** LMVs. It has been more than 20 years, since this company was formed. Since then, slowly but steadily, it has gained a substantial amount of market share in the small car segment and has been the market leader in this category. With its partnership with Suzuki Motors of Japan, it has gained an edge over its competitors regarding the technology part. This case study takes you to the journey of Maruti and how it has used the generic strategies to compete in the market leading to the success of its brand.

History

Maruti Udyog Limited popularly known as MUL was established in February, 1981 through an Act of Parliament. The need to bring the company into existence to meet the demand of customers who have preference over the personal mode of transport than the public transport as the public transport system lacked efficiency. There wee companies like Bajaj Auto etc. In existence who were basically into two wheelers but the need to have an Indian company especially manufacturing small cars was largely felt.

To cater to the needs of the customer, MUL came into existence in partnership with Suzuki Motor company(now Suzuki Motor Corporation of Japan) which were the leaders in small car segment then. The collaboration was not only important technologywise but was also important looking at the management practices. In October 1982 a licence and a Joint Venture Agreement was signed between the two partners. When the company came into existence, its objectives were :

- Modernization of Indian automobile Industry;
- Production of fuel efficient vehicles; and
- Production of large number of motor vehicles.

The objectives wee aimed to conserve scarce resources and help in the economic growth of the nation.

Since its establishment and the partnership agreement, MUL took record 13 months to go into production and the very first vehicle – Maruti 800 was released on December 14, 1983. Looking at the car's durability, structure, style etc. the volume targets exceeded and in March, 1994, it produced a landmark of one million vehicles. If the volumes are taken into consideration, Maruti is the largest manufacturer in Asia outside Japan and Korea and has produced more than 4 million vehicles by April, 2003. In term of market share as well as JD Power Customer Satisfaction Study. MUL is the only car company in the world to lead.

Maruti Udyog Limited : A Company Par Excellence

Maruti plant located in Gurgaon, Haryana has best of the technological infrastructure available. The plant brings out two vehicles in a minute, which shows that the plant is technologically quite advanced. In Maruti's case, the employee training and motivation plays an important role along with high techolg9y in guaranteeing high quality and productivity.

Ethics of Maruti

Maruti aims at the best of employee management relationship. The ethos of the company are :

- Participative Management
- Team work and kaizen
- Communication and information sharing
- Open office culture for easy accessibility

Core values

- Customer Obsession
- Fast, Flexible and First mover
- Innovation and creativity
- Networking and Partnership
- Openness and Learning

Vision

The company works and sets its business objectives according to the vision. The vision of Maruti says :

"The Leader in
The Indian automobile Industry
Creating customer delight and
Shareholders' wealth;
A pride of India.

Maruti has adopted certain quality measures to perform continuous improvement for customer satisfaction.

Products

Maruti, in collaboration with Suzuki, offers a wide array of products. The target base of its customers ranges from middle class group to high lass. It offers all range of cars starting from middle income group to luxury class. The list of products it offers is given in Table hereto. This in itself shows that the kind of differentiation stategy it has used focusing different customers under different groups, it has gained an added advantage over its competitors. Each product has a specific catch line to attract customers.

Table : List of products offered by Maruti Suzuki

Product	Targent Segment
Maruti Baleno	Luxuty – High Class
Grand Vitara XL-7	Luxury – High Class
Maruti Esteem	Luxury – High Class
Maruti Gypsy King	High Middle Class
Maruti Versa	High Middle Class
Maruti Wagon R	High Middle Class
Maruti Alto	Middle Class
Maruti Omini	Middle Class
Maruti 800	Middle Class

This was the broad classification of products. Each product has more than three variants giving different specifications regarding colour, features, accessories et. For example, Maruti 800 comes in at least three variants vis-a-vis, ordinary deluxe, luxury. Each car has certain specifications, which decides its model. Similarly every product has its own importance and caters to the need of specific segments. For example, Versa's catch line "The joy of traveling together", says it all. It is termed as a family car i.e. a car which can accommodate the whole family. Similarly, its other products are differentiated in such a way that the customer can choose from different models according to their respective requirements. The best part with Maruti is that even a handicapped person can make a choice regarding his/her requirement. Going through this discussion, it is easy to say that Maruti has cars classified into passenger vehicles compact segment and mini segment.

Services

Not only, in terms of products but also in terms of services offered to its customers, Maruti can be termed as the leader. Looking at its past record, Maruti has out passed its competitors in giving services to the customers. To provide best of the services to the customers. Maruti in 1996 launched a 24 hour emergency on rod vehicle service. A couple of years back it has also launched a company provided car insurance to its customers. In this way it has come up with various programmes to satisfy its customers.

Major Events

Its not that the success story of Maruti Udyog Limited is a smooth one. It has its own share of setbacks. But every time it faced problems, it over came and bounced back with new zeal and energy.

In the year 2000, Maruti Udyog Ltd. discontinued the production of two of its models – Model 1000 and Gypsy 1000. This was done to “rationalize” the product rage. In the same year it had to suspend its vehicle production for two days because of huge inventories of 12,000 odd units at the factory. Maruti Udyog Ltd. also encountered a problem with its employees when the production at the manufacturing facilities halted in the same year when the employees if the company refused to sign a “Good conduct Undertaking”. In this way, Maruti too faced the problems with its employees.

In the year 2001, Maruti Udyog Ltd. notified its pr0posedvoluntary retirement scheme (VRS) in the process of trimming its 5,700 strong work force by around 20% This was done to boost the profitability of the company. In 2002, government came into action and processed disinvestment in 2002-03 by announcing a two stage process to exit from Maruti Udyog Ld. A joint venture with Suzuki Motor company. As a result of this, Suzuki took over control in Maruti Udyog by hiking its stake in the company from 50% to 54%. After this restructuring. Maruti’s market share hits an all time low of 42% in July 2002 though it was ranked as the leader in dealer service.

In 2003 it started “Change your Life’ campaign to attract the customers but at the same time it increased the prices as the input costs increased. In the same year it launched the pries as the input costs increased. In the same year it launched its four millionth vehicle. Despite its losing market share in 2002, it bounced back and its are market share increased 50% to around 55% It came out with its public issue, which was oversubscribed 7.82 times and is listed on BSE at 25.6% premium at Rs.157. Apart from these major events, Maruti tied up with State Bank of Mysore (SBM) to offer car finance to its customers. Later it tied up with State Bank of Travancore (SBT), Union Bank of India, state Bank of Saurashtra (SBS) to provide loans to its customers t competitive rtes. The major event in the history of Maruti was its inclusion in Morgan Stanley Capital International (MSCI) India Index.

Year 2004 saw Maruti launching new variant of Versa and rising volume car prices but at same time, it did cut prices for its certain models and reduces down payment figure to purchaser India’s cheapest car Maruti 800. Looking at these events, it is clear that

Matuti did have set backs but it continued to perform to make a mark in the market

Financial Performance

The strategies adopted by Maruti Udyog Limited resulted in the growth of its net sales by approximately 25% year on year (yoy) basis in passenger vehicle volumes (Refer to table2 hereto) when the performance of the product was seen. Alto scored over others in the compact segment and emerged as the top performer. The total multi utility sales grew by 20% by yoy basis but exports grew at a slower rate of 7%. The net profit grew by 48% to Rs.1,836 million but got a setback by increase in deferred tax of rs.2,740 million against a refund of Rs.1.44 million. Apart from these setbacks, the company recorded a growth by 7.4% qoq.

MUL is facing a stiff competition from Hyundai's Getz in the compact car segment but MUL has an edge over its competitors. Most of its arts are fuel efficient and with the rise in fuel pries, this may be an added advantage. To conclude it an be said that MUL is a big success story despite a number of setbacks it faced.

Table 2 Sales Breakkup

Capacity

		2004	2003	2002	2001
Passenger Cars & Light Duty Utility Vehicles	Numbers	350000	350000	350000	350000

Production

		2004	2003	2002	2001
Passenger Cars & Light Duty Utility Vehicles	Numbers	472908	359960	358108	350376

Sales Volumes

		2004	2003	2002	2001
Passenger Cars & Light Duty Utility Vehicles	Numbers	472122	362253	352197	350433

Sales Value

		2004	2003	2002
Mould & Dies	(Rs.Million)	223	297	1502

Passenger Cars & Light Duty Utility Vehicles	(Rs.Million)	106793	85362	84260	83596
Spares (Vehicles)	(Rs.Million)	5824	4977	5047	4417

Module – 6 – Case Study

Wardley Investment Services (Hong Kong)

Private banking has been one of the maintenance growth areas of the banking industry in the ASEAN (Association of South East Asian Nations) region over the last few years, but private bankers have found that the newly rich ASEAN clientele can be quite a different market from the traditional customer in Europe and North America.

Mr. Robert Bunker and Mr. John Cheung, Directors of Wardley Investment services (Hong Kong) said both Wardley and its corporate parent, the Hongkong & shanghai Bank Group, have adopted what has been described as the American interpretation of private banking in their approach to the ASEAN market place.

Mr. Bunker explained : We provide a one stop shop for financial services to high net worth individuals, drawing on the wide range of services available in the group. There are any smaller banks which have seen private banking as a profitable growth area, but it is difficult for them to provide the breadth of services with just a small representative office in the region. As a result, they struggle to develop the mass of business necessary to make a living.

And the demands of ASEAN customers do tend to differ from those of their counterparts in euro0pe and North America.

Mr. Cheung said that in Asia as a whole, private banking is not as tax driven as it is in much of the West. There are other differences. For example the division of corporate and private wealth in Asia is often blurred, and some Asian clients are very aggressive in the way they like to invest. Again, such tendencies an mean a different attitude on the part of the private bank, he said.

Mr. Bunker added : I think that you will notice in the marketing strategy of the |group that we are trying to shrug off our traditional image and create a more adventurous and aggressive picture.

He said the infrastructure of the Group provides a great boon In the ASEAN region, the Bank has a presence in one form or another in Singapore, Thailand and Indonesia.

European banks entering the ASEAN market find it a lot more difficult to rely on name or reputation to build their market share, particularly when many potential customers are not familiar with their names. A bank such as Barica della Svizzera Italiana

(BSI), for example, despite its size and reputation in Europe, has to fight hard to get noticed in the already crowded market place.

But Mr. Anton Jeker, BSIs chief representative in Hong Kong, believes his bank can offer a competitive service for its clients. He said 'We see private banking as just that, knowing the individual needs ad requirements of a customer and servicing those needs. Se provide individually serviced accounts with an emphasis on the personal nature of banking. We provide safety and confidentiality as a Swiss bank, and investors do not put their money with us for us to speculate. So we do not target the entrepreneur so much and tend to go for personal assets on the whole. Se make it clear where we can help from the beginning, and we do not do everything in the wide spectrum of banking services.

Although BSI has a different emphasis to the Hongkong Bank group, Mr. Jecker still feels that there is a great future for private banking I the region. But it is difficult for European banks to enter such markets, especially given the dominance of US banks in the last 30 to 40 years. The same can be said for the Philippines which despite its economic and political problems, still has a lot of potential for private banking.

Discussion questions

1. Give advice to a United Kingdom Bank which has not previously been engaged in the ASEAN region as to what problems it might face when setting up in the area.

2. What segmentation possibilities might exist for a smaller bank in the region?

3. What research would you advise a small bank to undertake before setting up in the region for the first time ?

4. Assume that a small bank you are advising has decided to set up in the region. What strategic guidelines would you give to the bank in so far as organizing its selling activities is concerned ?

PRACTICAL EXERCISE FOR READING

Quality Kraft Carpets Ltd.

This company was founded in 1983 by William Jackson and John Turner in Kidderminster, a town in the UK with a tradition of carpet making going back hundreds of years. Carpet manufacture and related activities had been the major provider of employment in the area up until the lat 1960s. However, since that date, the carpet industry, like many other areas of British textile, faced problems and decline.

Paradoxically, it was this decline that brought Quality Kraft Carpets into existence. William Jackson had been production manager with one of the largest carpet manufacturing firms in the area, with a worldwide reputation for quality carpets John turner had been a loom tuner (a maintenance engineer) responsible for maintaining over one hundred carpet looms for another large company. Jackson had been made redundant as a result of a drastic decline in orders and Turner's company had gone into liquidation. Both of them was very good friends, and since their respective demises had come together they decided to start their own small company, specializing in the product they knew best – traditional, woven, good quality. Axminster carpets.

Because so any firms in the area were either closing down or cutting back production, there was za steady supply of textile machinery being sold very cheaply by local auctioneers. By poling their respective resources, plus help from the bank, they were able to acquire a 15 year lease on a small factory and purchase enough equipment to enable them to commence production.

Their policy was to weave best quality carpets made of 80 per cent wool and 20 per cent nylon. The market was good quality carpet shops and the contract market, especially hotels, restaurants, offices and large stores. They made a conscious decision not to deal with the new carpet superstores, largely because profit margins would be so low in that their bulk purchasing power made them able to demand low margins. In addition, these carpet superstores predominantly sold cheaper carpets mainly tufted synthetic carpets purchased from North America It was contended that purchases looking for a good quality carpet would go to a conventional carpet shop and not to a carpet superstore which they considered was more applicable to the lower end of the market.

At the time of setting up the maintenance problems facing UK carpet manufacturers were the depressed state of the economy and the fact that imports of carpets were taking an increasing share of a diminishing market. Thus, the recession made carpet purchasing a lower priority matter for those who already had carpets and the attitude was to make them last longer.

Nowadays, imports account for over 20 per cent of the UK carpet market ad this parentage is increasing. The maintenance imports are synthetic tufted carpets, mainly from North America but increasingly from EC countries – Belgium followed by Western

|Germany and Holland Nylon carpet is basically oil based, which gave the Americans a significant advantage until 1980 because of the cheapness of their oil. However since then their oil pries have increased and the strength of the US dollar has made their exports to the UK less competitive.

Despite the apparently depressing picture for UK manufacturers, the UK carpet industry is sill the largest in the world, particularly the high quality woven carpet sector. The UK has always been a net exporter of carpets and its reputation for quality has worldwide acclaim.

Since Quality Kraft Carpets commenced, its total sales have been as follows :

Quality Kraft Carpets Ltd. sales

1983	1984	1985	1986	1987	1988	1989	1990	1991	1992
510	820	1280	1760	2300	2900	2100	2000	1970	1950

These sales are to two distinct market:

- direct to quality retailers
- the contract market

The parentage of sales accounted for by each of these market segments is given below :

Percentage of sales to each segment

	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992
Retail	76	70	66	63	60	60	58	56	52	52
Contract	24	30	34	37	40	40	42	44	48	48

At the 1988 level of demand the company was operating at full capacity, but today it has an excess of manufacturing capacity. The company has not laid off any employees but over time has been cut out and some work that was given to outside contractors e.g. final shearing up of carpets is now done in the company. An interesting facet of contract sales is that much of it is for customized carpet often incorporating the customer's company logo in the design.

The company now feels that the industry is likely to remain depressed and foreign competition in the UK market is likely to increase further. The company has not attempted to sell its products abroad. But feels that if it is ever to expand again, then overseas markets are the only feasible method. William Jackson and John Turner had a long discussion about exporting, as they were both inexperienced in such matters, and they listed the strengths and weaknesses of quality Kraft Carpets in order to arrive at a decision as to which would be the most appropriate overseas market to enter. Their conclusions were as follows.

1. Weakness

- Small and relatively new without the reputation of a long established firm.
- Management has no knowledge of selling overseas and although educated by experience has little knowledge of finance, economics, languages et. Which are of help when selling overseas.
- The more popular types of tufted carpets are not manufactured.
- The company cannot compete on price in the volume markets because of outdated equipment and small purchasing power.
- Although products are first lass, they are expensive.
- The company does not directly employ such specialists as designers, but operates on a freelance/contractual basis.

2. Strengths

- Expertise in the manufacture of good quality conventionally woven Axminster carpets.
- The company is small and flexible and can easily cope with new trends in designs.
- Proficiency is increasing in contract work and staff have specialist knowledge of such one off tasks. Much repeat business is coming from satisfied contract customers.
- There is a loyal work force who have flexible working arrangements in that the workers an each carry out a number of different jobs without demarcation disputes.
- The company is reasonably profitable and it has very little long term debt.
- The retail part of the business contains loyal customers with much repeat business.

After discussions with the bank and advice from the British Overseas trade Board, it was decided that the USA offered most potential for the immediate future. The Middle east and Japan also showed promise in the medium term. It was also decided that they should concentrate on the contract market. These decisions were based upon the following criteria.

1. The USA is a growing market for best quality Axminster carpet.

2. Although the USA does manufacturer some conventionally woven Wilton carpet, it does not manufacture much good quality Axminiser carpet.

3. In the contract market, quality seems to be more important than price and it would seem to be good for the company to concentrate on contract carpet sales.

4 .Import tarrifs into the USA from the UK are 9½% ad valorem (on top of the imported cost) for Axmint4er and 19½% for Wilton (the latter being higher to protect the USA producers.) this gives an undoubted advantage for the export of Axminster carpets.

5. A market research survey conducted in the USA had indicated that their interior designers liked Axminst4r because of the fact that any pattern or logo could be woven into the design. Most contract carpet in the USA I tufted and printed which only makes mass production runs feasible. This printing process, although much cheaper, is inferior to the design being actually woven into the carpet as is the case with Axminster.

6. The pound is sill at a relatively low value against the United States dollar, and this would make the product better value in the USA

7. Advice from the British Overseas trade Board has indicated that the UK has a high reputation in the USA for quality carpets, that they appreciate personal service and good delivery and that British carpet might be seen as a status symbol.

Quality Kraft Carpets Ltd. decided that they would immediately enter the North American market, but did not want to commit too much money to the venture in case it failed. On the other hand, if it was successful, they were prepared to commit more resources.

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3

PRODUCT POSITIONING

Module – 1

i. Meaning of Product Positioning
ii. Importance of Product Positioning
iii. Strategies of Product Positioning
iv. Product Life Cycle
v. Total offering of a product
vi. Case studies

Introduction and meaning:

Market is highly competitive in nature. Therefore every product manager has to take care of his product in comparison with other products in the market. Thus product positioning consists two important things. i.e.

i. What is the image of the product in he minds of customers
ii. What image product will get in relation to other products

Product Positioning can be defined as effort of creating and maintaining intended image of the product in the minds of target customers.

Philip Kotler defines product positioning as, " the act of designing the company's offering and image to occupy a distinctive place in the mind of the target market."

Importance of product positioning:
Product positioning is an important concept due to following points:

1. **Helps to face competition:**

Product positioning helps the company to face market competition. With the help of product positioning, company can differentiate its product from other competitive products. Thus a favorable image can be created with the help of proper product positioning strategy.

2. **Creates demand;**

Product positioning helps the company to generate demand for the product. With the help of proper product positioning strategy, people can be induced to buy the product.

For eg.: Saffola oil is positioned on the basis of ‘heart care’ feature which induce the people to buy that oil by becoming health conscious.

3. **Develops brand image:**

Product positioning helps the company to develop positive brand image in the market. A favorable image is created by proper product positioning in the minds of target customers.

4. **Adds to product value:**

Effective product positioning strategy helps to add value to the product. The company can highlight special features of the product in product positioning, which will add value to the product.
For eg.: Maggi Noodles has created value to the customers by highlighting its feature of ‘just two minutes for cooking.’

5. **Helps to charge premium pricing:**

Company can charge premium in pricing with the help of product positioning. By creating unique product positioning in the market company may take an advantage of charging premium in price.

6. **Facilitates consumer choice:**

Effective product positioning strategy creates positive image in the minds of customers. With the help of this image consumers can easily choose the products which can satisfy their requirements.

Strategies of product positioning:

The marketer can adopt various product positioning strategies to develop a favorable image of the product in the minds of target customers. The various product positioning strategies are explained as follows:

1. **Positioning by product benefits:**

Customers purchase the product mainly to derive benefits from it. Marketer can make use of these benefits to develop the strategy of product positioning. Most marketers make use of this strategy. Marketer can implement single benefit strategy or multiple benefits strategy.

For eg. : ‘Beauty soap of Film Stars’ by Lux Soap.

2. **Positioning by Quality and Price:**

In many cases, price-quality feature is mainly used for product positioning. It may be possible that some good quality products are available at reasonable price.
For eg: ‘Good Jeans For Less’ by Newport jeans.

3. **Positioning by use:**

The product can be positioned by associating it with its use.
For eg.: ‘Fast to cook, Good to it’ by Maggi Noodles.

4. **Positioning by user category:**

The product may be positioned by associating it with its user category. Luxury items may be positioned by its users i.e. rich class people.
For eg.; Rolex watch is positioned as a luxury item as the users of it are rich class people.

5. **Positioning by product class:**

Marketers can position their product on the basis of product class.
For eg. : Dove soap has been positioned as different soap from the other soaps as a cleansing cream product for women with dry skin.

6. **Positioning by cultural symbols:**

Some marketers may make use of cultural symbols for positioning their product.
For eg.: Godrej soaps made a reference to ‘Ganga River’ for their soap ‘Ganga’.

7. **Positioning by competitor:**

Some marketers may take help of competitors reference for their product positioning. A reference may be directly or indirectly made to one or more competitors.
For eg.: BPL says ‘Believe in the best’ whereas Videocon says ‘Better than the best.’

<u>Product Life Cycle:</u>

Product life cycle refers to the course of a product’s sales and profits over its life time. Some products may have a short life cycle whereas others may enjoy a long life cycle.

There are total five stages in product life cycle.

i. Development

ii. Introduction
iii. Growth
iv. Maturity
v. Decline

Marketing strategies during product life cycle:

Marketer has to manage the product during every stage of product life cycle by applying effective marketing strategy. These strategies can be explained as follows:

I. AT THE INTRODUCTION STAGE:

At this stage product is getting launched in the market. Therefore marketer has to frame various product, price, promotion and distribution strategies for newly launched product.

i. Product Strategy:

Under this strategy firm will concentrate only on a single product. It will not try to extend its product line. The firm may spend additional funds on research and development to further improve the quality of the product.

ii. Price and Promotion strategy:

A firm may follow any one strategy out of following :
a. Rapid skimming:
The product can be launched at high price and with high promotional expenditure.

b. Slow skimming:
The product can be launched at a high price and with low promotional expenditure.

c. Rapid penetration:
The product can be launched at a low price and with high promotional expenditure.

d. Slow penetration:
The product can be launched at a low price and with low promotional expenditure.

iii. Distribution strategies:

a. Concentrated distribution strategy:
Under this strategy a firm will distribute its product through specific dealers in a particular market area.

b. Mass distribution strategy:

Under this strategy a firm will distribute its product through all the possible dealers over a large market area.

II. AT THE GROWTH STAGE:

At this stage competition increases, sales increase, profit increases. Here marketer has to frame several strategies to sustain growth of the product over a long period of time.

i. Product strategies:

a. Product improvement:

Firm can follow this strategy by improving quality, features, packaging, design etc of the product. This strategy is basically to face market competition.

b. Introduction of new models:

The firm may introduce different models for different market segments. There can be different brand names for various models or model numbers.

ii. Price and Promotion strategy:

a. Penetration pricing:

The firm may reduce its prices due to economies of large scale production and distribution. This strategy is mainly followed to face market competition.

b. Push and Pull Promotion strategy:

Push promotion strategy is requires trade promotion activities so as dealers to stock the product. Whereas pull promotion strategy is directed towards consumers so as they demand the products from dealers.

iii. Distribution strategy:

a. New market segments:

The firm will try to find out new market segments to market the products.

b. Increase in distribution coverage:

The firm may try to increase distribution coverage from local to regional level, from regional to national level.

c. New distribution channels:

Firm may find out new distribution channels to market the product. Firm may set up chain stores, franchise agreement etc to distribute the product.

IIII AT THE MATURITY STAGE:

At this stage sales remain more or less same. This stage is normally longer compared to other stages.

i. Product Modification:

A firm may spend lot of amount on research and development expenses to update product quality. Firm will try to enhance the quality by improving features, design, etc. so that maximum customer satisfaction can be given.

ii. Price and Promotion strategies:

Firm has to follow following two strategies like Growth stage:

a. Penetration strategy
b. Push and Pull Strategy

iii. Distribution strategies:

a. Focus on profitable segments:
The firm may concentrate only on profitable segments and may withdraw the product from unprofitable segments.

b. Focus on important channels of distribution:
Firm will concentrate only on profitable channels of distribution and may discontinue unprofitable distribution channels.

c. Exit from unprofitable market areas:
The firm may exit from unprofitable market areas. The firm may concentrate only on those market areas which generate good sales and profits.

IV AT THE DECLINE STAGE:

At this stage sales and profits come down.

i. Product strategies:
a. Withdrawal of weaker brands:
The firm may withdraw weaker brands and may concentrate only on those brands which generate sales and profits.
b. Introduction of new product:
The firm may introduce new product in the market which may be profitable in the market.
c. Wait and watch strategy:
The firm may not withdraw weaker brand from the market but may wait for competitor to do same. After that firm can get bigger market share.

ii. Price and Promotion strategies:

The firm may remain with the same pricing strategy. Promotional expenditure may be reduced depending upon the market situations.

iii. Distribution strategies:

The firm may continue the distribution by focusing on profitable segments, by selecting selective channels etc.

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4

PROMOTION MIX

Module – 1

i. Meaning of Promotion mix
ii. Objectives of Promotion mix
iii. Elements of Promotion mix
iv. Factors influencing Promotion mix
v. Promotion strategy
vi. Case studies

Meaning of Promotion mix:

Promotion is an important element of marketing mix.

William Stanton defines promotion as "the element in an organization's marketing mix that is used to inform, persuade and remind the market regarding the organization and its products."

Promotion mix is referred as marketing communication mix. There are various techniques of promotion that constitute the promotion mix.

Objectives of promotion mix:

Promotion mix plays a very important role in marketing goods and services. This importance can be explained with the help of following points:

1. **Awareness:**

The marketer should undertake promotion mix to create awareness about product among customers. Awareness should be regarding brand name, features, quality etc. For this purpose marketer can take help of advertising, sales promotion, publicity, direct marketing etc.

2. **Information:**

Marketer should provide information about the product to the customers. This information can be in respect of product uses, product price etc. Product information is mainly required at product introduction stage.

3. **Reminder:**

Promotion mix helps the marketer to remind the customers about the product. Reminders are mainly required for those customers who are already buying firm's product. Reminder is necessary so that customers will not demand competitors brand.

4. **Attitudes:**

Promotion mix helps the marketer to build positive attitude about the product among the customers. Through personal selling and trade fairs marketer can build and maintain positive attitude among customers.

5. **Brand Image:**

Marketer needs to create a positive brand image among the customers. This is possible by having proper personalities in advertisement, sponsoring good events etc. Positive brand image helps the firm to increase demand for the product.

6. **Educating the customers:**

Some advertisements try to provide education to the customers about handling the product. Even public service advertising try to make aware the people about social issues like noise pollution, power saving, pulse polio campaign etc.

7. **To face competition:**

With the help of promotion mix elements marketer can face the competition successfully. The marketer may counter the claims made by major competitors. Marketer can convenience the customers about superiority of his products than competitors.

8. **To expand market:**

With the help of effective promotion mix measures, marketer can expand his market area. Market area can be expanded from local level to regional level, from regional level to national level and even up to international level.

Elements of promotion mix:

There are various elements of promotion mix. The choice of element depends upon promotion objectives. The important elements of promotion mix are explained as follows:

1. **Advertising:**

Advertising is one of the most important elements of promotion mix. This element of promotion mix is widely used by almost all the marketers. Advertising is a paid form of non-personal presentation of ideas, goods and services by an identified sponsor. The advertising messages are communicated through various medias like newspaper, magazine, television. radio etc.

2. **Publicity:**

Publicity is an unpaid form of non-personal presentation and promotion of ideas, goods and services. Publicity is undertaken by newspapers and editorials carried by the mass media about a firm, its product, policies etc. Publicity can be favorable or unfavorable. Therefore firm has to maintain good relations with media people.

3. **Sales Promotion:**

It includes various techniques that induce a desired response on the part of target customers and intermediaries. Sales promotion includes various techniques such as free gifts, free samples, contests, selling on installment, discounts, warranties, guaranties etc.

4. **Personal Selling:**

Personal selling involves face to face communication between firm’s representatives and customers. It is the oldest technique of selling goods and services. Personal selling offers certain benefits like good relations with customers, clear information about product etc.

5. **Public Relations:**

Professionals firms are always concerned about the effects of their actions on the public. Public relations are primarily concerned with people outside the target market. It includes communicating firm’s goals and objectives, to fulfilling social responsibilities, to maintain goodwill etc.

6. **Packaging:**

A good package plays a very important role of promotion mix element. Effective and attractive packages induce the people to purchase the product. Packaging provides information to the customers, preserves the product quality, promotes the product etc.

7. **Direct Marketing:**

Direct marketing involves those techniques which are used to sell the products directly to the customers. Some of these techniques are yellow pages, direct mail, telemarketing etc.

8. **Trade Fairs and Exhibitions:**

Participation in trade fairs and exhibitions is an important element of promotion mix. The main benefits of trade fairs and exhibitions are that product demonstrations are possible, close observation of competitors, immediate booking of orders from customers etc.

9. **Sponsorships:**

A firm may sponsor cultural, sports or social event. By sponsoring proper events firm can create and maintain distinct image of its product in the minds of customers.

Factors influencing promotion mix:

While developing the promotion mix firm has to consider various factors. These factors are as follows:

1. **Type of product:**

This is the most important factor that affects promotion mix. In case of consumer products markers spend more on advertising whereas in case of industrial products marketers spend more on personal selling.

2. **Type of customers:**

The type of customers and their behavior also decides promotion mix. In case of fewer but larger buyers, personal selling is more suitable. In case of price sensitive customers sales promotion techniques are more suitable.

3. **Competitor's strategy:**

The marketer can observe competitor's strategy before finalizing his promotion mix. In some cases marketer can follow the same strategy of competitor. But this should not be blindly done.

4. **Push and Pull strategy:**

The decision of promotion mix also depends upon selection of push or pull strategy. In case of push strategy promotion efforts are directed to dealers, so sales promotional is more suitable. Whereas in case of pull strategy promotional efforts are directed to customers, so advertising is more suitable.

5. **Product life cycle:**

The stage of product life cycle also affects promotion mix. At the introduction stage promotional measures have to be more whereas at the decline stage advertising and publicity reduce.

6. **Promotion Budget:**

The choice and extent of promotion mix also depends upon promotion budget available with the firm. A firm having higher promotion budget will be in a position to spend more on promotion.

7. **Availability of sales force:**

If a firm has large no. of sales force available, then it will mainly depend on personal selling whereas firms having less sakes force will have to go for advertising and other promotional elements.

8. **Position of the firm:**

Position of the firm in the market also decides the choice of promotion mix. Large firms may go for heavy advertising than sales promotion. But small firms may depend more on sales promotion rather than advertising due to lack of funds.

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PRICING DECISIONS

Module – 1 : Meaning and Objectives

A Company earns revenues by charging a price from buyers. Price is the value that the company expects to get from customers in return of the product or the service the company is providing to the customer. Price is what the company gets back in return for all the efforts that it puts into manufacturing and marketing the product. The other three elements of the marketing mix i.e. product, promotion and distribution incur costs. If price does not cover the costs the company will make a loss. Both undercharging and overcharging will have detrimental effects on profitability.

Price should not be treated in isolation. It should be blended with other elements of the marketing strategy to form a coherent mix that provides superior customer value. The sales of many products, particularly those that are a form of self expression such as car, drinks perfumes could suffer from low pries. Price is a part of positioning strategy since it sends quality cues to customers.

METHODS OF PRICING

Being merely a number, it might be tempting to believe that setting the price of product must be an easy task for a company to perform. It is not. Many external and internal products factors have to be considered together. The price should have some reference to its costs, as they must be recovered at least in the long run. Most companies cannot afford to sell at prices below cost for long periods. The price should be low enough to attract customers but high enough to bring reasonable profits to the company. A company might be tempted to maximize profits by charging higher prices, but the customers may opt consider the products worthy of the higher prices being charged and may not buy at all. The price should match the positioning strategy of the company. The value of a premium brand will be eroded if its price is low, In most situations, all the above factors have to be considered simultaneously when pries are set.

Cost Oriented Pricing

Full Cost Pricing

Variable and fixed cost per unit is added and the desired profit margin is added to the total cost. This price is true for one volume of sales output. But if sales/out put goes down fixed cost per unit goes up, so price should got up. Therefore there is an increase in price as sales fall. Sales estimates are made before a price is set which is illogical. It focuses on internal costs rather than customer's ability or willingness to pay. There may also be technical problems in allocating fixed over head cost in multi product firms.

Inspite of its drawbacks, the method forces managers to calculate costs, so it gives an indication of the minimum price necessary to make a profit. Breakeven analysis can be used to estimate sales volume needed to balance revenue and costs at different price levels.

Direct Cost Pricing

The desired profit margin is added to the direct cost to obtain a price. Price does not cover full costs and the company would be making a loss. The strategy is valid if thee is idle capacity as margin is covering some part of fixed costs. It is useful for services in periods of low demand as they cannot stored. But customers who have paid higher amount may find out and complain. Direct cost indicates the lowest price at which it is sensible to take business if the alternative is to sit ideal It does not suffer from price up as demand goes down problem as it happens in full cost pricing method It also avoids problem of allocating over head charges. But when business is buoyant it does not take into account customers willingness to pay. It is not for the long term as fixed cost must also be covered to make profits. But it is a good short term strategy to reduce impact of excess capacity.

Competitor Oriented Pricing

Going Rate Pricing

There is no product differentiation i.e,. there is some sort of perfect competition. All companies charge the same price and smaller players follow the price set by market leaders. This is not a attractive proposition for marketers. Marketers like to differentiate their offerings and have a degree of price discretion. Even for commodity products differential advantages can be built upon which premium prices can be charged.

Competitive Bidding

The usual process is drawing up a detailed specification for a product and putting out for tender. Potential suppliers quote a price which is confidential to themselves and the buyer (Sealed bid). A major focus for suppliers is the likely bid prices of competitors.

Expected profit = Profit x Probability of winning

As the quoted price will increase, profits will rise, but the probability of winning the bid will fall. The bidder uses past experience to estimate a probability of winning the deal at each price level. Expected profit peaks at particular bid prices, at which the bid will be made.

Bid price	Profit	Probability	Expected Profit
2000	0	99	0
2100	100	9	90
2200	200	8	160
2300	300	4	120
2400	400	2	80
2500	500	1	50

The company would quote a price of $2200 as it stands to make the maximum profit at this price with 80 p.c. probability of winning the bid. But calculation of probability of succeeding goers haywire where competitors are desperate to win an order. Such competitors would quote very low prices to win the bid, as they are willing to take the lower profits. Successful bidding depends on having efficient competitor information system. The company should be aware of competitors who might be having lot of costly idle capacity. Such companies will quote low prices to utilize their idle capacity.

Sales people can feed details of past successful and unsuccessful bids. The sales people should be trained to elicit successful bid pries from buyers ad then enter them into customer database which record order specification, quantities and successful bid price. But not all buyers will reveal true figures so the buyers had to be graded for reliability.

Marketing Oriented Pricing

Prices should be in line with marketing strategy. Price should be linked to positioning, strategic objectives, promotions, distribution ad product benefits. Pricing decision is depending upon other earlier decisions in the marketing planning process. For new products, price will depend upon positioning strategy and for existing products price will be affected by strategic objectives.

Pricing New Products

(i) Positioning strategy : For a new product there is an array of potential target markets. For calculators they include engineers

and scientists, bankers and accountants and general public. Choice of target market would have an impact on price that could be charged. If engineers were targeted, price could be higher. For accountants, price would be lower and for the general public it would be still lower. Over time price would be reduced to draw other market segments even if engineers were the first targets.

Therefore, for new products, marketers must decided upon the target market and the value that people in that segment place on the product (the extent of differential advantage) and price is set that reflects that value. Where multiple segments appear attractive modified versions of the product should be designed and priced differently in line with respective values that each target market places on the product. When a company decides to launch different versions of a product at different prices targeted at different target markets, it should check if the customers of the more premium version will trade down once cheaper versions are available an engine will buy a scientific calculator even if it is very highly prices in comparison to simpler calculators because the later will not serve his purpose. If different versions cannot be sufficiently differentiated to be able to keep their customers, a company should desist from launching simpler and cheaper versions for as long as possible, because the customers who had hitherto bought the premium version will start buying the cheaper version, as they too will serve this purpose sufficiently.

(ii) A combination of high price and high promotion expenditure is called **rapid skimming strategy.** The high price provides high margins and heavy promotion causes high level of product awareness and knowledge. **A slow skimming strategy** combines high price with low levels of promotional expenditure. High price means big profit margins but high level of promotion is believed to be unnecessary, perhaps because word of mouth is more importance and product is already well known or because heavy promotion is thought to be incompatible with produc4 image as with cult products. This strategy (i.e. skimming) is useful if there is patent protection.

Companies which combine low prices with heavy promotional expenditure are practicing **rapid penetration** strategy. The aim is to gain market share rapidly, perhaps at the expense of a rapid skimmer. **Slow penetration** strategy combines a low price with low promotional expenditure. Own label brands use this strategy. Promotion is not necessary to gain distribution and low promotional expenditure helps to maintain high profit margins.

(iii) It is important to understand the characteristics of market segments that an bear high pries. The segment should place a high value on the product which means that its differential advantage is substantial. Calculators provide high functional value to engineers and they will be willing to pay high prices for them. Perfumes and clothes provide psychological value and brand imager is crucial for such products to be acceptable. High pries go well with premium brand image. High prices are also more likely to be viable where consumers have a high ability to pay.

A company can afford to price its products at higher levels, if the consumer of the product is different from the person who pays for it. Products for children or stationery items for a company's employees come under this category. The user simply focuses on the suitability of the product and does not bother much about the price when selecting a product.

A company can also afford to charge a high price if there is lack of competition among supplier companies. The company does not fear that its customers will switch over to competitors because of its high pries.

A Company can also charge a high price from its customers if there is a high pressure on them to buy. A business traveler rushing to meet a deadline with a customer will be willing to pay a much higher price for a air ticket than a normal passenger not so hard pressed.

(iv) Low price is used when low price is the only feasible alternative. Product may have no differential advantage, customers are not rich and pay for themselves, have little pressure to buy, and have many suppliers to choose from. At best such products could take going rate price, but should be launched at lower price to provide incentive for customers to switch from their usual brands. A company may wish to gain market share of domination by aggressively pricing its products. Penetration pricing .e. low pries for market share is sometimes followed by price increase once market share has reached a satisfactory level. Low prices may also be charged to increase output and so bring down costs through experience curve effect. Economies of scale is also achieved. Marketing cost per unit will also fall Low price is also used when the objects is to make money later. Sale of basic product may be followed by profitable after sales service and/or spare parts.

(v) Price sensitivity may change over time. When products are novel, customers are willing to buy them at higher prices because it serves their unique requirements or provides them self esteem. But when the same products becomes widely used, customers start considering the price as important element in their choice criteria. Also when customers income increases, products about which they were price sensitive are bought without much regard to its price.

Pricing of Existing Products

Strategic objective for each product will have major bearing on pricing strategy. For example, if a company wants to develop a premium brand it will price its products higher, but if it wants to capture market the mass market, it will have to price its products lower.

- **Build objective :** The company wants to increased its market share. In price sensitive markets, the company has to price lower than competition. If competition raises prices the company should be slow to match them. But if competition reduces prices, it promptly matches or undercuts it further. For price insensitive products, price will depend on the overall positioning strategy appropriate for the product. If the product is positioned as premium it will have to be priced higher but if the product is targeted a the mss market the price has to be lower and competitive.

- **Hold objective :** The company wants to maintain its market share and profits. The company's pricing policies are essentially reactionary in nature. The company maintains or matches price relative to the competition. The company reduces price if competition reduces price in order to hold sales or market she. If the competition increases price the company also increase its price, as it does not want to compromise on its profitability.

- **Harvest :** The company is focused on increasing its revenues. It wants to maintain or raise profits even if sales fall. The company sets premium prices in order to achieve this objective, It does not match c0mpetitor's price cuts but price increase is swiftly matched. The company is proactive in revising its prices upwards.

- **Repositioning strategy :** Price change will depend on the new positioning strategy, If the objective is to build a premium brand, the company will price its product higher, but if the company wants to reposition the product for the mass market, it will have to lower its price and make it competitive.

A company cannot set its price in isolation. The pricing policy of a company is instrumental in achievement of its financial and strategic goals. The pricing policies of a company also send strong signals to cusat0mers about the positioning plank of the company. Therefore price fan be decided only after knowing the positioning strategy and strategic objective.

Value to the Customer

Price should be accurately keyed to the value to the cust0mer. The more value that a product gives compared to competition, the higher the price that fan be charged.

There are four ways of estimating value to the customer.

Buy Response Method : A Company asks customers if they would he willing to buy at varying price levels. Up to ten prices are chosen within the range usual for the products. Respondents are shown the product and asked if they would buy the product at say $100. The first price quoted is near the average for the product category and other prices are stated at random. The percentage of respondents indicating that they would buy is calculated for each price and plotted to form the buy response curve. The curve shows the prices at which willingness to buy drops sharply and give an indication of acceptable price range.

The methodology focuses on respondent's attention exclusively on price, which may induce an unrealistically high price consciousness. But the method gives the company a good idea of the value that the customers place on the company's product. Customers weigh price against product features and benefits of the company's products and competitors' offerings. If a competitor has launched a product with more features and benefits at a lesser price, customers will take into consideration the existence of a letter product at a lesser price, and will value the company's product lower.

Trade-off Analysis : Product profiles consisting of product features and prices are described and respondents are asked to name their preferred profile. The customers see price as just one part of the offering. Their choice reveals the trade offs that customers are willing to make between features and price. By Analyzing the customers' preferences for particular profiles relative importance of each of the product attributes including price is calculated. After knowing the customers' preference for product attributes and the price they are willing to pay for them the company can create the right combination of product features and price.

A limitation of this method is that respondents are not asked to back up their references by being required to buy their preferred combination of features and price. They may not actually buy their preferred choice when they are actually making a purchase.

Experimentation : Experimental pricing research places a product on sale at difference location with varying prices. In controlled store experiment a number of stores are paid to vary the price level of the product under test. Suppose 100 supermarkets are used to test two price levels. 50 stores could be chosen at random and allocated lower prices, and the rest could be selling at higher prices. By comparing sales levels and profit contributions between the two groups the most profitable price is established. A variant of this procedure tests price differences between the test brand and a major rival brand In half the stores, a price differential of say $10 may be compared with $20.

In test marketing, the same product would be sold in two areas using an identical promotional campaign, but the prides would be different in the two areas. The two areas would need to be matched in terms of target customer profile so that results an compared i.e. difference in sales in the two areas can be attributed to different in prides. Test needs to be for long enough period so that trial and repeat purchase at each price an be measured. Competitors may act to invalidate the results. They may launch special promotional programs in the test areas, making it difficult for the company to attribute it sales figure to the pride it is charging. This distortion is especially possible when product is not highly differentiated and therefore introducing a cheaper version would make a premium buyer to buy that cheaper version.

Economic Value to Customer (EVC) Analysis : Experimentation is more useful in consumer products. EVC analysis is used for industrial products. Economic value to the customer is the value that industrial buyer derives from the product in comparison to the total costs that he incurs in procuring and operating the product. A high EVC may be because the product generates more revenues for the buyer than competition or because its total of procurement plus operating costs are lower over the product's life time (Price = Setup costs i.e. purchase cost + operating costs). If a company has an offering that has high EVC, it can set a high price and yet offer superior value compared to competition, if the operating cost to the customer is low. The essential idea is that a company buys a product to enable it to earn revenues at as less a expenditure as possible. So a product with high EVC is preferred by industrial customers.

Module – 2 :
FACTORS INFLUENCING PRICING DECISION

Price Quality Relationship

Customers use price as an indicator of quality particularly for products where objectives measurement of quality is not possible, such as drinks and perfumes. Price strongly influences quality perceptions of such products. If a product is pried higher, the instinctive judgments of the customer is that the quality of the product must be higher, unless he can objectively justify otherwise.

Product Line Pricing

Some companies prefer to extend their product lines rather than reduce price of existing brands in face of price competition. They launch cut price fighter brands to compete with low price rivals. This has an advantage of maintaining image and profit margins of existing brands. By producing a range of brands at different price points, companies can cover varying price sensitivities of customers and encourage them to trade up to more expensive higher margin brands.

Explicability

The company should be able to justify the price it is charging especially if it is on the higher side. Consumer product companies have to send cues to the cust0mers about the high quality and the superiority of the product. A superior finish, fine aesthetics or superior packaging can give positive cues to the customers when they cannot objectively measure the quality of the offering. A company should be aware of the features of the product that the Customers an objectively evaluate and should ensue superior performance of those features. In industrial markets the capability of sales people to explain a high price to customers may allow them to charge higher pries. Where customers demand economic justifications of prices, the inability to produce cost arguments may mean that high price cannot be charged. A customer may reject a price that does not seem to reflect the cost of producing the product. Some times it may have to be explained that premium price was needed to cover R & D expenditure the benefits of which the customer is going to enjoy,.

Competition

A company should be able to anticipate reactions of competitors to its pricing policies and moves. Competitors can negate the advantage that a company might be hoping to make with its pricing policies. A company reduces its price to gain market share. One or

more competitors can decide to match the cut, thwarting the ambitious of the company to garner market share. But all competitors are not same and their approaches and reactions to pricing moves of the company are different.
The company has to take care while defining competition. The first level of competitors offer technically similar products. There is direct competition between brands who define their business and customers in similar way. Reactions of such competitors are very swift and the company will have to study each of its major competitors and find out their business objectives and cash positions, competitors who have similar ambitions to increase their market share and have deep pockets will swiftly reduce price if any one of them reduces prices. A telephone company offering landline services has all telephone companies offering landline services as its first level of competitors.

The second level of competition is dissimilar products serving the same problem in a similar way. Such competitors initial belief is that they are not being affected by the pricing moves of the company. But once it sinks in them that they are being affected adversely by the pricing moves of a company that seemingly belongs to another industry, they will take swift retaliatory actions. The telephone company has the mobile phone operators as its second level of competitors.

The third level of competition would come from products serving the problem in a dissimilar way. Again such competitors do not believe that they will be affected. But once convinced that they are being affected adversely, swift retaliation should be expected. The retaliation of third level are difficult to comprehend as their business premises and cost structures are very different from the telephone company in question. Companies offering E-mail service are competitors at the third level of the telephone company. A Company must take into account all three levels of competition.

Negotiating Margins

In some markets, customers expect a price reduction. Price paid is different from list price. In industrial goods this difference can be accounted for by order size discounts, competitive discounts, fast payment discount, annual volume bonus and promotions allowance. Negotiating margins should be built which allows pries to fall from list5 price levels but still permit profitable transactions. It is important that the company anticipates the discounts that it will have to grant to gain and retain business and adjust its list price accordingly. If the company does not build potential discounts into its list price, the discounts will have to come from the company's profits.

Effect on Distributors and Retailers

When products are sold through intermediaries like retailers, the list price to customers must reflect the margins required by them. Sometimes list prices will be high because middlemen want higher margins. But some retailers can afford to sell below the list to customers. They run low cost operations and can manage with lower margins. They pass on some part of their own margins to customers.

Political Factors

Where price is out of line with manufacturing costs, political pressure may act to force down prices. Exploitation of a monopoly position may bring short term profits but incurs backlash of a public enquiry into pricing policies. It may also invite customer wrath and cause switching upon the introduction of suitable alternatives.

Earning Very High Profits

It is never wise to earn extraordinarily profits, even if current circumstances allow the company to charge high prices. The pioneer companies are able charge high pries due to lack of alternatives to the customers. The company's high profits lure competitors who are enticed by the possibility of making profits. The entry of competitors in hordes puts tremendous pressure on price and the pioneer company is forced to reduce its price. But if the pioneer had been satisfied with lesser profits, the competitors would have kept away for a longer time and it would have got sufficient time to consolidate its position.

Charging Very Low Prices

It may not help a company's cause if it charges low prices when its major competitors are charging much higher pries. Customers come to believe that adequate quality can be provided only at the pries being charged by the major companies, If a company introduces very low prides customers suspect its quality and do not buy the product inspite of the low price. If the cost structure of the company allows, it should stay in business at the low price. Slowly, as some customers buy the product, they spread the news of its adequate quality. The customers belief about the quality price equation stats changing. They start believing that adequate quality can be provided at lower prices. The companies which have been charging higher prices come under fire from customers. They either have to reduce their prices or quit.

INITIATING PRICE CHANGES

Marketers need to be aware of the need to change even long standing prices. Price is a strategic tool with which competitors have to be overwhelmed, and higher profits earned, price howsoever diligently set, is sacrosanct. Managers need to know when and how to raise or lower pries and whether or not to react to competitors' price moves. Sometimes external factors may force such moves and at other times price changes are deliberate moves to gain competitive advantages. Price is essentially dynamic.

Circumstances Under which Price can be Raised

Marketing research may reveal that customers place a higher value on products than is reflected in its price. A price increase is not likely to turn away customers as they will still find the company's offer attractive. But if competitors hold on to the old price levels and the offerings are similar, customers are likely to defect. In most industries, the offerings of major competitors have become similar, and it may be suicidal for a company to raise prices if competitors do not follow suit. In most industries customers are getting good value and the industries can become more profitable if the companies raise pries. But because of unpredictable competitor reactions no company takes the initiative to raise prices. One alternative is to raise pries and introduce some differentiation in the offering simultaneously so that the customer feels that he is paying the extra amount for some added value. The customer essentially does not mind paying the high price because he is getting commensurate value, but is perturbed that other companies are offering the same value at lesser price. The slightly differentiated offering will put him at ease.

Costs of doing business may have gone up. If the escalating costs are affecting all competitors most of them are likely to follow suit when a company takes the initiative to raise prices. But if only a particular company has been affected, it cannot raise prices as competitors will hold on to their prices and lure away the company's customers.

There is excess demand, if a company raises price and competitors do not follow suit, the company may still get enough customers from the increased pool of customers to end up with higher profgits. But most competitors are likely to raise their prices to enhance their profitability. If a few competitors hold on to the old prices, it may actually work to their disadvantage. Customers will take the price charged by the major and majority of companies as reasonable and will attribute the low prides of the few companies to inadequate quality.

A company's objective may have become to harvest the business i.e. to increase margins at the cost of survival. It does not mind losing some cuso0tmers but charges higher prices to whoever is willing to buy its products. Competitors should not raise their prices in response to such a company's raising its prices. But if competitors are obvious of the company's intention and raise their prices, the company will be able to retain its customers and really earn a windfall.

Circumstances Under which Prices may be Cut

Marketing research discovers that the price is higher compared to value custy0mers place on the product. If the company does not reduce its price, the customers would stop buying. If the scenario is true for the whole industry, all the competitors will follow the initiator and market shares will stabilize somewhere close to where it was before the price cut.

Costs of doing business may have come down. The company wants to pass on some of the benefits of the reduced costs to customers to earn their goodwill. It will help the company immensely if such a move is well publicized. Competitors may follow suit but the company which does it first is likely to register maximum good will among customers.

The company has excess capacity and reduces its price to increase volumes so that its per unit cost goes down. Therefore the low price is compensated to some extent by falling costs if sales increase in response to the low price. If a company operating at full capacity cuts its price in response, the cut will come straight from profits as it does not get any reduction in cost. Such a company will be reluctant to cut price and will lose customers to the company with larger capacity. Companies with larger capacities and get advantage over smaller companies by reducing their prices systematically. But if there is industry over capacity i.e. every company has excess capacity, competitors are likely to follow suit if a company initiates a price cut. Sales do not increase for any company, but profits fall further for every company.

The company wants to increase its market share. It cuts price and if it is lucky not to have its competitors matching the cut. It may be able to increase its market share. But this method to increase market share is fraught with danger. It may lead to spiraling price costs in the industry with reduced profits for every company.

Proactive Price Cut

A company cuts price to preempt competitive entry into a market. It incurs short term profit sacrifices but immediately reduces the attractiveness of the market to the potential entrant. The competitors do not consider the market attractive enough to commit resources on it. The move reduces the risk of customer annoyance if prices are reduced only after competition entry.

Tactics of Price Change

(i) The company increases or decreases price by the full amount in one go. When a company raises prides substantially at one instance, it avoids prolonging the pain of a price increase over a long period but raises the visibility of price raise to customers. Some customers may find the price hike too steep and decide not to buy. And once they move to a competitor's offerings they may never return.

(ii) When company reduces prices in one go, the decline in price is noticed by customers and they may now find the new attractive and may purchase almost immediately. In fact price reduction below certain threshold level is not noticed by customers and is a wasted move with regards to attracting customers. A big price reduction stirs the market customers take notice and sales increase., Such price reductions should be heavily promoted. But such a move causes an immediate impact on margins., there is also the fear that such a steep reduction might not have been needed and that a lesser reduction in price would have resulted in the same customer response. The company takes a void able hit in its revenues if it unwittingly reduces prices more than that was required to create a stir in the market.

(iii) A company increases its price by small amounts in stages. Customers do not notice and continue to buy. Customers do expect prices to go up incrementally, so a small price hike does not alarm them. But a company which resorts to price hikes very frequently, runs the risk of being charged with always rising its prices. This image may be harmful in the long run.

(iv) Staged price reductions is done when the amount necessary to stimulate sales is unclear small cuts are made till desired effect on sales is achieved. The company is able to avoid unnecessary reductions in price. But some customers may not take notice and continue to assume that the company is still charging its original price and will not switch over from their current suppliers. Smaller price reductions also cannot be effectively advertised. And when the company continues the prices for too long customers may postpone their purchases and wait for the next cut in price.

(v) An escalator clause in a contract (for instance, construction)_ allows the supplier to stipulate price increase in line with a specified index, like increase in material cost. Customers are normally wary of such clauses and fear that the supplier will increase prices on the flimsiest or grounds. Suppliers should ensure customers that the price hike would take place only under strictly specified and verifiable circumstances.

(vi) Price unbundling allows each element in the offering to be separately priced and sold in such a way that total price is raised. Customers can avoid buying the full product if they require only a few elements of it. It helps customers as they can select different suppliers for different elements. They do not feel dependent totally on one supplier.

(vii) The company maintains the list price but offers required discounts to customers. When the list price is lowered, customers who otherwise would have been willing to pay hither prices also pay the decreased price. But under this method, the company offers discounts to some customers to get their business but charges full price to others. There is rear of customers reprisal if the customers become aware of the discriminatory pricing of the company especially if the differences between what customers have paid are big. A company can lower or completely withdraw cash and quantity discounts when the demand is heavy. But when such discounts are offered indiscriminately and for all customers and for all periods, customers lose faith in the price list of the company. Customers distrust such companies as prides become the function of how hard a customer can bargain. A company should not allow the sanctity of its list price to be withered away under the pretext of having to do business under very competitive conditions. It will be better to reduce the list price if discount will be ultimately given to every customer.

(viii) A Company can decrease price without a direct fall in price. Price bundling can lower prices. For instance, a company sells television with repair warranty. The drawback is that while the company incurs real costs in fulfillment of additional responsibilities or services, the customers may not value them or may not even want them. And over a period of time customers begin to expect these extra services as normal part of the offering and do not acknowledge any favours being granted to them. A possible solution is to offer customer an option of taking the bundled product or a small discount. The discount should be lower than the monetary value of the service being bundled. This option will act as a reminder to customers that the company is providing enhanced value to them. And it can be a genuine option for customers who do not want the added service.

(ix) Discount terms can be made more attractive by increasing the percentage or lowering qualifying levels. The first move makes a serious dent in the profits and the second results in the virtual reduction of list price.

(x) Introduce a low price fighter brand to counter a cut price competitor while keeping the price premiumness of the main brand intact. This is normally a good strategy to avoid lowering the prices of a company's premium brands. Brand equity developed over decades and centuries can get eroded if premium brands are pressed to engage in battles with low price brands. The premium brands win by cutting prices as customers lap up such a premium brand at such affordable prides. But the brand is dead for ever. It becomes the mediocre brand it vanquished. Though crating a low price fighter brand will cost the company, it will be worth protecting its premium brands.

Estimating Competitor Reaction

- A price rise that no competitor follows may turn customers away to competitors' offerings. A price cut that is met by the competition will not result in increase in sales of the initiator but may reduce industry profitability. A company that initiates prices changes will achieve its purpose if its price hike is matched by competitors but its price reduction is not matched by competitors.

- A company's reactions to another company's price moves is dependent on its strategic objectives. It is likely to follow price increase if its strategic objecti9ve is to hold or harvest. If it is intent on building market share, it will resist following price increase. Conversely it will follow price cuts if it is building or holding ad will ignore price cuts if it is harvesting. Companies should try to gauge their c9mpetuitors strategic objectives for their product. By observing pricing, and promotional behaviour, talking to distributors and even hiring their employees estimates or whether competitor products are being built, held or harvested fan be made.

- If price is raised in response to rise in inflation, competition is likely to follow than if price is raised because of harvest objectives of a firm.

- If competition has excess capacity, a price cut will be matched.

- A price rise is likely to be followed if competition is faced with excess demand Competitor reaction can also be judged by looking at their price reactions to previous price changes.

Reacting Competitors' Price Changes

When to Follow a Competitor's Price Move

Competitive price increases are more likely to be followed when they are due to general rising cost levels or industry wide excess demand, or when customers are relatively price insensitive, which means that followers will not gain much by not increasing the price. When a brand image is consistent with high prices a company will follow a competitor's price rise as to do so would be consistent with the brand's positioning strategy. A price rise is more likely to be followed if a company is pursuing hold or harvest objective because company's aim is profit margin rather than sales market share gain.

Price cuts are likely to be followed when they are stimulated by general falling costs or excess supply. Falling costs allow all companies to cut pries while maintaining margins and excess supply means that a company is unlikely to allow a rival to make sales gain at their expense. Price cuts will also be followed in price sensitive markets since allowing one company to cut price without retaliation would mean large sales gains for price cutter. Some companies position themselves as low price manufactures or retail outlets. They would be less likely to allow a price reduction by a competitors to get unchallenged, for to do so would be incompatible with their brand image. Price cuts are likely to be followed when the company has build or hold objective. An aggressive price move by a competitor would be followed to prevent sales/.market share loss. In build objective price fall may exceed initial competitive moves.

When to Ignore to a Competitor's Price Move

Price rise are likely to be ignored when costs are stable or falling, as there are no cost pressures. In situations of excess supply, a price rise will make the initiator less competitive especially if customers are price sensitive and price rise can go unchallenged. Companies occupying low price position will find increasing price due to a competitor's increasing its price incompatible with their brand image. Companies pursuing build objectives will allow a competitor's price rise to go unmatched in order to gain sales and market share.

Tactics of Reaction

Price change can take place slowly or quickly. A quick price increase is likely when there is an urgent need to improve profit margins. Slow reaction is desirable when an image of being the customer's friend is being sought. Some companies never initiate price increase and follow competitor's increase slowly. The key to this tactic is timing the response. The optimum period is found by experience, but in the meantime, sales people should tell the customers that the company is doing every thing to hold prices.

There should be quick reaction to competitor's price decrease if there is erosion of market share. Reaction is slow when a company has loyal cut0merbase willing to accept higher prices for a period so long as they can rely on price parity over the longer run.

Module – 3
Case Study.

Identifying International Marketing Opportunities in Medical Services

The global medical travel market is estimated at US$ 40 billion and is likely to grow annually at the rate of 20%. A summary of international markets of medial tourism is given in Exhibit hereinbelow. Thailand has emerged as the biggest destination for medical tourism, where 600,000 patients mainly from the UK and the US have been treated for cosmetic surgery organ transplant, dental treatment and joint replacements Jordan mainly attracts patients from the Middle East primarily for organ transplant, fertility treatment and cardiac care. Malaysia has primarily specialized in cosmetic surgery, attracting about 85,000 travellers for treatment in 2002. Travellers from the UK and the US visit South Africa mainly for cosmetic surgery, eye (lasik) surgery, ad dental treatment.

Exhibit

Country	**No.of foreigners treated in year 2002**	**From**	**Money earned (million $)**	**Strengths**
Thailand	600,000	US, UK	470	Cosmetic surgery, organ transplants, dental treatment, joint replacements
Jordan	126,000	Middle East	600	Organ transplant,, fertility treatment, cardiac care
India	100,000	Middle East Bangladesh UK, developing countries	N.A	Cardiac care, joint replacements, Lasik
Malaysia	85,000	US, Japan, developing countries	40	cosmetic surgery
South Africa	50,000	US, UK	N.A	Cosmetic surgery, Lasik, dental treatment

The international market for medical trade is likely to grow significantly as a result of the opening up of international markets under the WTO regime. Medical travel is the most visible face of the increasing global trade in healthcare services but the WTO expects three other modes to become equally significant over a period of time.

They include the cross border delivery of trade. It covers everything from shipment of laboratory samples, diagnosis ad clinical consultation via traditional mail channels,. To the electronic delivery of health services. This mode of medical trade is expected to become a significant movement because of the advances in telecommunications. Telemedicine holds out large potential simply because it allows offering services without investing very heavily infrastructure. Some hospitals in the US have started offering tele consultation services to hospitals in Central America and the Easteern Mediterranean region. Some Indian hospitals ate offering similar services to their counterparts in Nepal and Bangladesh.

Another mode covers the setting up of the hospitals, clinics and diagnostic centers in a country by a medial group that has its base in another country. It could also involve the taking over of a hospital chain by a foreign group.

The final mode of trade involves the movement of health personnel physicians, specialists, and nurses from one country to other. It includes the movement of Indian doctors and nurses to the UK and other countries.

India is emerging as a major destination for cost effective medial services. So fart, a few organized efforts have been madder to market India as a healthcare destination. During the late 1980s and the early 1990s, most medical travelers coming to India were from Arab countries. Africa and south East Asia but today a significant number of travelers are coming from CIS countries and Afghanistan for treatment.

India has an edge over its competitors as it provides holistic treatment for a variety of chronic problems. About 20,000 doctors pass out every year in India and some of India’s healthcare facilities are comparable to the best in the world. India provides medial treatment facilities comparable to the best in the wo5rld in cardiac surgery orthopedic neurosurgery and lasik (eye) surgeries.

It is estimated that India has the potential to earn US$ one billion from medial treatment to international travelers. The cost of open heart surgery in India ranging from US$ 5000-10,000 compared to the cost of open heart surgery of US$ 150,000 in the us. The hip replacement costs merely US$ 2,500 vis-à-vis US$ 17,000 in the US an US$ 6,671 in South Africa

The International markets demand for medical services is likely to increase as the proportion of elderly (60 years ad above) population vis-à-vis total population is rapidly increasing in the US, UK, Japan and many other European countries. The number of people aged 65 years and above is expected to double in the US in the next 15 years In the UK the people aged 60 years and above will form 25% of the population in the next 30 years – up from 16% now. Similar trends are expected in also West Eur0pean countries Besides, the average life expectancy is steadily growing the world over. Both these factors combine to result in a big search in and international demand for healthcare.

On the other hand, the healthcare system in US, Japan and UK are under tremendous pressure to take care of the increasing demand. The number of doctors and nurses joining the medical workforce in both the US and the UK is not keeping pace with the growing demands of an ageing population.

As the treatment costs are increasingly becoming prohibitive I developed countries and as Japan, the US and the UK, more and more patients are looking for destinations with post-effective treatments, Thailand Jordan Malaysia South Africa and Cuba have emerged as preferred destination for International medical tourism,. The competency of Indian doctors is accepted worldwide. Besides Indian systems of medicines, for example, Ayurveda are also viewed with high esteem around the World and medical travelers from around the world are been to visit India for a holistic treatment. However it requires a comprehensive international marketing approach to identify niche services that an be offered to the international markets and a comprehensive strategy vis-à-vis competitors.

Exhibit

Procedure	US	India	South Africa	Thailand
Facelift	**8000-20000**	**100000-20000**	**1252**	**2682**
Hipe replacement	**17,000**	**2500**	**6671**	**N.A.**
Open heart surgery	**150000**	**5000-10,000**	**13,333**	**7500**
Eye (Lasik)	**3100**	**200**	**2166**	**730**

Questions :

1. Estimate the market size of the top 10 healthcare services.

2. Prepare a comparative price chart for treatments in various countries Select at least one country from each continent besides India.

3. Compare prices of major medicines in various countries.

4. Identify the areas I which India has a strategic edge I healthcare services.

5. Prepare a checklist of issues that need to be addressed to make India a global hub for healthcare services.

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6

SALES FORECASTING

Module – 1 : Meaning, Importance and Methods

It is of the utmost importance that the sales manager has some idea of what will happen in the future in order that he or she can make plans in anticipation of that happening. There would otherwise be no point in planning and all that has been said in Chapter II would be negated. Many sales managers do not recognize that sales forecasting is one of their responsibilities, and leave such matters to accountants who need the forecast in order that they can prepare budgets (dealt with in chapter 13). Perhaps sales mangers do not see the immediate need for forecasting and think that selling is a more urgent task Indeed, the task of forecasting by the sales manager is often pushed to one side and a hastily put together effort with no scientific base, little more than an educated guess, is the end result. The folly of such an attitude is examined during the course of this chapter.

When one is in a producer's market – similar to the situations in the immediate postwar years as was described in Chapter -1 there is less of a need for forecasting as the market takes up all one's production, it is less a matter of selling and more a matter of allowing customers to purchase. However, in a buyer's market the situation is d8fferent and the consequence of over production is that one is left with unsold stock which is costly to finance in that such finance must come from working capital borrowings. The marginal money i.e. the cost of borrowing the last pound of revenue, comes from the bank overdraft, which is at least baser rate of borrowing plus 1 or 2 per cent. It can therefore be seen that over production and stocking an be a costly business. Conversely under production can be a bad thing because sales opportunities might be missed due to long delivery times and the business might puss to a competitor who can offer quicker delivery.

Thus the purpose of the sales forecast is that it allows management to plan ahead and go about achieving the forecasted sales in what it considers to be the most effective manner. It is again emphasized that the sales manager is the person who should be responsible for this task. The accountant is not in a position to know whether the market is about to rise or fall; all that can be done is to extrapolate from previous sales, estimate the general trend and make a forecast based on this. The sales manager is the person who should know which way the market is moving and it is a negation of a major part of his or her duty if the task of sales forecasting is left to the accountant. (In addition, the sales forecasting procedure must be taken seriously, because from it stems business planning; if the forecast is erroneous then such plans will also be incorrect.

PLANNING

It has been established that planning stems from the sales forecast and that the purpose of planning is to allocate company resources in such a manner as to achieve these anticipated sales.

A company can forecast its sales either by forecasting the market sales (called market forecasting) and then determining what share of this will accrue to the company or by forecasting the company's sales directly. Techniques for doing this are dealt with later in the chapter. The point is that planners are only interested in forecasts when the forecast comes down to individual products in the company.

We shall now examine the applicability ad usefulness of the short, medium and long term forecasts in so far as company planners are concerned and shall then look at each from individual company departmental view point.

1. SHORT TERM FORECASTS. These are usually for periods up to three months ahead, and as such are really of use for tactical matters like production panning. The general trend of sales is less important here than short term fluctuations.

2. MEDIUM TERM FORECASTING. These have direct implications for planners. They are of most importance in the area of business budgeting, the starting point for which is the sales forecast. Thus if the sales forecast is incorrect, then the entire budget is incorrect. If the forecast is over optimistic then the company will have unsold stocks which must be financed out of working capital. If the forecast is pessimistic, then the firm may miss out on marketing opportunities because it is not geared up to product the extra goods required by the market. More to the point is that when forecasting is left to accountants, they will tend to err on the conservative side and will produce a foremast that is less than actual sales, the implications of which have just been described. This serves to re-emphasise the point that sales forecasting is the responsibility of the sales manager. Such medium term forecasts re normally for one year ahead.

3. LONG TERM FORECASTS. These are usually for periods of three years and upwards depending upon the type of industry being considered. In industries like computers three years is long term, whereas for steel manufacture ten years

is along term horizon. They are worked out from macro environmental factors like government policy, economic trends etc. such forecasts are needed mainly by financial accountants for long term resource implications, but such matters of course are board of directors concerns. The board must decide what its policy is to be in establishing the levels of production needed to met the forecasted demand, such decisions might mean the construction of a new factory and the training of a work force.

In addition to the functions already mentioned under each of the three types of forecast, other functions an be directly and indirectly affected in their planning considerations as a result of the sales forecast, such functions include the following :

1. It has already been mentioned that production need to know about sales forecasts so that they can arrange production planning. There will also need to be lose and speedy liaison between production and the sales department to determine customer priorities in the short term. Production also needs long term forecasts so that capital plant decisions can be made in order to meet anticipated sales.

2. Purchasing usually receives its cue to purchase from the production department via purchase requisitions or bills of material. However in the case of strategic materials or log delivery items it is useful for purchasing to have some advance warning of likely impending material or component purchases in order that they an better plan their purchases. Such advance warning will also enable purchasing to purchase more effectively from a price and delivery view point.

3. Personnel is interested in the sales forecast from the manpower planning view point.

4. It has already been mentioned that the financial and more specifically the costing function needs the medium term forecast in order to budget. The next chapter details how use is made of the sales forecast through the sales budget and how such a function operates. The long term forecast is of value to financial accountants in that they can provide for long range profit plans and income flows. They will also need to make provision for capital items like plant and machinery needed in order to replace old plant and machinery and to meet anticipated sales in the longer term.

5. Research and development will need forecasts, although their needs will be more concerned with technological

matters and not with actual projected sales figures. They will want to know the expected life of existing products and what likely changes will have to be made to their function and design in order to keep them competitive. Market research reports will be of use to research and development in that they will be able to design and develop products suited to the market place such a view reflects a marketing orientated approach to ust0mer requirements. Here repots from sales people in the field concerning the company's products and competitors products will be useful in building up a general picture such information will be collated and collected by the marketing research function.

6. Finally marketing needs the sales forecast so that sales strategies and promotional plans can be formulated in order to achieve the forecasted sales. Such plans and strategies might include the recruitment of additional sales personnel, remuneration plans, promotional expenditures and other matters as detailed in chapters 3 and 6.

It can thus be seen that an accurate forecast is important because all functions base their plans on such forecasts. The short, medium and long term forecasts all have some relevance to some business function and in the absence of reasonably accurate forecasting, where such plans are not based on a solid foundation, they will have to be modified later as sales turn out to be wide of those predicted in the sales forecast.

Now that the purpose of sales forecasting has been established, together with its role as a precursor to all planning activity, we an look at the different types of forecasting technique, bearing in mind that such forecasting is the responsibility of the sales function. Such techniques are logically split into two types, qualitative techniques and quantitative techniques and each is dealt with in turn.

QUALITATIVE TECHNIQUES

Qualitative forecasting techniques are sometimes referred to as judgment or subjective techniques because they rely more upon opinion and less upon mathematics in their formulation. They are often used in conjunction with quantitative techniques which are described in section 12.4.

Consumer/user survey method

This method involves asking customers what their likely purchases are to be for the period it is wishes to forecast; it is sometimes referred to as the market research method. For industrial products, where there are fewer customers such research is often carried out by the sales force on a face to face basis. The only problem is that then you have to ascertain what proportion of their likely purchases will accrue to your company. Another problem is that customers (and sales people) tend to be optimistic when making predictions for the future. Both of these problems can therefore lead to the possibility of multiplied in accuracies.

For consumer products it is not possible to canvas customers through the sales force, and the best method is to interview them through a market research survey (probably coupled with other questions or through an omnibus survey where questions on a questionnaire are shared with other companies). Clearly, it will only be possible to interview a small sample of the total population and because of this the forecast will be less accurate. There is also a question of the type and umber of questions one an ask on such a sample survey. It is better to canvass grades of opinion when embarking on such a study and these grades of opinion can reflect purchasing likelihoods. One an then go on to ask a question as to the likelihood of purchasing particular makers or brands which will of source include your own brand or model.

This method is of most value when there are a small number of users who are prepared to state their intentions with a reasonable degree of accuracy. It tends, therefore, to be limited to organisational buying. It is also a useful vehicle for collecting information of a technological nature which can be fed to one's own research and development function.

Panels of executive opinion

This is sometimes called the jury method, where specialists or experts are counseled who have knowledge of the industry being examined. Such people can come from inside the company and can include marketing or financial personnel or indeed any others who have a detailed knowledge of the industry. More often, the experts will come from outside the company and can include management consultants who operate within the particular industry, usually working as economists. Sometimes external people can include personnel from customer organisations who are in a position to advise from a buying company's viewpoint. The panel thus normally comprises a mixture of internal and external personnel.

These expects come with a prepared forecast and must defend their stance in committee among the other experts. Their individual stances may be altered following such discussions. In the end, if disagreement results, mathematical aggregation may be necessary to arrive at a final compromise.

This type of forecasting method is termed a 'top down' method, whereby a forecast is produced for the industry, and the company must then determine what its share will be of the over all forecast. Because the statistics have not been collected from basic market data (from the' bottom up') there is difficulty in allocating the forecast out amongst individual products and sales territories and any such allocation will probably be a very arbitrary matter. Thus the forecast represents aggregate opinion and is only useful when developing a general rather than specific product by product forecast.

A variation of this method is termed 'prudent manager forecasting' whereby company personnel are asked to assume the position of purchasers in customer companies. They must then look at company sales from a customer's viewpoint and prudently evaluate these sales, taking into consideration such factors as external economic conditions, competitive offerings in terms of design, quality, delivery and price and whatever other factors are considered relevant to making an evaluation of the company's sales.

Sales force composite

This method involves each salesperson making a product by product forecast for his or her particular sales territory individual forecasts are built up to produce a company forecast, one can thus perhaps appreciate why it is some time termed the grass roots approach. Each sales person's forecast must be agreed with his or her area manager, and the divisional manager where appropriate and eventually the sales manager agrees the final forecast.

Such a method is very much a bottom up approach. Where remuneration is linked to projected sales (through quotas or targets) then there an be less cause for complaint because the forecast upon which such remuneration is based has stemmed from the sales force itself.

A variation of the above method is termed 'detecting differences in figures' and here each stage in the hierarchy produces a set of figures before meeting. The salesperson products figures, broken down by product and by customer and the area manager produces figures for the salesperson's territory. They then meet and must reconcile any differences in figure. The process goes on similarly with the area manager producing territory by territory figures and meeting with the regional manager who will have produced figures for his or her area until it eventually reaches the sales manger and the entire forecast is ultimately agreed.

The immediate problem with the sales force composite method of sales forecasting is that when the forecast is used for future remuneration (through the establishment of sales quotas or targets) there will be natural tendency for salespeople to produce pessimistic forecast. This can be alleviated to a certain extent by linking sales expenses to the forecast as well as future remuneration. On the other hand, when remuneration is not linked to the sales forecast there is perhaps temptation to producé an optimistic forecast in view of what was said earlier about customers and sales people tending to overtime. The consequence of the above is that a forecast might be produced that is biased either pessimistically or optimistically. As a corollary to the above it can also be argued that sales people are too concerned with everyday events to enable them to produce objective forecasts and they are perhaps less aware of the wider or ‘macro’ factors affecting sales of their products. Thus their forecasts will tend to be subjective.

Delphi Method

This method bears a resemblance to the panel of executive opinion method and the forecasting team is chosen using a similar set of criteria. The maintenance difference is that members do not meet in committee.

A project leader administers a questionnaire to each member of the team which asks questions usually of a behavioral nature, e.g. Do you envisage new technology products supplanting our product lines in the next five years ? If so by what percentage market share ? the questioning then proceeds to a more detailed or pointed second stage which asks questions about the individual company, and the process can go on to further stages where appropriate. The ultimate objective is to translate opinion into some fro of forecast. After each round of a questionnaires the aggregate response from each round is circulated to members of the panel before they complete the questionnaire for the next round, so members are not completing their questionnaires in a void and they can moderate their response in the light of the averaged results.

The fact that members do not meet in committee means that they are not influenced by majority opinion and a more objective forecast might result, However, as a vehicle for producing a territory by territory or product by product forecast it has very limited value. It is of more use in providing general data about trends within the industry and is perhaps of great value as a technological forecasting tool. It can also be useful for providing information about new products or processes which the company intends developing for ultimate manufacture and sale.

Bayesian decision theory

This technique has been placed under qualitative techniques, although it is really a mixture of subjective and objective techniques. It is not possible to describe the detailed workings of this method within the confines of this text; indeed it is possible to devote a whole text to the Bayesian technique alone.

The technique is similar to critical path analysis in that it uses a network diagram, and probabilities must be estimated for each event over the net work. The basis of the technique can best be described by reference to a simple example. Owing to the raft that this chapter does not easily lend itself to the provision of a case study that an encompass most or all of the areas covered in the chapter, a detailed practical exercise. Followed by appropriate questions covering the Bayesian decision theory technique has been included at the end of the chapter, and this should give the reader an insight into its workings.

Product testing and test marketing

This technique is of value for new or modified products for which no previous sales figures exist and for which it is difficult to estimate likely demand. It is therefore prudent to estimate likely demand for the product by testing it on a sample of the market beforehand.

Product testing involves placing the pre-production model (s) with a sample of potential users beforehand and noting their reactions to the product over a period of time by asking them to fill in a diary noting product deficiencies, how it was working general reactions etc. The style of products that an be tested in this fashion can range from household durables e.g. vaccum cleaners, to canned foods e.g. soups. However, there is a limit to the number of pre production items that an be supplied (particularly for consumer durables) and the technique is really of value in deciding between a ‘go’ or ‘go’ decision.

Test marketing is perhaps of more value for forecasting purposes. It simply involves the limited launch of a product in a closely defined geographical test area, e.g. a test town such as Bristol or a larger area such as the Tyne-Trees Television area. Thus a national launch is simulated in a small area, obviously at less expense. It is of particular value for branded foodstuffs, and the test market results an be grossed up to predict the national launch outcome. However, the estimate can only cover the launch and, over time, the novelty factor of a new product might wear off. In addition, it gives competitors an advantage because they an observe the product being test marketed and any potential surprise advantage will be lost. It has also been known for competitors to deliberately attempt to foul up a test marketing campaign by increasing their promotional activity in the area over the period of the test market.

QUANTITATIVE TECHNIQUES

Quantitative forecasting techniques are sometimes termed objective or mathematical techniques in that they rely more upon mathematics and less upon judgment in their computation. These techniques are becoming very popular with the onset of sophisticated computer packages some tailor made for the company needing the forecast.

It is not proposed to go into the detailed working of such techniques because they require specialist skills in their own right, indeed it would be possible to devote a text book to one technique alone. Some quantitative techniques are very simple whilst others are extremely complex. The remainder of this chapter attempts to explain such techniques so that the reader will at least have an appreciation of their usefulness and applicability to his or her individual forecasting problems. If the problem calls for one of the specialist mathematical techniques then the Nasser must be to consult a specialist and not attempt it on the basis of the incomplete information given here.

Quantitative techniques can be divided into two types :

1. TIME SERIES ANALYSIS. The only variable that the forecaster considers is time. These techniques are relatively simple to apply, but the danger is that too much emphasis might be placed upon past events to predict the future. The techniques are useful in predicting sales in markets that re relatively stable and not susceptible to sudden irrational changes in demand. In other words, it is not possible to predict downturns or upturns in the market, unless the forecaster deliberately manipulates the forecast to incorporate such a downturn or upturn.

2. CASUAL TECHNIQUES. It is assumed that there is a relationship between the measurable independent variable and the forecasted dependent variable. The forecast is produced by putting the value of the independent variable into the calculations. One must choose a suitable independent variable and the period of the forecast to be

produced must be considered most carefully. The techniques are thus concerned with cause and effect. The problem arises when one attempts to establish reasons behind these cause and effect relationships; in many cases there is no logical explanation. Indeed, there is quite often nothing to sup[pose that the relationship should hold go in the future. This reasoning behind casual relationships may not be too clear at this stage but once the techniques are examined later in the chapter it should become self evident.

The first set of techniques that are examined are those concerned with time series analysis.

Module – 2 :
QUANTITATIVE TECHNIQUES (TIME SERIES)

Moving averages

This method averages out and smooths data in a time series. The longer the time series, the greater will be the smoothing. The principle is that one subtracts the earliest sales figures and adds the latest sales figure. The technique is best explained through the simple example given herein below, it can be seen that using a longer moving average products a smoother trend line than using a shorter moving average.

Office Goods Supplies Ltd. annual sales of briefcases, moving average.

		Three Year		Five Year	
Year	Number	Total	Average	Total	Average
1979	1,446	---	----	---	----
1980	1,324	4,179	1,393	--	---
1981	1,409	3,951	1,317	6,543	1,309
1982	1,218	3,773	1,258	6,032	1,206
1983	1,146	3,299	1,100	5,855	1,171
1984	935	3,228	1,076	5,391	1,078
1985	1,147	3,027	1,009	4,953	991
1986	945	2,872	957	4,810	962
1987	780	2,728	927	5,049	1,008
1988	1,003	2,957	986	4,706	941
1989	1,174	2,981	994	4,805	961
1990	804	3,022	1,007	5,186	1,037
1991	1,044	3,009	1,003	5,470	1,094
1992	1,161	3,492	1,164	-	--
1993	1,287	-	--	-	--

Exponential smoothing

This is a technique that apportions varying weightings to different parts of the data from which the forecast is to be calculated. The problem with moving averages and straightforward trend projection is that is unable to predict a downturn or upturn in the market (unless the forecaster deliberately places a downturn or upturn in the data). In this technique the forecaster apportions appropriat4 degrees of ‘typically’ to different parts of the time series.

It is not proposed to explain the detailed mathematics behind the technique, because this is not a sales forecasting textbook. Instead the statistics used in the previous example have been taken and from this, weightings have been applied to earlier parts of the series. These weightings are applied by the forecaster according to his or her own judgment as to how typical earlier parts of the data are in the production of a forecast (although there is a mathematical technique for deciding this if necessary).

In the moving averages techniques the forecast will take some time to respond to a downturn or upturn, whereas with the exponential smoothing method the response can be immediate. In this example the forecaster has apportioned greater weightings to downturn periods of trade than to upturn periods, and the forecast will thus reflect another downturn period for 1994. Had a moving averages forecast been used, this would have produced a less steep continuum of the 1992-93 upturn trend.

In practice the technique is simple to operate, but it is essentially a computer technique. The forecaster can very simply alter the smoothing constant for different periods to produce a number of alternative forecasts, the skill lies in determining the disagree of weightings for earlier and later parts of the time series.

Time Series analysis

This technique is useful when seasonality occurs in a data pattern. It is of particular use for fashion products and for products that respond to seasonal changes a throughout the year. It can be used for cyclical changes in the longer term (like patterns of trade) but there are better techniques available for dealing with such longer term trends. Thus its best application is where the seasonal pattern is repeated a fairly regular annual basis. These seasonal movements are measured in terms of their deviation from the aggregate trend.

The technique is best explained graphically by using data from the previous example. The quarterly sales of briefcases have been taken for Office Goods supplies Ltd. for the years1989-1993 (see Table below) and it can be seen that sales exhibit a seasonal pattern with a peak of sales in the final quarter of each year.

Office Goods Supplies Ltd. quarterly sales of briefcases

Year	Quarter	Unit Sales	Quarterly moving	sum of pairs	Divided by 8 to find trend	Deviations from trend
1989	1	207)				
	2	**268)**				
	3	223) =	1,174) =	2,295	287	- 64
	4	476)	1,121)	2,136	267	+209
			1,015)			
1990	1.	154	919	1,934	242	- 88
	2	162	804	1,723	215	- 53
	3	127	839	1,643	205	- 78
	4	361	940	1,779		

1991	1.	189	995	1,935	222	+ 139
	2	263	1,044	2,039	242	- 63
	3	182	1,066	2,110	255	+ 8
	4	410	1,090	2,156	264	- 82
1992	1	211	1,107	2,197	275	+ 141
	2	287	1,161	2,268	284	-- 64
	3	199	1,185	2,348	293	+ 3
	4	464	1,248	2,433	304	- 94
1993	1	235	1,249	2,497	312	+ 160
	2	350	1.287	2,536	317	- 77
	3	200				+ 33
	4	502				

When the sums of quarterly deviations from the trend are added, the resultant sum is + 40 in this particular case the total sum must equal zero, otherwise it would mean that a positive bias would be built into the forecast. However, this correction must come from all figures equally, and is calculated as :

` 40/4 = + 10

Therefore + 10 must be subtracted from each quarter's figures. The corrected figures are then:

Quarter	1	2	3	4	
Corrected deviations	-292	-19	-328	+639	= 0

In this particular example these figures must now be divided by 4 to produce a yearly aggregate (because four years data has been used in their compilation) and the figures from which the forecast will be derived are as follows :

Quarter	1	2	3	4	
Deviations	-73	-5	-82	+160	= 0

Office Goods supplies Ltd. forecasted trend figures and deviations from trend that have been applied

Year	Period	Trend		Deviation
Forecast				
1993	3	326	- 82	244
	4	334	+ 160	494
1994	1	343	- 73	270
	2	352	- 5	347
	3	360	- 82	278
	4	369	+ 160	529

The figures were derived as follows. Unit sales are added to provide a one year total. This total then summates the one year moving sales by taking off the old quarter and adding on the new quarter. The quarterly moving totals are then paired in the next column (to provide greater smoothing) and this sum is then divided by 8 to ascertain the quarterly trend. Finally, the deviations from trend are calculated by taking the actual figures (in unit sales) from the trend and these are represented in the final column as deviations from the trend.

The statistics are then incorporated into a graph and the unit sales and trend are drawn in as in figure above. The trend line is extended by sight (and it is here that the forecaster's skill and in tuition must come in). the deviations from trend are then applied to the trend line, and this provides the sales forecast.

In this particular example it can be seen that the trend line has been extended one as low upwards trend similar to previous years. The first two figures for periods 3 ad 4 of1993 are provided as a forecast but these quarters have, of course, passed ad the figures are disregarded. The four quarters of 1994 have been forecasted, and these are included in the graph.

The technique, like many similar t3chniques, suffers from the fact that downturns and upturns cannot be predicted and such data must be subjectively entered by the forecaster through manipulation of the extension to the trend line.

Z (or Zee) charts

This technique is merely a furtherance of the moving averages technique. In addition to providing the moving annual total, it also shows the monthly sales and the cumulative sales, an illustration of the technique shows why it is termed Z chart. Each Z chart represents one year's data and it is best applied using monthly sales data. As a vehicle for forecasting it provides a useful medium where sales for one year can be compared with previous years using three criteria (monthly cumulative and moving annual).

The sales of brief cases for Office Goods supplies Ltd. have been provided for each month of 1992 and 1993 and this is sufficient to provide data for the Z chart as can be seen in Table hereto.

Moving annual sales are obtained by adding on the new month's figure and taking off the old month's figures, twelve months previously. The cumulative sales are obtained by adding each month to the next month, and the bottom line of the Z is the monthly sales.

Office Goods Supplies Ltd. monthly sales of briefcases 1992/3

Month	Unit Sales 1992	1993	Cumulative sales 1993	Moving annual total
Jan.	58	66	66	1,169
Feb.	67	70	136	1,172
Mar	86	99	235	1,185
Apr	89	102	337	1,198
May	94	121	458	1,225
Jun	104	127	585	1,248
Jul	59	58	643	1,247
Aug	62	69	712	1,254
Sep	78	73	785	1,249
Oct	94	118	903	1,273
Nov	178	184	1,087	1,279
Dec	192	200	1,287	1,287

The method is very much a comparison by sight method and in this case would be used for th4e medium term (one year) sales forecast However as a serious method for prediction its uses are limited its maintenance use is for comparison.

Miscellaneous

This find section very briefly describes two techniques that are very much computer techniques, to describe their workings in detail would take a disproportionate almost of space together with a detailed knowledge of mathematics. They rely in their application upon sophisticated computer packages, and if the reader wishes to pursue the techniques further then the advice would be to go to a software specialist who can advise as to their applicability and to their degree of accuracy for the desired intention is not to say that the forecaster (say the sales manager) should necessarily need to have a detailed knowledge of the technique that is being applied, all he or she needs to know in what the forecast will do and its degree of likely correctness.

The first of these techniques is Box-Jenkins, named after the people who developed it. It is a sophistication of the exponential smoothing techniqu4 which applies different weightings to different parts of the time series. In the case of this technique, the computer package takes earlier parts of the time series and manipulates and weights parts of this against known sales from later parts of the time series. The weighting that provides the best fit is finally deduced and this can then be used for the forecast. It is reasonably accurate for short and medium term forecasting and it is predicted that its application will increase as more powerful personal computers are developed.

The other technique is termed X-11 and was developed by an American called Julius Shiskin. It is what is termed a decomposition technique and it breaks a time series down in to trend cycles, seasonal cycles and irregular elements. It is an effective technique for medium term forecasting and it incorporates a number of analytical methods into its computation.

Quantitative Techniques (casual)

Leading indicators

This forecasting method seeks to define and establish a linear regression relationship between some measurable p[phenomenon and whatever is to be forecasted. It is not appropriate to enter into a discussion of the technique of linear regression within the confines of this text, should the reader wish to pursue the technique further most reasonably advanced statistical texts will explain the method adequately and explain its applicability.

The best way to explain the technique is to consider the following simple example. The sale of children's bicycles depends upon the child population, so a sensible leading indicator for a bicycle manufacturer would be birth statistics. The bicycle manufacturer will therefore seek to establish a relationship between the two and if the manufacturer is considering children's first two wheeler bicycles (say at age years old on average) then births will precede first bicycles by three years In other words first bicycles will lag births by three years.

The example is obviously an over simplification, and there are forecasting packages available that permute a number of leading indicators, i.e. they are indicators that are ahead of actual sales, and it is possible to provide the permutation that best fits known sales, where the sales are lagged in time and the indictor is leading. The permutation that best fits the known sales to the indicator (or permutation of indicators) is the one to use in the forecast. Thus the permutation is constantly under review as time goes on. As forecasts pass into actual sales, so the forecasting permutation is modified to take account of the most recent sales.

This more sophisticated type of forecasting just described uses what is known as correlation analysis to establish the relationship and again the reader is directed to any reasonably advanced statistics text book for a fuller explanation of its workings and its implications.

Simulation

This forecasting methodology has only become possible with the widespread use of the digital computer. Leading indicator forecasting establishes relationships between some measurable phenomenon and whatever is to be forecasted, whilst simulation uses a process of iteration or trial and error to arrive at the forecasting relationship In are reasonably complicated forecasting problem (which most are that utilize this technique) the number of alternative possibilities and outcomes in vast. When probabilities of various outcomes are known the technique is known as Monte Carlo simulation and it depends upon a predetermined chance of a particular event occurring (it is
coincidence that the technique derives from probabilities worked out for gambling games).

It is difficult to explain the technique further without entering into complex mathematical discussions and explanations In so far as this text is concerned, it is sufficient that the reader is aware of such a technique, if further information is to be sought, a professional forecaster must be consulted, It is essentially a digital computer technique and to apply it successfully requires the help of an expert.

Diffusion models

Most of the techniques that have been discussed so far have depended upon a series of past sales for the company and the industry to be available before a forecast can be calculated. However, when new products are introduced to the market, and the products are not simply extensions or redesigns of old products then the technique for estimating sales comes from a body of theory called the diffusion of innovations. One of the authors has already made a study of the subject and has produced a forecast for video recorders which utilized the Bass diffusion model (Lancaster and Wright, 1983)

Again as with most of these casual techniques, the mathematics are complicated and the best advice for the sales manager seeking to apply such a technique to anew product would be to seek the advice of a specialist. This is essentially a digital computer technique and it is complicated in its computation.

Basically, diffusion theory assumes that the new product has four basic its :

- the innovation
- the communication of the innovation among individuals
- the social system

- time.

The theory goes on to say that the innovation can be categorised into one of the following groupings:

- continuous
- dynamically continuous
- discontinuous

This latter is a hierarchical listing, with the innovations being more widely removed from previous technology as one moves further down the list. This means that the further down the hierarchy the innovation is placed, the lower will be the degree of likely acceptance. In the early days of a product innovation, knowledge must be communicated to as many individuals as possible, especially those who are likely to be influential in gaining wider appeal for the innovation. This communication process is broken down into formal and informal communication. It is these two elements that are fed into the forecasting model ad as such the model can be applied without large amounts of past sales data. The formal communication is controlled by the company and includes such data as advertising expenditure and sales support for the launch and the informal element relates to such matters as family and reference group influences.

Once the innovation has been launched, a measures of the rate of adoption is needed in order to produce a useful forecast. Products are born they mature and eventually die, and it is important to the forecaster using this technique that the first few points of the launch sales are known in order to be able to determine the rate of adoption. Thus a forecast can be made using only a small amount of data covering the early launch period. An assumption is therefore made that the product being considered has a life cycle curve and that new product acceptance is through a process of imitation i.e. later purchases will follow the innovators.

The use of computer software in sales forecasting

Since the second edition was completed much softwares has been written designed specifically for forecasting purposes. The problem with any listing of such software is that it quickly dates, so if it is proposed to use a software package then the best advice is to consult an up to date listing. The following is a list of more generalized packages that have withstood the test of time.

EXECUTANT from Meria Softwares Ltd. Combines business statistics with high quality graphics output. It pr0ovidesfor quick analysis of data.

FOCA from Timberlate Clark Ltd. Offers modern quantitative forecasting of time series using exponential smoothing spectral analysis. BoJenkins and adaptive filtering.

MINITAB from CLE, COM.LTD. A general purpose data analysis system that is easy to use. Its features include descriptive statistics, regression analysis with diagnostics, residual analysis and step wise procedures, time series analysis including robust smoothers and Box-Jenkins operations.

RATS from Timberlake Clark Ltd. An econometric package that perform time series and cross sectional regression. It is designed for forecasting of time series although small cross sectional and panel data may also be used.

SAS/ETS from SAS Software Ltd. Econometrics and time series library provides forecasting, planning and financial reporting. It contains procedures for time series analysis, linear and on linear systems simulation and seasonal adjustments and its applications include econometric modeling and cash flow planning as well as sales forecasting.

SORITEC from Timbe lake Clark Ltd. Include non linear and simultaneous estimation techniques simultaneous non linear simulation and solution a full matrix processing language and transfer function estimation.

SPSS-PC + from SPSS (K) Ltd. A fully interactive data analysis package with full screen editing facilitates data entry and validation and a range of analytical and reporting procedures.
SSPSS-X from SPSS (UK) Ltd. is a simple statistical and reporting package. It provides a wide range of facilities from data validation to sophisticated tables, graphics and mapping.

STATEGRAPHICS from Cocking & Drury Ltd. A statistical and graphics package that includes plotting functions (2D and 3D) descriptive methods, estimation and testing, distribution fitting, exploratory data analysis, analysis and variance, regression analysis time series analysis including Box Jekins ARIMA modeling, multivariate and non parametric methods and experimental design.

STATPAC GOLD from Molimerx Ltd. with bath and interactive processing and good graphics which requires less memory than most other packages.

XYZ : MODEL from 4-5-6 World Ltd. Translates Lotus 1-2-3 or symphony worksheets into a modeling language and back again. The program deduces the underlying model structure inherent in existing operational spreadsheets and displays them in a clear manner.

This listing only documents those packages that are available in the United Kingdom although many more are available in the USA.

This listing only documents those packages that are available in the United Kingdom although many more are available in the USA.

CONCLUSIONS

The purpose of sales forecasting has been explained and it has been emphasized that this function rests with sales management. Its importance to the planning process has been established, without reasonably accurate forecasting, planning will be in vain. The purpose of forecasting has been considered in the short, medium and long term and the usefulness of each has been established within the major functions of any manufacturing or service concern

Forecasting has been considered under the headings of qualitative and quantitative techniques with the latter being split into time series methods and casuals methods. Qualitative techniques and time series methods have been explained in the amount of detail required to give the reader a working knowledge of their application. However casual methods depend largely upon the use of the digital computer and their computation relies to a great extent upon advanced mathematics. As such the techniques have been described but not explained in workable detail.

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7

STRATEGIC MARKETING PROCESS

Module 1 : Meaning, importance steps in marketing process

The different market structures have different view points with respect to competition. In monopoly, competition is not fierce as the monopoly firm has an advantage over other firms. This advantage may be in terms of product, process, technology, etc. I In case of monopolistic competition, all the firms try to achieve this advantage so that they could be more successful than their competitors. Firm's operations in oligopoly and duopoly market structures also aim for sustainable competitive advantage to survive in the market.

In the short run, a firm's **competitiveness derives from pricing or application** attributes of the products but in the long run, a firm's competitiveness derives from its ability to develop and grow at low cost and at a faster pace than its competitors. The most important point about competitive advantage is that management must be able to integrate corporate wide technologies and processes into competencies that provide a solid ground to the individual business so that it could adopt quickly to the ever changing opportunities. Core competence has been regarded as an effective way to help the organization in the task of restructuring its products, markets management, organizational set up and technology in the complex and dynamic environment.
According to Prahalad and Hemal, core competence is the collective learning in the organizations, especially how to coordinate diverse production skills and integrate multiple streams of technologies. When the organization is faced with competition. In the market, it is the core competence which proves to be an asset and which can be enhanced through application and sharing.

In all the market structures, price determination is an important strategy to win competition but it is the core competence concept which focuses on the preservation of firm's existing superior skills. For instance, a monopolist would always like to remain a monopolist by continuously improving and enhancing the product or service because of which it has hold over the market. On the other hand, in monopolistic competitive market every firm tries to compete through new ideas and strives to develop core competencies. With respect to core competencies, Prahalad and Hemal provide the following key issues :

- A core competence is one that provides access to various markets. For example, a firm can operate as a monopolist in one business and an operate in a monopolistic competitive market at the same time in other business.
- A core competence should make a significant contribution to the perceived customer the benefits of the end product. A core competence should be difficult for competitors to initiate. For instance, a firm entering a monopoly market may acquire some of the processes that comprise core competency but it will not be easier to duplicate monopolist's pattern of internal coordination.

In any market sustainable **competitive advantage plays a major role and core** competencies are nurtured so as to meet the turbulent envir90nment and improve and grow by grabbing the right opportunity at the right time.

Apart from core competence, the possible strategic alternative to have sustainable competitive advantage for different market structures are as follows.

Monopoly : Stability is the best strategic alternative. For strengthening the position. Vertical integration (either forward or backward) will be most effective. If any competitor enters, mergers and acquisitions may be the appropriate option.

Perfect Competition : The firm should not go for advertising or price differentiation, concentration strategy will improve the economics of scale and firm's sustainable competitive advantage will increase.

Monopolistic competition : Advertising quality control and branding are the appropriate measures. Strategic alliances with respect to price may work. Diversification strategy may work. Diversification strategy may further enhance the competitive strength.

Duopoly and Oligopoly : Wide variety of options are available. They may go for diversification, integration, mergers, et. They may look into promotional strategies for better competitive advantage.

MARKETING AND PRICING STRATEGIES

The different market structures adopt different pricing strategies. A few pricing strategies help deterring the entry of competitors. They may also enhance competitive strength and force some of the competitors to go for exit promoting strategies. Various pricing strategies used by the firms in different market structures have different implications. A few pricing strategies are narrated below :

1) **Price Lining Strategy**

In this kind of pricing strategy, the firm fixes the price of one product in the total line of its products. For example, a firm producing dresses fixes up the price of particular size and price of rest of the sizes is then fixed on the basis of differences in sizes. This strategy eliminates those competitors who can not compete on price.

2) **Limit Pricing Strategy**

For this strategy, some sort of collusion is necessary among existing firms. In this, the firm may try to establish a price that reduces or eliminates the threat of entry of new firms into the industry in which the firm operates. Normally, oligopolist and firms operating in monopolistic competition go for this alternative.

3) **Stay-out Pricing Strategy**

When a firm is not able to ascertain the price of the product, it introduces the product at a very high price. If it is not able to sell its product at this price, it would lower the price and go on lowering it till it meets the targeted sales. With the help of this strategy, the firm gets to know the maximum possible price it can charge from its customers. Monopolistics experiment this strategy to have maximum profits. They are also not having any fear from competitors.

4) **Psychological Pricing Strategy**

Here, a firm fixes the price of its product in a manner which gives the impression of being low. For example, if the price of the product is fixed at Rs.199.99 rather than Rs.200, it has psychological impact on consumers that price is in 100sa rather than in 200s. This strategy may influence sales sometimes. In monopolistic competition, this alternative may give better results.

5) **Skimming Price**

This strategy could be used in a market with sufficiently large segment whose demand is relatively inelastic i.e; not sensitive to a high price. Another condition for this strategy is that high price is unlikely to invite competition and unit costs are relatively unaffected by small volumes. The strategy implies skimming the ream by taking advantage of the target markets wiliness to pay a high price. This strategy is discriminatory. It enhances the quality image. In monopolistic competition and monopoly this pricing strategy gives results.

6) **Penetration Price**

This strategy requires a highly price sensitive market with high price elasticity. It is characterized by low price which is likely to discourage competition. The policy is to charge low price so as to stimulate demand and capture large share of the market.

There are various other strategies as well like sliding down the demand curve, premium pricing, fraction below competition, price discrimination and put out pricing. A firm can use any of these strategies to compete in the market. Different strategies could be used at different time periods by the same firm as per the conditions.

MARKETING AND PRODUCT DEVELOPMENT STRATEGY

Marketing strategy deals with pricing, selling and distributing a product. Using a market development strategy, a company or business unit can (1) capture a larger share of an existing market for current products through market saturation and market penetration or (2) develop new markets for current products. Consumer product giants such as Proctor& Gamble, Colgate-Palmolive, and Unilever are experts at using advertising and pr0motion to implement a market saturation/penetration strategy to gain the dominant market share in a product category. As seeming masters of the product life cycle, these companies are able to extend product life almost indefinitely through "new and improved" variations of product and packaging that appeal to most market niches. These companies also follow the second market development strategy by taking a successful product they market in one part of the world and marketing it elsewhere Noting the success of their presoak detergents in Europe for example both P & G and Colgate successfully introduced this type of laundry product to North America under the trade names of Biz and Axion.

Using the product development strategy, a company or nit an (1) develop new products for existing markets or (2) develop new products for new markets. Gujarat cooperative Milk Marketing Federation (GCMMF) has had great success following the first product development strategy by developing new products to sell to its current customers. Acknowledging the widespread appeal of its Amul Brand dairy products, the company generated new uses for its dairy business by introducing ice cream and Desserts, health drinks soups etc. Using a successful brand name to market other products is called line extension and is a good way to appeal to a company's current customers.

There are numerous other marketing strategies. For advertising and promotion for example, a company or business unit can choose between a "push" or a "pull" marketing strategy. Many large food and consumer products companies in India have followed a push strategy by spending a large amount of money on trade promotion in order to gain or hold shelf space in retail outlets. Trade promotion includes discounts, in store special offers, and advertising allowances designed to "push" products through the distribution system. The Kellogg company recently decided to change its emphasis from a push to a pull strategy, in which advertising “pulls” the products through the distribution channels. The company now spends more money on consumer advertising designed to build brand awareness so that shoppers will ask for the products. Research has indicated that a high level of advertising (a key part of a pull strategy) is most beneficial to leading brands in a market.

Other marketing strategies deal with distribution and pricing. Should a company use distributors and dealers to sell its products or should it sell directly to mass merchandisers Using both channels simultaneously can lead to problems in order to increase the sales of its lawn tractors and mowers, for example. John Deere decided to sell the products not only through its current dealer net work, but also through mass merchandisers like Home Depot. Deere’s dealers. However were furious. They considered Home Depot to be a key competitor. The dealers were concerned that Home Depot’s ability to under price them would eventually let to their becoming little more than repair facilities for their competition and left with insufficient sales to stay in business. Most of the leading consumer durable firms in India follow this strategy of using simultaneous channels.

When pricing a new product, a company or business unit can follow one of two strategies. For new product pioneers, skim pricing offers the opportunity to “skim the ream” from the top of the demand curve with a high price while the product is novel and competitors are few. Penetration pricing, in contrast, attempts to hasten market development and offer the pioneer the opportunity to use the experience curve to gain market share with a low price and dominate the industry. Depending on corporate and business unit objectives and strategies, either of these choices may be desirable to a particular company or nit. Penetration pricing is, however, more likely then skim pricing to raise a nit’s operating profit in the long term.

STRATEGIC MARKETING ISSUES

The marketing manager is the company’s primary link to the customer and the competition. The manager, therefore, must be especially concerned with the market position and marketing mix of the firm.

Market Position and Segmentation

Market position deals with the question, “Who are our customers?” It refers to the selection of specific areas for marketing concentration and an be expressed in terms of market, product, and geographical locations. Through market research, corporations are able to practice market segmentation with various products or services so that managers can discover what niches to seek, which new types of products to develop and how to ensure that a company's many products do not directly compete with one another.

Techniques of Market segmentation :

- Geographic Segmentation
- Demographic Segmentation
- Socio-graphic Segmentation
- Psychographic Segmentation
- Behaviouri9stics Segmentation
- Product Segmentation
- Benefit Segmentation
- Multi attribute Segmentation (geoclustering)
- Status Segmentation

Marketing Mix

The marketing mix refers to the particular combination of key variables under the corporation's control that an be used to affect demand and to gain competitive advantage. These variables are product, place, promotion and price. Within each of these four variables and several subvariables, that should be analyzed in terms of their effects on divisional and corporate performance.

Module – 2 :

CORPORATE MISSION – SBU – BCG MODEL CORPORATE MISSION

Organizations some times summarise goals and objectives into a mission statement and a vision statement. Vision statement defines the purpose or broader goal for being in existence or in the business. It serves as a guide in times of uncertainty, vagueness. It is like guiding light. It has no time frame. The vision can remain the same for decades if crafted correctly. While mission is more specific in terms of objective and time frame of its achievement.

To make the vision statement effective it needs to be aligned with the prevailing culture in that organization. Vision and the company's values go hand in hand.

Features of an effective mission statement include :

- Clarity and lack of ambiguity
- Unambiguity
- Realistic aspirations, achievable
- Alignment with organizational values and culture, Rational
- Time bound about achieving any goal or objective.

In order to become really effective, an organizational vision statement must become assimilated into the organization's culture. Leaders have the responsibility of communicating the vision regularly, creating narrative that illustrate the vision, acting as role models by embodying the vision, creating short term objectives compatible with the vision and encouraging others to craft their own personal vision compatible with the organization's over all vision.

STRATEGIC BUSINESS UNITS (SBG)

With immense pressure to grow market share and profits, marketers are always on the look out for ways to grow their businesses. Marketers have four variables to play with – existing market, new market, editing product, and n3w product. Using these four variables a company can have four strategies to pursue. They can increase their business by serving new products in their existing markets existing products in new markets new products in new markets or existing products in existing markets.

		Products	
		Existing	**New**
Markets	**Exiting**	**Market Penetration**	**Product Development**
	New	**Market Development**	**diversification**

The growth strategies :

Marget penetration : Attempt increased penetration in the existing market with the existing products. Brand building is one method. Existing customers may become more brand loyal (less switching), new customers may buy the brand, existing users may use the product more often and in greater quantity.

Product development: Improve present products or develop new products for current markets. By improving style, performance and comfort, the aim is to gain higher sales among its present market.

Market development Current products are sold in new markets. The company may move into new geographic markets or move into new market segments.

Diversification New products are developed for new markets. This is risky But if there is synergy between existing and new products this strategy is likely to work.

DIVERSIFICATION STRATEGY

Diversification is a form of growth strategy. Growth strategies involve a significant increase in performance objectives (usually sales or market share) beyond past levels of performance. Many organizations pursue one or more types of growth strategies. One of the primary reasons is the view held by many investors and executive that bigger is better. Growth in sales is often used as a measure of performance. Even if profits remain stable or decline, anincr3ase in sales satisfies many people. The assumption is often made that if sales increase, profits will eventually follows.

Rewards for managers are usually greater when a firm is pursuing a growth strategy. Managers are often paid a commission based on sales. The higher the sales level, the larger the compensation received. Recognition and poser also accrue to managers of growing companies. They are more frequently invited to speak to professional groups and are more often interviewed ad written about by the press than are mangers of companies with greater rates of return but lower rates of growth. Thus, growth companies also become better knows and may be better able, to attract quality managers.

Growth may also improve the effctiveness of the organization. Larger companies have a number of advantage over smaller firms operating in more limited markets.

1. Large size or large market share can lead to economies of scale. Marketing or production synergies may result from more efficient use of sales alls, reduced travel time reduced change over time, and longer production runs.

2. Learning and experience curve effects may produce lower costs as the firm gains experience in producing and distributing its product or service. Experience and large size may also lead to improved layout, gains in labour efficiency, redesign of products or production processes or larger and more qualified staff departments (.e.g. marketing research or research and development).

3. Lower average unit costs may result from a firm's ability to spread administrative expenses and other overhead costs over a larger unit volume. The more capital intensive a business is, the more important its ability to spread costs across a large volume becomes.

4. Improved linkages with other stages of production can also result from large size. Better links with suppliers may be attained through large orders, which may produce lower costs (quantity discounts), improved delivery or custom made products that would be unaffordable for smaller operations. Links with distribution channels may lower costs by better location of warehouses more efficient advertising and shipping efficiencies. The size of the organization relative to its customers or suppliers influences its bargaining power and its ability to influence price and services provided.

5 Sharing of information between units of a large firm allows knowledge gained in one business unit to be applied to problems being experienced in another unit. Especially for companies relying heavily on technology, the reduction of R & D costs and the time needed to develop new technology may give larger firms an advantage over smaller, more specialized firms. The more similar the activities are among units, the easier the transfer of information becomes.

6. Taking advantage of geographic differences is possible for large firms. Especially for multinational firms, differences in wage rates, taxes, energy costs, shipping and freight charges and trade restrictions influence the costs of business. A large firm can sometimes lower its cost of business by placing multiple plants in locations providing the lowest cost. Smaller firms with only one location must operate within the strengths and weaknesses of its single location..

Related Diversification

Concentric diversification occurs when a firm adds related products or markets. The goal of such diversification is to achieve strategic fit. Strategic fit allows an organization to achieve synergy. In essence, synergy is the ability of two or more parts of an organization to achieve greater total effectiveness together than would be experienced if the efforts of the independent parts were summed. Synergy may be achieved by combining firms with complementary marketing, financial operating or management efforts. Breweries have been able to achieve marketing synergy through national advertising and distribution. By combing a number of regional breweries into a national network, beer producers have been able to produce and sell more beer than had independent regional breweries.

Financial synergy may be obtained by combining a firm with strong financial resources but limited growth opportunities with a company having great market potential but weak financial resources. For example debt ridden companies may seek to acquire firms that re relatively debt free to increase the lever aged firm's borrowing capacity. Similarly firms some times attempt to stabilize earnings by diversifying into businesses with different seasonal or cyclical sales patterns.

Strategic fit in operations could result in synergy by the combination of operating units to improve over all efficiency. Combining two units so that duplicate equipment or research and development are eliminated would improve over all efficiency.. Quantity discounts through combined ordering would be another possible way to achieve operating synergy. Yet another way to improve efficiency is to diversify into an area that an use by products from existing operations. For example, breweries have been able to convert grain, a by product of the fermentation process into feed for overstock.

Management synergy can be achieved when management experience and expertise is applied to different situations. Perhaps a manager's experience in working with unions in one company could be applied to labor management problems in another company. Caution must be exercised, however in assuming that management experience is universally transferable. Situations that appear similar may require significantly different management strategies. Personally clashes and other situational differences may make management synergy difficult to achieve. Although managerial skills and experience an be transferred individual managers may not be able to make the transfer effectively.

Unrelated Diversification

Conglomerate diversification occurs when a firm diversifies into areas that are unrelated to its current line of business. Synergy may result through the application of management expertise or financial resources but the primary purpose of conglomerate diversification is improved profitability of the acquiring firm. Little, if any, concern is given to achieving marketing or production synergy with conglomerate diversification.

One of the most common reasons for pursuing a conglomerate growth strategy is that opportunities in a firm's current line of business are limited. Finding an attractive investment opportunity requires the firm to consider alternatives in other types of business. Philip Morri's acquisition of Miller Brewing was a conglomerate move. Products, markets and production technologies of the brewery were quite different from those required to produce cigarettes

Firms may also pursue a conglomerate diversification strategy as a means of increasing the firm's growth rate. As discussed earlier, growth in sales may make the company more attractive to investors. Growth jay also increase the power and prestige of the firm's executives. Conglomerate growth may be effective if the new area has growth opportunities greater than those available in the existing line of business.

Probably the biggest disadvantage of a conglomerate diversification strategy is the increase in administrative pr0blems associated with operating unrelated businesses. Managers from different divisions may have different background and may be unable to work together effectively. Competition between strategic business units for resources may entail shifting resources away from one division to another. Such a move may create rivalry and administrative problems between the units.

Caution also be exercised in entering businesses with seemingly promising opportunities especially if the management team lacks experience or skill in the new line of business. Without some knowledge of the new industry a firm may be unable to accurately evaluate the industry's potential. Even if the new business is initially successful, problems will eventually occur. Executives from the conglomerate will have to become involved in the operations of the new enterprise at some point. Without adequate experience or skills (Management Synergy) the new business may become a poor performer.

Without some form of strategic fit, the combined performance of the individual units will probably not exceed the performance of the units operating independently In fact combined performance may deteriorate because of controls placed on the individual units by the parent conglomerate. Decision making may become shower due to longer review periods and complicated reporting systems.

By acquiring a Sizeable shareholdng

Acquisitions, a second form of external growth, occur when the purchased corporation loses its identity. The acquiring company absorbs it. The acquired company and its assets may be absorbed ito an existing business it or remain intact as an independent subsidiary within the parent company. Acquisitions usually occur when a larger firm purchasers a smaller company. Acquisitions are called friendly if the firm being purchased is receptive to the acquisition. Unfriendly mergers or hostile take over occur when the management of the firm targeted for acquisition resists being purchased.

Merger with Another Business

External diversification occurs when a firm looks outside of its current operations and buys access to new products or markets. Mergers are one common form of external diversification. Mergers occur when two or more firms combine operations to form one corporation, perhaps with a new name. these firms are usually of similar size. One goal of a merger is to achieve management synergy by creating a stronger management team. This can be achieved in a merger by combining the management teams from the merged firms.

Joint Venture

The multinational corporation enters into an joint ventures agreements with a company from the target country market. Two types of joint venture are contractual and Equity joint ventures. In contractual joint ventures, no joint enterprise with a separate identity is formed. Two or more firms enter into a partnership to share the cost of an investment, the risks and the long term profits. The partnership can be formed for completing a project, or for a log term cooperative effort. In any equity joint venture, a new company is formed in which the foreign and local companies share ownership and control.

A joint venture may be necessary due to legal restrictions on foreign investment. A joint venture also reduces the investment required by a foreign firm, besides reducing risk. The danger of expropriation is less when a company has a national partner than when the foreign firm is the sole owner. Forming a joint venture with a local partner may be the only way of entering markets which e very competitive and saturated. Japanese set up joint ventures in the US primarily for this reason. The foreign partner stands to gain from local expertise. Both partners bring in their expertise in different areas that help I realizing the success of the ventures. Both the partners an specialize in their particular areas of technological expertise. The foreign investor benefits from the local management talent and knowledge of local markets and regulations.

But such joint ventures face many hurdles. The local partner is satisfied if the joint venture is reasonably successful in the local market but the foreign investor has bigger targets. They want to dominate the local market and also want to extend operations to neighboring markets. Most local partners do not bring technology and money on the table and are primarily valued because of their knowledge of the local system, culture, market and government policies and regulations. Once the foreign investor gets sufficiently knowledgeable about the local conditions, they find no use for the local partner. Most of the joint ventures formed with the purpose of entering a country market are dissolved, or the foreign investor buys out the local partner.

Strategic Alliance

Two or more companies exploit market opportunities in domestic or international markets. It is used to achieve cooperation among usually competing firms. These ventures are usually of a fixed duration, and for a fixed purpose, that usually involves sharing technology information access to market entry, distribution and R & D expenditure.

Integrative Growth Strategy

Diversification strategic can also be classified by the direction of the diversification. Vertical integration occurs when firms undertake operations at different stages of production. Involvement in the different stages of production can be developed inside the company (internal diversification) or by acquiring another firm (external diversification). Horizontal integration or diversification involves the firm moving into operations at the same stage of production. Vertical integration is usually related to existing operations and would be considered concentric diversification. Horizontal integration can be either a concentric or a conglomerate form of diversification.

The steps that a product goes through in being transformed from raw materials to a finished product in the possession of the customer constitute the various stages of production. When a firm diversifies closer to the sources of raw materials in the stages of production, it is following a backward vertical integration strategy. Avon’s primary line of business has been the selling of cosmetics door to door. Avon pursued a backward form of vertical integration by entering into the production of some of its cosmetics. Forward diversification occurs when firms move closer to the consumer in terms of the production stages. Levi Strauss & co. traditionally a manufacturer of clothing has diversified forward by opening retail stores to market its textile products rather than producing them and selling them to another firm to retail

Backward integration allows the diversifying firm to exercise more control over the quality of the supplies being purchase. Backward integration also may be undertaken to provide a more dependable source of needed raw materials. Forward integration allows a manufacturing company to assure itself of an outlet for its products. Forward integration also allows a firm more control over how its products are sold and services. Furthermore, a company may be better able to differentiate its products from those of its competitors by forward integration. By opening its own retail outlets, a firm is often better able to control and train the personnel selling and serving its equipment.

Since servicing is an important part of many products, having an excellent service department may provide an integrated firm, a competitive advantage over firms that are strictly manufacturing..
Some firms employ vertical integration strategies to eliminate the profits of the middleman. Firms are sometimes able to efficiently execute the tasks being performed by the middleman (wholesalers, retailers) and receive additional profits. However, middlemen receive their income by being competent at providing a service. Unless affirm is equally efficient in providing that service, the firm will have a smaller profit margin than the middleman. If affirm is too inefficient, customers may refuse to work with the firm, resulting in lost sales.

Vertical integration strategies have one major disadvantage. A vertically integrated firm places all of its eggs in one basket. If demand for the product falls, essential supplies are not available, or a substitute product displaces the product in the marketplace, the earnings of the entire organization may suffer.

Horizontal integration occurs when a firm enters a new business (either related or unrelated) at the same stage of production as its current operations. For example, Avon's move to market jewelry through its door-to-door sales force involved marketing new products through existing channels of distribution. An alternative form of horizontal integration that Avon has also undertaken is selling its products by mail order (e.g. clothing plastic products) and through retail stores (e.g. Tiffany's). In both cases. Avon is still at the retail stage of the production process.

CORPORATE BUSINESS PORTFOLIO PLAN

Many companies are multi-product companies, serving multi markets. Some of these products are weak and mothers re strong. Some products will require investment to finance their growth others will generate more ash than they need. Companies must decide how to distribute their limited resources among competing needs of products to achieve the best performance for the company. Management needs to decide which brands/product lines to build hold or withdraw support. The process of managing groups of brands and product lines is called portfolio planning.

BOSTON CONSULTING GROUP MATRIX (BCG)

- A Company operates in various businesses or markets. Each of its businesses operate in different conditions. The corporate has to realize that each of its business will earn different amounts of profits and will require different amounts of investments. The corporate should learn to expect different amounts of profits from its different business and should invest in them depending on their requirements.

```
                         15%----------------------------------
                         High   Stars          Problem
                                               Children
          Market
        Growth Rates      7% -------------------------------------
                         Low   Cash Cows       Dogs
                           0%-------------------------------------
                            10          1                   0
```

The boston consultancy group growth share matrix

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              15%---------------------------------------------
               High       Stars                 Problem
                                                Children
Market          7%--------------------------------------------
Growth Rate
              Low      Cash Cows             Dogs
          10%   ----------------------------------------------
                10                  1                       0
```

- In the BCCI matrix market growth rate is shown o the vertical axis and indicates the annual growth rate of the industry in which each product line operates. It is used as a proxy for market attractiveness i.e. higher the growth rate, more attractive is the industry to do business in.

- Relative market share is shown on the horizontal axis and refers to the market share relative to the largest competitor. It acts as a proxy for competitive strength.
- Cash flow is dependent on the box which a product falls. Stars are market leaders ad earn high revenues but require substantial investments to finance growth and to meet competitive challenges. Over all cash flow is therefore likely to be roughly in balance.

Problem children are products in high growth markets which cause a drain on ash flow as they incur huge marketing expenditure in reaching out to growing number of customers. They also incur costs in setting up new manufacturing units to be able to serve the growing markets. But they are low share products and therefore, do not generate much revenue. Overall, problem children are big ash users.

Cash cows are market leaders in mature, low growth markets i.e. investment in new production facilities and marketing is minimum. High market share leads to large revenues and hence, positive cash flow.

Dogs also operate in low growth markets but have low market share and therefore, earn low revenues. Except for some products near the dividing line between ash cows and dogs most dogs produce low or negative cash flows.

Strategic Objectives

Stars

The business is in a market which is growing rapidly. Stars are leaders in their markets but they have to be focused on building sales or market share. Resources should be invested to maintain and increase leadership position. Competitive challenges should be repelled. If the market share falls, a star can be changed into a problem child. Eventually the growth rate of the market will decline and the star will be changed to cash cows. Therefore stars should be protected as they are the cash cows of the future. A company can be lavish with its stars as it will provide profits for a long time.

Problem Children

The market is growing at a high rate but the market share is low. The choice is to increase investment and build market share to turn it to a star or to withdraw support by either harvesting (raising prices while lowering marketing expenditure) or divesting (dropping or selling) or to find a small market segment where dominance an be achieved (nichie). Since the market is growing rapidly such a company will require lot of investment even to stay in the same position. Therefore a company has to make a swift decision. It has to pump in resources to convert it into star or the business should be dropped. The company cannot afford to keep a problem child in its position for a long time. It will gobble up huge amount of resources and turn no profits.

Cash Cows

The market is growing at a slow rate ad business is the market leader. Expenditure can be controlled as the business does not need to sped on new manufacturing facility or reaching out to new customer segments. But the revenue is high due to high market share. Therefore cash cows earn high profits. The company's objective should be to hold sales and market share. If the business fails to hold on to its market share It will be converted to dog.

Since cash cows earns profits for the company, it will be tempting to make investments in modernization of manufacturing facilities and in sophisticated branding exercises. The company should avoid any investment in excess of what is required to maintain the market share and keep on increasing it incrementally. Excess funds should be used to fund stars and problem children.

Dog

The market is growing at a slow rate and the market share of the business is low. The business does not earn profits. The company should look as such a business closely to find out if the business has enough remnant strengths to be converted to a cash cow by making appropriate investments. Normally one or a few elements of such businesses are weak. A business may have a good brand image but it may have outdated manufacturing facility, so the business can recover if investments are made in the upgrading of the manufacturing facility. A business classified as dog should not be an automatic candidate for closure. It may also be possible to reposition the product into a defendable niche.

But if the business is weak in many facets, the company should take swift action to retrieve as of much cash as possible from the business. For such dogs, the appropriate strategy will be to harvest to generate a positive cash flow or to divest and invest somewhere else.

Maintaining a Balanced Product Portfolio

The portfolio is unbalanced when there are too many problem children and dogs, and not enough stars and cash cows. Enough investments should be made in cows so that they are able to maintain their market share. One or two problem children should be invested in. Most companies will not have enough resources to invest in many problem children. Stars should continue to receive adequate support. The aim should be to build existing stars and build market share of chosen problem children. Dogs should be harvested or divested, if it is believed that it cannot be resurrected.

Criticisms of the BCG Matrix

- The assumption that cash flow will be determined by a product's position on the matrix id weak. Some stars will show a healthy positive cash flow as will some dogs in markets where competitive activity is low.
- Treating market growth rate as proxy for market attractiveness and market share as indicator of competitive strength is over simplistic. Other factors like market size brand strength are also important.
- When competitive retaliation is likely, cost of share building outweigh gains. Therefore excess stress on market share may be harmful.
- The analysis ignores interdependence among products. A dog may complement a star Customers may want a full product line. Dropping a product because they fall in a box may be naïve.
- Some products have a short PLC and profits should be maximized in the star stage instead of building them.
- Competitors' reactions are not assessed. When a company makes investments to build market share of a pr0hblem child, the incumbent stars are going to react. The suggested strategies for the businesses in each quadrant are simplistic and do not account for market dynamics and competitor reactions.
- The matrix does not define a market i.e. the whole market or a segment. There is vagueness about the dividing line between high ad low growth markets. A chemical plant may use 3% as the dividing line, whereas a leisure goods company may use 10%.
- The matrix does not identify which problem children to build, harvest or drop.

SWOT Analysis

In order to survive and grow in this competitive environment, it is essential for every business organization to undertake SWOT analysis. The process by which the enterprises monitor their relevant environment to identify their business opportunities and threats affecting their business is known as environment analysis or SWOT analysis. In other words analyzing the surrounding environment before framing policies and taking business decisions is called as SWOT analysis

Strengths	Weaknesses
Opportunities	Threats

'SW' stands for strengths and weaknesses
'OT' stands for opportunities and threats

A Strength is something a company is good at doing or a characteristic that gives it an important capability. Possible strengths are:

- Name recognition
- Proprietory technology
- Cost advantages
- Skilled employees
- Loyal customers etc.

Strengths and weaknesses are derived from internal environment. Opportunities and threats arise from external environment.

SWOT analysis help the business unit to know its positive points as well as negative points.

Strength is an inherent capacity which a organization can use to gain strategic advantage over its competitors e.g. Marketing of Hindustan Lever Limited, they have around 15 lakhs retail outlets for distributing their various products in India.

A Weakness is something a company lacks or does poorly (in comparison to others) or a condition that places it at a disadvantage. Possible weaknesses are :

- Poor market image
- Obsolete facilities
- Internal operating problems
- Poor marketing skills etc.

Weaknesses is an inherent limitation, which creates a strategic disadvantage for the organization e.g. limited finance.

Opportunities – An opportunity is a favourable condition in the organization's environment which enables it to strengthen its position.

Threats – A threat is an unfavourable condition in the organization's environment that creates a rise for or cause damage to the organization.

ROLE AND IMPORTANCE OF SWOT ANALYSIS

1. **Identify strengths –** The analysis of the internal environment help to identify the strengths of the firm. The internal environment refers to plans and policies of the firm, its resources physical financial and human resources e.g. If company has good relations with workers, the strength of the company can be identified through the workers loyalty and dedication on the part of workers.

2. **Identify weaknesses –** A firm may be strong in certain areas, whereas it may be weak in some other areas. The firm should identify such weaknesses through SWOT analysis so as to correct them as early as possible e.g. Lack of capital may be a weakness of the company, but company should try to raise additional funds to correct the weaknesses

3. **Identify Opportunities –** An analysis of the external environment helps the business firms to identify the opportunities in the market. The business firm should make every possible effort to grab the opportunities, as and when they come.

4. **Identify threats -** .Business may be subject to threats from competitors and others. Identification of threats at an earlier date is always beneficial to the firm as it helps to defuse the same. For instance, a competitor may come up with innovative product. This not only affects the firm's business but also endanger its survival, so business firm should take necessary steps to counter the strategy of the competitors.

5. **Effective Planning –** A proper study of environment helps a business firm to plan its activities property. Before planning, it is very much necessary to analysis the internal as ell as external environment. After SWOT analysis, the firm can list out well defined and time bound objectives, which in turn help to frame proper plans.

6. **Facilitates Organising Resources –** Environment analysis not only helps in organizing the resources of right type and quantity. A proper analysis of environment enables a firm to know the demand potential in the market. Accordingly, the firm can plan and organize the right amount of resources to handle the activities of the organization.

7. **Face Competition –** A study of business environment enable a firm to analyse the competitor's strengths and weaknesses. This would enable the firm to incorporate the competitors strengths in its working. The firm may also try to exploit the competitors weaknesses in its favour.

8. **Flexibility in Operations –** The environmental factors are uncontrollable and a business firm finds it difficult to influence the surrounding of its choice. A study of environment will enable a firm to adjust its operations depending upon the changing environmental situation.

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8

DEALING WITH COMPETITION

Module -1 : Competitive Forces, Identifying Competitors

If competitive strategy was to be reduced to just two words, then they would be ‘differentiation’ and ‘vulnerability’. These are the two keys to effective competitive strategy.

In this chapter, we will discuss these two words.

“Differentiation’ is how you convince the customer that you are different from your competition. Not just randomly different, by different and superior in terms of key dimensions which influence the customer’s judgments. The other word that will appear prominently is vulnerability. That’s a little harder to define. Successful swales strategists seem to have a sixth sense that tells them where they are strong or weak compared with their competition. They know when they are at risk – when they are vulnerable. And because they recognize their vulnerabilities in advance, they handle areas of competitive weakness in ways which prevent the competitors from capitalizing on their vulnerability.

THE CONCEPTION OF DIFFERENTIATION

Most of the published thinking on competitive strategy is in the area of marketing. Much of what has been written is not directly relevant to selling. For example, there is advice about when to enter a competitive market and when to leave it, how to link competitive information with product design or how to relate competitive pricing to product life cycle. None of these things are under the control of individual sales person.

But one important concept in marketing strategy can be directly controlled by salespeople and is vital to successful competitive selling. That concept is *differentiation*. The objective of competitive differentiation is to make your product distinct in the customer’s mind from other available alternatives. In global marketing terms, differentiation starts with product design. It continues through activities like pricing, promotion and advertising starts with product design. It continues through activities like pricing promotion and advertising strategy. Unfortunately most writers on marketing lose interest in differentiation at this point. When the product is designed pried and promoted then marketing has done its work.

But it's exactly at this juncture, when the product is ready to be sold to customers that differentiation becomes even more important. Successful selling in competitive markets depends upon differentiating your product from competing alternatives. However well your product is differentiated in the over all market in terms of design, price, positioning or promotion at the level of the individual customer differentiation rests on how you sell.

What's unique about differentiation in the sales stage and in the marketing stage ?

Marketing differentiation is by definition aimed at the whole market or at a particular market sector. Because of that, it does not come down to the level of the individual customer. So taking advertising as an example of marketing differentiation good advertising will differentiate the product by emphasizing those areas where the product is strong and which are likely to have the most impat5cton the majority of the buying population of the target market. If you have the good fortune to be in a market where all customers behave in precisely the same way, and where what's important to one customer is likely to be equally important to another, then your advertising would have an equally powerful differentiating effect on each customer. But, inevitably, customers differ. It's quite possible that the differentiator which has most effect on one customer may be unimportant to another. The classic marketing tools for differentiation, such as advertising and promotion can give general positioning to a product but they cannot comedown to the level of the individual customer. This can be severe limitation, especially if your market has a widely varied buying population. To put it in another way, marketing differentiation is most effective when the majority of customers have similar decision criteria. But you can't rely on the effectiveness of marketing differentiation where there is a wide variation in decision criteria.

The dangers of marketing-differentiation in a diverse market

Sales differentiation is particularly important when there is wide variation in customers' decision criteria. It lets you offer your product to an individual customer in a way that maximizes those dimensions which are important to the customers and which show here your product or service is strong. Over and over again, less successful salespeople say that their customers are all the same. They generally go on to say that price is the principal criterion, that their customers across a make place seem to have very similar decisions criteria. However closer examination reveals that many individual differences exist which can be used by effective salespeople. Even in the notoriously impersonal area of commodity sales to purchasing agents individual variation among purchasers is the norm rather than the exception. As are result, its possible for skilful sellers to use individual variation products effectively.

“Hard and “Soft” Differentiators

When we introduced the idea of differentiators, we explained that, from the customer’s pointy of view, a good differentiator must have two characteristics. It must relate to the customer’s needs and it must differentiate between competing alternatives. From the seller’s point of view, a good differentiator should also become where the sellers product or service should be measurably superior to the competition. So, for example, machine speed might be an ideal differentiator for a seller offering the faster machine in the market to a customer who needs speed. It relates to the customer’s need, it clearly differentiates that the seller’s machine speed might be an ideal differentiator for a seller offering the faster machine in the market to a customer who needs peed. It relates to the customer’s need, it clearly differentiates that the seller’s machine is objectively superior to the competitors. Competitive success rests on finding such differentiators and persuading the customer to use them as decision criteria. If all differentiators were as clear as machine speed then competitive selling would be relatively easy. You had simply have to identify the dimensions where your product out performs the competition find customers who need products strong on those dimensions and you had have a basis for a sale. But real life is not quite that straightforward. Let’s assume that your products outstandingly reliable and that your customer badly needs reliability. So far as good, but how’s the customer to know that your product will have fewer reliability problems than those offered by your competitors ? You say that it’s reliable, but that’s what your competitors say about their products too. Even the most honest of your competitors won’t go out of their way to point out that their products are unreliable. Reliability is not quite so easy to measure as machine speed. Until the machine breaks down after the sale it’s hard for the customer to decide whether or not the chosen machine has reliability problem reliability may be just as important a criterion to a customer as machine speed, but because it’s more difficult to measure, it will he4 harder for a customer to use machine speed as a differentiator. While making a competitive strategy, it is worthwhile to invite them to write down the key differentiators which customers use as criteria to judge between them and their competition. Then these differentiators are divided into two lists. One list should be the hard differentiators those that can be objectively measured by the customer. Typical examples might be price, size, weight, speed, compatibility or delivery. The other list consists of the soft differentiators those which are matters of judgments or which cannot easily be objectively measures. Typical examples of soft differentiators might be quality, responsiveness or standards of service. If a salespersons hard list is much longer than their soft one, or if they feel that customers put more weight on the hard differentiators than the soft in making judgments, then competitive selling will be relatively straightforward for them. But, if as often happens, the soft are equally or more important criteria than the hard, then it's likely that the seller will need considerable skill and careful strategic planning to succeed.

Competitive Strategy with Hard Differentiators

How Hard differentiators Make selling Easy

A business machines company had a dominant market position in the United States. However, a Japanese competitor had recently entered their market and was quickly taking a sizeable market share. The company's initial response, seeing the impressive sales figures of their competitor's sales force, was to hire a number of the competitor's top performers to help them learn the secret of success.

However, it was found that, these top performers had succeeded not because of sales strategy or selling ability. Their success had been because they had a product that was clearly superior in terms of thee hard differentiators price speed and ease of use. Because these three differentiators were generally important to customers and were therefore used as decision criteria the so called superstars were able to sell just by being there.

It was found that the chief characteristic of these high performers was energy. They called on a large number of potential clients. Because they were so well differentiated from their competition in terms of the three hard differentiators, they generally found it easy to go ahead. But energy alone was note enough to bring them success now that they had changed companies. Their new organization had many competitive strengths, but mostly in the soft differentiators. Quality was excellent, reliability was good and company reputation was outstanding. But it took much more skill to sell using these soft differentiators and few of the superstars could make the transition. Within a year most of them had left the company.

The ideal selling position is when your product has clear superiority in terms of its hard differentiators. If the customer uses these differentiators as decision criteria, then your objective and demonstrable superiority will help you emerge from this phase of the sale as the top competitor. Under these circumstances, you don't need very elaborate selling strategies. You develop needs which can best be met to terms of your hard differentiators. So, as we saw earlier, if you happen to have the fastest machine in the market, you uncover and develop a need for speed.

Speeding the Decision Cycle

It's no coincidence that high energy sales people tend to be particularly successful when the hard differentiators are on their side. There's some evidence that the shorter the evaluation period, the more the customer will rely on hard differentiators and ignore soft ones. So, typically, a competitor with a price advantage will be more likely to succeed if the customer makes a quick decision than if the decision is drawn out over a longer evaluation period. High energy people who pressurize the customer to move quickly through the decision cycle, may, usually without realizing it, cause the customer to put more weight on the had differentiators.

In some ways it's a counter-intuitive idea that quicker decisions tend to favour hard differentiators. Conventional sales wisdom would predict the opposite. After all, every one's familiar with impulse buying, which is a purchase made quickly, usually on the spur of the moment, and generally made on irrational or soft grounds rather than on the rational hard logic of measurable performance differentiators and identified needs. It was always taught, based on the phenomenon of impulse buying that quick decisions tend to be emotional and that slower decisions are more rational. Does not that suggest that soft differentiators are used with quick decisions, so how is it we are suggesting that quicker decisions put more weight on the hard differentiators ? should not it be the other way round? In the small impulse sale, perhaps, but not in the strategic major sale. There are many counter intuitive differences between large and small sales. Some of these differences mean that the things, which positively influence decisions when the sale is small will have a negative effect as the sales grow larger.

Soft Differentiators Get a Second Chance

Because the big eight accounting firms are all very similar in terms of fee levels, skills and range of services, one firm had set out to differentiate itself in the market in terms of its concern for its clients. However, concern was a soft differentiator. Customers could not see concern as easily as they could see harder differentiators such as fees. Consequently, although customers wanted their consultant to show personal concern, it was a difficult decision criterion for customers to use to evaluate competing firms. In one major sale, Tom L., one of the firm's consulting partners, was competing against two of the big eight firms and a large local accounting company. The project involved helping the customer develop a new system for preparing operating budgets. Because the budgetary process was due to begin in less than a month, the customer felt under pressure to make a quick decision. After interviewing four competitors, the customer's evaluation committee decided on the local firm which had proposed a fee level about 10 per cent below that of the big eight competitors. We likes what you said about personal concern for our problems, the customer told Tom, but your competitor has a much lower fee level and that's more important to us. Tomorrow I am going to all them in to tell them that they have won the business.

However, that afternoon, before the decision was announced, the customer's company was told to expect a hostile take over bid. As it happened, the expected bid never materialized. But preparing to fight it took up so much time of the financial staff that it was clear that there would not be any chance of revising the system in time for this year's operating budget. So the consulting decision was put on hold. Six months later Tom was surprised to get a call from the customer inviting him to a meeting. He was even more surprised to find that his firm was now the front runner. We have had more thinking time, the customer explained, and we now feel that even though you are more expensive, the personal concern you firm offers is worth a premium. Tom won the contract.

Turning Soft Differentiators into Hard

An important strategic ability in the competitive sale is helping the customer turn soft differentiators into harder ones. If you are strong, shall we say, in terms of quality, then you want the customer to use quality as a decision criterion when evaluating you and your competition. As we have seen, if there is adequate time to make the decision, then it's possible that the customer will come to understand how to judge quality effectively without requiring any help from you. But that's like saying that it's possible for customers to develop needs of their own accord. Of course, they an, But the job of the effective sales strategist is to influence and guide the customer's decision process not to wait for things to happen of their own accord. Just as you'd actively try to influence the development of needs, so you must actively influence the process by which the customer learns to use soft differentiators as effective decision criteria. A central skill in Competitive selling, when your competitive advantages are in soft areas, is the capacity to help the customer use soft differentiators.

The Expert Judge

We had said that one of the characteristics of experts was that they tended to have well developed decision criteria. Let's refine that a little. The expert not only has well developed criteria, but an use those criteria to judge soft areas with a precision and a hard objectivity which most people lack. Expert judges in any field, whether we are talking about gymnastics, ice/skating, dog shows, second hand cars, have learned how to turn soft criteria into hard. "Neil once went to buy an oriental carpet with an expert. He picked out three carpets. Which looked very similar and he wanted some help from the expert in knowing which to choose. One glance at the alternatives and the expert was able to say. The one on the left is better quality than the others. Neil examined all three carpets closely but could not see any difference. How do you know ? he asked. The expert explained that he looked for seven different factors in assessing carpet quality. The expert was able to describe each factor (for example, the number of knots to the inch was one) in hard differentiating terms. To Neil, quality was a soft differentiator. Neil wanted a high quality carpet but did not know how to measure quality, so he could not evaluate options objectively. For the expert, however, quality was hard differentiator. Using his seven factors, the expert was able to choose objectively in an area where Neil was just guessing.

We have looked at the case of the oriental carpet from the buyer's point of view. But now let's consider it from the seller's perspective. What if you had been selling an oriental carpet to a naïve buyer ? Suppose you were trying to sell the high quality carpet. Almost certainly, your carpet would be more expensive than its two lower quality competitors. And, all three carpets appeared to the buyer to be the same in terms of quality. So how would the buyer judge ? He would probably use the hard differentiator of price and the seller would lose the sale. How would the seller get the buyer to buy your carpet ? The seller would have to be like the expert. He would have to show some hard ways to help see the quality difference. So he would have to educate the buyer in how to make the choice i.e. showing the buyer how to develop hard differentiators to help judge a soft area.

IBM and Competitive Differentiation

Some years ago, IBM realised that acquisition decisions for mainframe computers were no longer the sole province of the boardroom or even of the Data Processing department. New departments were springing up that needed a computer of their own. Many of these departments – in functional areas such as design engineering or administration – had never bought a computer before. As a result, these new buyers tended to use hard differentiators such as price and performance specifications when judging IBM against its competitors. IBM was weak in terms of price and features, and began losing business.

As part of a very successful strategy to regain dominance in this emerging market sector, IBM devised an educational program, which was offered to potential users. We don't mention IBM, its promoters told prospective customers, all we do is share with you some of the criteria you should be considering in the acquisition of any data processing equipment whether it's ours or a competitor's.

The program was very popular. True to its word, no mention was made of IBM or IBM products. It was, as its promoters had promises, an educational program. It dealt with soft differentiators such as service support. It showed, for example, just how important service support was in judging a data processing system and it specified the questions a customer needed to ask a vendor to ascertain whether a sufficient support level was being offered.

This approach had a powerful influence on customer decision making and it brought IBM a lot of business in a sector where their performance had been poor. Its success rested on a simple concept. It took soft differentiators where IBM was strong and it defined them in harder, measurable terms, which the customer could use in making evaluation decisions.

Blurring Hard Differentiators

So far, it sounds as if your principal strategy to handle competition during the sale is to take the soft differentiators where your product is stronger than competition and to make them hard. It's certainly an important ability but it's by no means the only way to be competitively successful. Sometimes people are very successful using the opposite strategy; they take a hard differentiator and soften its outlines, making it more difficult for customers to use as an objective standard of judgment. As an example, let's look at the case of the hard differentiator machine speed. What if your machine was not the fastest ? Clearly you would not want machine speed to be the crucial decision criterion. It's in cases like this, that successful competitive sale people may try to soften the differentiator. You might ask. How do you measure Machine speed ? . Do you mean speed for continuous run or speed for a none off job? Some machines are very fast under continuous run conditions but they perform much more slowly if you have one off production needs (e.g. you may require a single copy each of twenty document). In this way, assuming that the customer has a combination of continuous and one off requirements, a potential hard decision criterion, which seemed cut and dried has now become softened.

A similar method is often used by sellers to deal with price issues. There was a very successful seller from a computer company. Her machine was about 15 per cent more expensive than her key competitor's but had more memory and a better display unit. When asked the price of her machine, she would reply that the basic machine cost a little less than her competitor's/. she'd then go on to say that, of course, it's expanded memory version would cost a little more and so would its upgraded screen. However, she felt so strongly that these two enhancements were important, that she did not propose to offer this customer her basic version. Very few customers realized that in reality there was no such thing as the basic version. Every model had expanded memory and a high resolution screen. However, put this way, the hard differentiator of price became much more difficult for the customer to use when comparing her with her strategic competitor.

Using Differentiators in the Competitive Sale

Although you may sometimes want to soften a hard differentiator, generally your objective will be to make a soft differentiator harder. How do you do that ? If you've established strong rapport and trust with a customer, you may be able to emulate the oriental rug expert or the IBM educational program compilers and tell the customer how to differentiate in the difficult but important soft areas. But few salespeople have the luxury of acknowledged expertise. Hardly any customer relies on the sales person's experience an knowledge.

So how do you help customers understand a soft differentiator, such as quality, in terms that will allow it to be used as an effective decision criterion ? One of the most effective ways to harden a soft differentiator, like quality, is to w0rk through a three step process with customers – define, refine and reposition.

Defining the Differentiator

First, get the customers to define the differentiator in their own words. Don't try to impose your standards of judgment. Instead, encourage customers to express their own thoughts about how to differentiate in soft areas. By talking about how they would make judgements, customers become clearer about how to assess soft criteria, as his next example shows.

Buyer : Yes, quality will be an important factor in making the decision

Seller : (whose product is strong in terms of quality). How would you judge quality?

Buyer : General appearance – a good quality product just looks better.

Seller :But, more specifically, if you were deciding between two products, what exactly would you look for to tell you that one is better quality than the other ?

Buyer : Mostly surface finish. I think. A good quality product would be smooth with a polish on its upper surface.
Seller : And colour of finish ? Wouldn't that reflect quality too ?

Buyer : Yes….a good quality product would have a darker, richer finish.
Seller : So one of the things you'd be looking for is finish, it should be highly polished and a rich dark color. But wouldn't you also look for other signs of quality like th4 kind of jointing used in the construction ?

Buyer : I have noticed how the joints warp on cheaper models. Why is that ?
Seller : Lower quality products generally use glued joints. They' arecheaper to manufacture but they wrap easily. High quality products like ours use pegged joints, which are more difficult to make but are wrap free.

Buyer : Yes, that's something I should watch out for …………

Refining the Differentiator

Notice that the seller in this example wasn't afraid to add information that helped the customer decide to what to look for in assessing quality. However, it's equally important to notice that the seller's thoughts came as an extension of the customer's own definition. This process of adding to the customer's definition is what we mean by refining to be effective refining must build on the customer's own attempt to define the soft differentiator.

Module – 2 : Repositioning

If a customer is the sole person making the decision, then it may be less necessary to spend time defining and refining soft differentiators. For example, suppose that a sole decision maker thinks that the most important decision criterion is the product's quality. If, in the decision maker's eyes, your product has the best quality then you have a significant competitive advantage, whether or not you try to define and refine the meaning of quality. But now suppose the customer you are talking to is not the sole decision maker but for example, is just one member of a purchasing committee. Your customer may be personally convinced that your product has th4 best quality, but how an your customer communicate that to other members of the committee ? In all probability, during the committee discussions, nobody will be able to agree on what quality means, or on how to measure it objectively. As a result quality, is no longer a useful decision criterion and it will, almost certainly, be downgraded so that it ceases to be crucial factor in making the decisions.

It's in the nature of shared decision making, that criteria that are difficult to share will be discounted and will play a less crucial part in the decision. Conversely, measurable criteria will tend to become more important. So, assuming that you have succeeded in defining and refining quality so that the customer has some objective standards to measure it, you may now be forced into a further step of convincing the customer to reinstate quality as crucial decision criterion. This is what we mean by repositioning. It often happens that during internal customer discussions, soft criteria fall by the wayside because people can't agree on their definition. And, as we saw earlier, price notoriously comes to the fore as t hoe objective and measurable hard differentiation. After you've successfully defined a soft differentiator in hard terms, you will often need to reinstate it as a crucial decision criterion.

Consider your own products. Are they strong in areas that are soft ? If so, how do you go about helping your customers to differentiate between you and your competitors ? If you' are like most salespeople, you'll be satisfied if your customer agrees that a differentiator is important. Many times, for example, sellers of high quality products get customers agreement that quality is a decision criterion. Then they feel they've achieved their objective and they move on to other topics. In contrast, it has been observed that top salespeople go to great lengths to define, refine and reposition so that the customer is able to communicate the criterion to others involved in the decision.

Vulnerability

We've seen how differentiation is a crucial part of effective competitive strategy. Let's now turn to the other crucial concept : *vulnerability.*
Vulnerability is where you are put at risk because a competitor is strong in an area that is important to the customer and you are weak.

Take a simple example. Suppose that you offer a shade of red colour on one of your products, a car and you've a customer who's insisting on a different shade of red. are you strong or weak? In the terms discussed so far, it seems as if you are decidedly weak. Early delivery is a crucial criterion and you can't meet it. But now suppose that your man competitors are all offering black. Suddenly, instead of being weak you've become strong, compared with your competition. However, if you offer a different shade of red while your strategic competitors an deliver the same shade, then your weakness is serious, you're vulnerable.

Vulnerability Analysis

There's a simple way to assess your vulnerability. It's called vulnerability analysis and it's illustrated in the figure given below.

Draw three scales on a piece of paper., the left hand scale should represent the customer's decision criteria ranging from crucial to incidental. On the center sale, rank your product or service in terms of each criterion as you believe the customer sees it, ranging from strong to weak. Finally, use the right hand scale to rank a key competitor in terms of the criteria, again being careful to rank each criterion as the customer sees it, not as you would judge it. Draw a line to link each criterion across all these scales.

Whenever 'V' shape is visible as with the 'delivery' criterion in the figure, then you're vulnerable. This is one of the simplest and most effective ways for assessing competitive vulnerability. What's more, this method not only pinpoints your vulnerabilities, it fan also help you consider the strategic options which you can use to compensate for a vulnerability or to overcome it.

But before we look at strategies for handling competitive vulnerability, let's pause for a moment to be sure we're clear what we mean by 'competitor'.

Who is a Competitor ?

We normally think of competitors as other vendors who offer similar goods or services that could substitute for our own. So, in analyzing vulnerability, we tend to think first of how we compare with other vendors. But that can be a dangerously limited view of competitors because it may lead us to ignore some hidden but strategically important sources of competition. Other demands on the same budget may be just as powerful a competitor as another vendor. In one sale where two competing sellers were looked in mortal combat trying to land a major order, neither of the two sellers realized what they were competing with the true competitor for the budget was a product to be purchased for another purpose. While the two sellers were competing energetically against each other, the sponsors of the selection project persuaded the key executive to put his budget elsewhere. Neither got the business.

When the Competitor isn't Competitor

Donna Tanner was selling dedicated accounting systems for small to middle sized businesses. Her company installed both the hardware and the software, which a business needed to enable it to budget, keep financial records and prepare tax submissions. Several of her competitors offered similar integrated packages and she was competing with one of them to install a system with Sound Inc. a publisher of audiotape learning programmers. She has made two presentations to the Head of Administration and, in each presentation, she stressed the ways in which her package was differentiated from and superior to the competing package that Sound Inc. had been looking at.

She'd done such a convincing job of differentiating her product from her competitor's that Donna was sure to get the order. She was taken aback by the rejection letter she received from Sound Inc. but what surprised her most about the letter was that it explained that her competitor wouldn't be chosen either. "We have decided', the letter read not to buy a system of our own but to subcontract our accounting and tax preparation to a local accounting firm.

Donna had never considered this a realistic option. It was riddled with disadvantages that she was sure Sound Inc. hadn't fully considered. But now it was too late. She realized that she'd put her selling energy into defeating the wrong competitor. If only she'd realized that her competition wasn't limited to vendors of similar products, she might have convinced Sound Inc. that subcontracting had many drawbacks and it was better to have a sym of their own. Her mistake was taking too narrow a view of competition. Any alternative solution to the problem constitutes a potential form of competition that is dangerous to ignore.

In assessing your vulnerability, an essential first step is to know who all your competitors are. There are two helpful questions for establishing the extent of competition, which you should always ask yourself to check that you are not thinking too narrowly :

Are there any alternative solutions to the problem ? There may be a different way for the customer to solve the problem, without using you or your obvious competition If there is such an alternative, you should ask yourself whether it could be equally attractive to the customer. If so, then you' are competitively vulnerable. In some marketplaces alternative solutions are more omen than in others. There's rarely an obvious alternative solution open to customer who's considering buying a new computer system, for example. Although the customer may be considering widely different architectures and configurations, the competition will, in most cases be other vendors of computing equipment. But that's less likely to be the case is a services market such as consulting. An alternative to hiring a consultant, for instance, might be to do the project using internal resources, or to hire a full time expert from outside. Neither of these alternatives involves a competing consultancy. It's much the same in the financial services area.

Are there any alternative uses for this budget ? Sometimes money is clearly set aside for a specified purpose. For example, a company may have earmarked half a million in its capital budget to replace the telephone system. But many other purchases, even major capital expenditures, an come from general budgets that could equally be used to support completely different purposes. Try to establish whether a specific budget has been set aside for the purchase. If so, then you' are unlikely to have competition from alternative uses. But if you find that the purchase will be funded from a general budget where there are many competing demands, it's wise to ask the customer whether the purchase has high budgetary priority and budget demands must also be considered as competitors then you' are ready to assess and counter your areas of vulnerability.

Strategies for Countering Vulnerability

Fundamentally, you've three alternative strategies for handling vulnerability. They are :

Change the decision criteria – so that the crucial criterion where you are weaker than the competitor becomes less important to the customer.

Increase your Strength – by changing the product you offer or the terms associated with it, so that you are no longer perceived as weak.

Diminish your Competition – reduce the customer's perception of your competitor's ability to met the crucial decision criterion. This is the most risky of the three strategies and must be used with great caution.

Strategy No.1 : Changing the Decision Criteria

Overtaking : Building up a lesser criterion so that it becomes more important than the crucial criterion you're trying to reduce.

Trading Off : Balancing the criterion against limitations, penalties or disadvantages which would come from meeting the crucial criterion.

Redefining : Altering the way in which the cusat0omer defines the criterion so that in becomes easier for you to meet.
Creating alternatives solutions : Producing new and creative alternatives to meet the crucial criterion. We must say that it's probably wise to try to influence the customer's decision criteria before you attempt the other two strategies we' are suggesting.

Strategy No.2 : Increasing Your Strength

The basic method involves probing a decision criterion to discover that lies beneath it and then finding a creative alternative way to meet the underlying need. There are two other ways to increase the customer's perception of your strength.

Correct any misunderstandings : Sometimes the customer rates you as weak because of a misunderstanding or because the customer's information about your product is inaccurate. By correcting the misunderstanding, you'll no longer be seen as weak. Naturally, it's not quite so simple in real life. Remember that the customer perceives that you've vested interest in appearing strong. Consequently, you won't be able to correct a misunderstanding by assertions alone. If the customer says, I hear your machines is unreliable, the just saying, you've been misinformed, it's actually the most reliable in the market is unlikely to change the customer's perception. You must ideally want to provide independent test statistics that demonstrate your machine's reliability. That's fine if such statistics exist, but what should you do if you have not a source of objective proof to back your claim ? It's here that an independent person can be so useful. A satisfied customer that the buyer can contact, or a letter from a contended user can give you the proof you need.

Negotiate, Another way to increase your perceived strength is through negotiation. The crucial decision criterion, for example, is delivery. You're weak in this area. Let's assume that you're offering a ten week delivery whereas your customer is demanding it in six weeks. You might negotiate with the customer, offering to deliver half the order in six weeks and the other half in ten. Your offer reduces your perceived weakness and may do so sufficiently to influence the sale in your favour. Negotiation can have a useful and valid function in helping you vary the terms of your offer so that your perceived strength is increased.

Sometimes you' are in the fortunate position of being able to compensate for perceived weakness by altering your product. Consultants, accountants, lawyers and other professional providing services often can change their proposed approach to remove any competitive weakness which their client perceives. The head of a major consulting firm received a phone call from one of his clients who was about to turn down a proposal from the firm. A competitive weakness had been created because the client wanted somebody with banking experience to head the consulting team. A rival firm of consultants was offering a project team with a banker in charge. This firm had offered a team headed by a consultant who hadn't worked in banking before. Turning to a large planning calendar on his wall, the CEO studied it for a moment and turned back to the phone. If you think that banking experience is really important, he reassured the client, then Paul Hardy, who's a member of our banking practice will be free next month and could head our team. In a matter of seconds the CEO had redefined his offering so that a vulnerability issue had been eliminated. The client no longer saw them as consultancy without a banker.

Strategy No.3 : Diminishing Your Competition

The most difficult, and certainly the most dangerous, strategy for reducing vulnerability is to attack the perceived strength of your competitor so that the customer no longer feels that the competitor is strong. When you attack a competitor or comment negatively on a competitor's product, then you reduce your own credibility. There's some evidence to support the truth of this widely held belief. One of our research studies showed that the more often sales people mention their competitors during sales alls, the less likely they were to get the business.

Don't Knock the Competition

Diane Vail was a sales rep. for a textbook publisher. She passionately believed in the superiority of the textbooks she represented and, unlike most salespeople in her industry, she had actually read all the books she was selling. What's more, she'd read all her key competitors' books as well. As a result, she was extraordinarily knowledgeable and other salespeople in her company would call her when they wanted answers to questions about the contents of a book or how it compared with the competition.

You'd think that Diane would be one of our most successful salespeople, said her boss, but, in fact, she's a marginal performer. I can't understand it. She's bright, she's dedicated and nobody in the whole company knows as much about the products as she does. What's going wrong ?

It took just one visit to a customer with Diane to make the cause of her problem very clear. Why is your intermediate level chemistry book better than the text we're using now, asked the customer.
There are three serious things wrong with your present text. Diane replied and w4nt on for ten minutes to demolish her compei6tor. After the meeting, she was quite pleased with how the all had progressed. I was able to show the customer that I know these books from cover to cover, she told proudly.

Talking to the customer revealed different story. She certainly knows her stuff, he admitted, but she's very negative about her competition, which makes me feel she's biased. So, although she's bright, I wouldn't want to trust her advice. Diane hadn't learned one of the elementary rules of discussing competition. Negative statements about competitors generally hurt your credibility more than they hurt the competitor.

Loss of credibility isn't the only danger from talking to customers about competitors. Another reason why it's risky is that discussion of another vendor takes time away from the more important area understanding customer needs and decision criteria. You can't give 100 per cent of your attention to the customer if you' are concentrating on the competition. When the conversation gets diverted into a discussion of a competitor's product, you risk :

Harming your own image. Especially if you' are ahead, you will hurt your image by talking too much about the competition. You can see how true this is by looking at another highly competitive marketplace. Politics. Notice that the leading candidate is usually unwilling to debate with the others. And how it's the candidates who are trailing behind who attack their competitors. The leader stays aloof. As politicians have discovered talking about the competition only helps those who are behind. It hurts the leaders.

Opening up areas you can't control. It's true that you can sometimes score some quick points by discussing the competition's weaknesses, but you take the risk that, once the discussion is focused around the competition, it's not just weakness that will be discussed. The customer is also likely to introduce the competitor's strengths which can put you on the defensive and open up areas you'd rather not be talking about.

Two Successful Strategies for Talking about competition

We've observed two ways in which successful salespeople weaken their competition without damage to their own image. The first way is to mention competitive weakness indirectly. The second way is to focus on generic weakness, rather than on the weakness of a specific competitor. These two methods are vitally important for educing a customer's perception of a competitor's strength without damaging yourself in the process. Let's examine each more closely.

Raising Weakness Indirectly

Sometimes you' are under pressure to discuss a competitor's weakness because customers ask your direct questions. You may, for example, be asked. How does the speed of your product compare with theirs ? What's your best strategy for handling this kind of direct question from the customer about competitors ?

Most such questions can be answered in one of two ways. Suppose the customer asks "What's the difference between your product and EX .CO's ? One way to answer would be to say. EX CO is more expensive, it's slower and it's not got a good reliability record. The answer analyses the weaknesses of EX CO. The other way to answer the same question is to concentrate on your product not theirs. We are cheaper, our product is faster and we've got a superior record of reliability. Both answers give exactly the same information, but their psychological effect on the customer is different. An answer that concentrates on the competitor's weaknesses will probably be seen as knocking. More dangerously, if you focus the discussion on the competitor, the customer is thinking about the competitor's product not yours. As a result, it's common for the discussion to shift from a competitor's weaknesses to their strengths. Saying that EXCO is expensive, slow and unreliable will often provide a response from the customer such as "Yes, but they have the only product which can handle oversize work – which is a key part of our business. You're true forced to discuss areas that you might prefer to leave alone. So one successful strategy for reducing a competitor's perceived strengths is to raise the weaknesses indirectly by emphasizing your own contrasting strong points. But that strategy has its imitations. For one thing, it works best in areas where you have superiority. It's not a very effective method when you' are no better than the competitor in the area which you want to attack.

Exposing Generic Weaknesses, Not Specific Ones

A more versatile strategy for weakening the customer's perception of a competitor's strength is to expose generic weaknesses. Let's take an example. Suppose your competitor, whom we'll call SHAMCO, is offering a machine which the customer believes to be fast. It's clear that you won't get very far by offering a statement like. SHAMCO's machine is not as fast as you've been led to believe which will for an overall negative impression and leave you just as vulnerable as before. A more effective way to handle the direct discussion of a SHAMCO's potential weakness in the area of speed would be to concentrate on the generic reason for the weakness not on the specific weakness itself.

Let's illustrate how this works by comparing two extracts from a sales all. The first uses a specific approach.

Customer: I have heard that SHAMCO's processor is quite fast, so that a single cy le takes less than two minutes.

Seller : Then I'm afraid you've been misinformed, It's well known in the industry that SHAMCO's got one of the slowest processors, It's lost them a lot of business.

Customer: But their reliability's pretty good, isn't it ?

Seller. Yes, but if it does break down, it's a real bear to fix, unlike our unit, which you can easily fix yourself.

Customer. On the other hand, if it does not break down often, then it might be worth the risk. I could always get a service contract from them.

Seller. From SHAMCO ? You must be joking. I've known people wait days for a service call from them. What's the general impression the seller is giving the customer ? It's negative. It's knocking and it certainly doesn't sound impartial. That's typical of what happens when you address the specific weaknesses of a competitor. In contrasts, It's see how the same issues could have been dealt with using the approach of discussing generic weaknesses. A generic weakness is a flaw in the method or technology that the competitor uses, rather than a specific criticism of the competitor.

Customer: I've heard that SHAMCO's processor is quite fast, so that a single cycles takes less than two minutes.

Seller: The speed of the cycle of all products in this market depends on the processing technology. SHAMCO uses a wet image intensification process. Any machine based on that process can only use low temperature fixers, which means if's forced to be slower than the advanced dry image methods used in processors like the ones we offer.

Customer: But their reliability's pretty good, isn't it?

Seller. True, the wet image process is reliable. But a difficulty of machine designs where the whole processor's in one unit is that when it does go wrong, the fault's so inaccessible that you have to dismantle the whole thing, and that's big job. On the other hand, modular processors like ours are much easier to fix because each part is separate, you can handle most problems yourself without needing an engineer.

Customer: But if their processor doesn't break down often, then it might be worth the risk. I could always get a service contract from them.

Seller. When you're considering a service contract, a vendor's size can be very important are being made, but they aren't directed specifically at SHAMCO. Instead the seller talks about the generic weaknesses of the processes and methods which SHAMCO uses. This has a greater impact on the customer and allows the seller to appear more professional and less prejudiced. In real life, the cumulative effect of so many criticisms in so short a space of time would probably have a some what negative effect. But if these generic weakness examples were scattered throughout a much longer conversation, it's likely that the seller could reduce SHAMCO's perceived strengths without too many penalties in terms of professional image.

As a general rule, salespeople are advised to use these two methods cautiously since it's better to use strategies for reducing vulnerability which either influence crucial criteria or build the customer's perception of your own strength. But they are included here because they are used by some very successful salespeople.

Module – 3 : CASE STUDY

Maruti : A Success Story

Maruti Udyog Ltd. Is one of the largest automobile manufacturer in India. Sine its inception, it has grown leaps and bound and has acquired a name for producing**.** LMVs. It has been more than 20 years, since this company was formed. Since then, slowly but steadily, it has gained a substantial amount of market share in the small car segment and has been the market leader in this category. With its partnership with Suzuki Motors of Japan, it has gained an edge over its competitors regarding the technology part. This case study takes you to the journey of Maruti and how it has used the generic strategies to compete in the market leading to the success of its brand.

History

Maruti Udyog Limited popularly known as MUL was established in February, 1981 through an Act of Parliament. The need to bring the company into existence to meet the demand of customers who have preference over the personal mode of transport than the public transport as the public transport system lacked efficiency. There wee companies like Bajaj Auto etc. In existence who were basically into two wheelers but the need to have an Indian company especially manufacturing small cars was largely felt.

To cater to the needs of the customer, MUL came into existence in partnership with Suzuki Motor company(now Suzuki Motor Corporation of Japan) which were the leaders in small car segment then. The collaboration was not only important technologywise but was also important looking at the management practices. In October 1982 a licence and a Joint Venture Agreement was signed between the two partners. When the company came into existence, its objectives were :

- Modernization of Indian automobile Industry;
- Production of fuel efficient vehicles; and
- Production of large number of motor vehicles.

The objectives wee aimed to conserve scarce resources and help in the economic growth of the nation.

Since its establishment and the partnership agreement, MUL took record 13 months to go into production and the very first vehicle – Maruti 800 was released on December 14, 1983. Looking at the car's durability, structure, style etc. the volume targets exceeded and in March, 1994, it produced a landmark of one million vehicles. If the volumes are taken into consideration, Maruti is the largest manufacturer in Asia outside Japan and Korea and has produced more than 4 million vehicles by April, 2003. In term of market share as well as JD Power Customer Satisfaction Study. MUL is the only car company in the world to lead.

Maruti Udyog Limited : A Company Par Excellence

Maruti plant located in Gurgaon, Haryana has best of the technological infrastructure available. The plant brings out two vehicles in a minute, which shows that the plant is technologically quite advanced. In Maruti's case, the employee training and motivation plays an important role along with high techolg9y in guaranteeing high quality and productivity.

Ethics of Maruti

Maruti aims at the best of employee management relationship. The ethos of the company are :

- Participative Management
- Team work and kaizen
- Communication and information sharing
- Open office culture for easy accessibility

Core values

- Customer Obsession
- Fast, Flexible and First mover
- Innovation and creativity
- Networking and Partnership
- Openness and Learning

Vision

The company works and sets its business objectives according to the vision. The vision of Maruti says :

"The Leader in
The Indian automobile Industry
Creating customer delight and
Shareholders' wealth;
A pride of India.

Maruti has adopted certain quality measures to perform continuous improvement for customer satisfaction.

Products

Maruti, in collaboration with Suzuki, offers a wide array of products. The target base of its customers ranges from middle class group to high lass. It offers all range of cars starting from middle income group to luxury class. The list of products it offers is given in Table hereto. This in itself shows that the kind of differentiation stategy it has used focusing different customers under different groups, it has gained an added advantage over its competitors. Each product has a specific catch line to attract customers.

Table : List of products offered by Maruti Suzuki

Product	**Targent Segment**
Maruti Baleno	Luxuty – High Class
Grand Vitara XL-7	Luxury – High Class
Maruti Esteem	Luxury – High Class
Maruti Gypsy King	High Middle Class
Maruti Versa	High Middle Class
Maruti Wagon R	High Middle Class
Maruti Alto	Middle Class
Maruti Omini	Middle Class
Maruti 800	Middle Class

This was the broad classification of products. Each product has more than three variants giving different specifications regarding colour, features, accessories et. For example, Maruti 800 comes in at least three variants vis-a-vis, ordinary deluxe, luxury. Each car has certain specifications, which decides its model. Similarly every product has its own importance and caters to the need of specific segments. For example, Versa's catch line "The joy of traveling together", says it all. It is termed as a family car i.e. a car which can accommodate the whole family. Similarly, its other products are differentiated in such a way that the customer can choose from different models according to their respective requirements. The best part with Maruti is that even a handicapped person can make a choice regarding his/her requirement. Going through this discussion, it is easy to say that Maruti has cars classified into passenger vehicles compact segment and mini segment.

Services

Not only, in terms of products but also in terms of services offered to its customers, Maruti can be termed as the leader. Looking at its past record, Maruti has out passed its competitors in giving services to the customers. To provide best of the services to the customers. Maruti in 1996 launched a 24 hour emergency on rod vehicle service. A couple of years back it has also launched a company provided car insurance to its customers. In this way it has come up with various programmes to satisfy its customers.

Major Events

Its not that the success story of Maruti Udyog Limited is a smooth one. It has its own share of setbacks. But every time it faced problems, it over came and bounced back with new zeal and energy.

In the year 2000, Maruti Udyog Ltd. discontinued the production of two of its models – Model 1000 and Gypsy 1000. This was done to “rationalize” the product rage. In the same year it had to suspend its vehicle production for two days because of huge inventories of 12,000 odd units at the factory. Maruti Udyog Ltd. also encountered a problem with its employees when the production at the manufacturing facilities halted in the same year when the employees if the company refused to sign a “Good conduct Undertaking”. In this way, Maruti too faced the problems with its employees.

In the year 2001, Maruti Udyog Ltd. notified its pr0posedvoluntary retirement scheme (VRS) in the process of trimming its 5,700 strong work force by around 20% This was done to boost the profitability of the company. In 2002, government came into action and processed disinvestment in 2002-03 by announcing a two stage process to exit from Maruti Udyog Ld. A joint venture with Suzuki Motor company. As a result of this, Suzuki took over control in Maruti Udyog by hiking its stake in the company from 50% to 54%. After this restructuring. Maruti’s market share hits an all time low of 42% in July 2002 though it was ranked as the leader in dealer service.

In 2003 it started “Change your Life’ campaign to attract the customers but at the same time it increased the prices as the input costs increased. In the same year it launched the pries as the input costs increased. In the same year it launched its four millionth vehicle. Despite its losing market share in 2002, it bounced back and its are market share increased 50% to around 55% It came out with its public issue, which was oversubscribed 7.82 times and is listed on BSE at 25.6% premium at Rs.157. Apart from these major events, Maruti tied up with State Bank of Mysore (SBM) to offer car finance to its customers. Later it tied up with State Bank of Travancore (SBT), Union Bank of India, state Bank of Saurashtra (SBS) to provide loans to its customers t competitive rtes. The major event in the history of Maruti was its inclusion in Morgan Stanley Capital International (MSCI) India Index.

Year 2004 saw Maruti launching new variant of Versa and rising volume car prices but at same time, it did cut prices for its certain models and reduces down payment figure to purchaser India’s cheapest car Maruti 800. Looking at these events, it is clear that

Matuti did have set backs but it continued to perform to make a mark in the market.

Financial Performance

The strategies adopted by Maruti Udyog Limited resulted in the growth of its net sales by approximately 25% year on year (yoy) basis in passenger vehicle volumes (Refer to table hereto) when the performance of the product was seen. Alto scored over others in the compact segment and emerged as the top performer. The total multi utility sales grew by 20% by yoy basis but exports grew at a slower rate of 7%. The net profit grew by 48% to Rs.1,836 million but got a setback by increase in deferred tax of rs.2,740 million against a refund of Rs.1.44 million. Apart from these setbacks, the company recorded a growth by 7.4% qoq.

MUL is facing a stiff competition from Hyundai's Getz in the compact car segment but MUL has an edge over its competitors. Most of its arts are fuel efficient and with the rise in fuel pries, this may be an added advantage. To conclude it an be said that MUL is a big success story despite a number of setbacks it faced.

Sales Breakup

Capacity

	2004	2003	2002	2001
Passenger Cars & Light Duty Utility Vehicles Numbers	350000	350000	350000	350000

Production

	2004	2003	2002	2001
Passenger Cars & Light Duty Utility Vehicles Numbers	472908	359960	358108	350376

Sales Volumes

	2004	2003	2002	2001
Passenger Cars & Light Duty Utility Vehicles Numbers	472122	362253	352197	350433

Sales Value

		2004	2003	2002	2001
Mould & Dies	(Rs.Million)	223	297	1502	
Passenger Cars & Light Duty Utility Vehicles	(Rs.Million)	106793	85362	84260	83596
Spares (Vehicles)	(Rs.Million)	5824	4977	5047	4417

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SERVICES MARKETING

Module 1 –Meaning and Characteristics of Services

It is difficult to provide a single definition of service. Most attempted definitions are incomprehensible. The concept of service has to be understood either as an exclusive offering from a company that is primarily intangible or as a part of the service product mix that a company offers.

At one level, service is an intangible offering with little or no transfer of physical products to the customer. Car rentals, insurance, education are some examples of such services. The physical goods associated with the offering do not provide major satisfactions to the customer and he is primarily interested in the service part of the offering.

At another level service is one part of product service mix being offered to customers. Restaurants are examples of such services. The physical goods are as important as the service part of the offering and customers have to be satisfied with both parts of the offering.

At the third level the main offering is the product but the supplier also provides some services. Car service and installation of equipment are some such services. The product is the maintenance consideration when a customer is evaluating such an offering but in times of increasing product parity such ancillary services, have become the differentiating factor between offerings of competitors.

At the fourth level every product or service or any combination of a mix of the two, ultimately is supposed to provide service for customers. Thus a customer buys a car because it provides him transportation services. This idea is gaining ground as companies are increasingly trying to become customer oriented.

UNIT OBJECTIVES

- Understanding the importance of services in economies
- Understanding nature and characteristics of service

- To know how to position a service organization and a brand

- Explaining service marketing mix

- To know how businesses should manage service encounters and service recovery
- Understanding innovations in services

SERVICES

- Advances in technology that has led to more sophisticated products that require more services

- Growth in per capita income has given rise to a greater percentage of income being spent on luxuries such as restaurant meals overseas holidays, weekend holiday breaks Greater discretionary income also fuels demand for financial services such as personal pensions.

- A trend towards outsourcing means that manufacturers are buying services that are outside the firm's core expertise (warehousing, catering)

- Deregulation has increased level of competition in certain service industries like telecom. This has resulted in expansion with more customers availing of the services as pries are going down due to competitive actions. Simultaneously, companies are advertising more and wooing customers more stridently further fueling demand for services.

- Due to growth in per capita income, people are buying more goods, which has contributed to making retailing an important service.

All Principles of Marketing apply to services

By their very nature, services impact customers more directly than products do. A customer walks into a restaurant and realizes immediately whether the ambience is pleasant or not. Few minutes into the facility, and most customers have already realized whether they have made the right choice of the service provider. Some of the services are more urgently needed than products. Patients may need the immediate attention of doctors. And urgently need than products. Patients may need the immediate attention of doctors and again due to its very nature, service providers come in more frequent and intimate contact with customers and therefore

providers have more opportunities to please customers or put him off. For these reasons a marketing or services has to be more deliberate and considered.
A service provider has to carefully audit his resources and competencies and then conduct market research to locate the segment which it an serve best. And when it comes to positioning the provider has to be very focused. The customer stays in the premises of the provider for long periods of time and has more chances of discovering discrepancies and inconsistencies in the provider's positioning plank. And also because most customers are very clear about the quality of the service that they want. And when they walk in a premise expecting that level of service, they get very disappointed if their expectations are not met because such expectations are very precise. So positioning of services has to be razor sharp.

Services are more intractable than products because they come in various shades and hues. The provider has to define his service very precisely and also design the appropriate service product mix. The basic service, like eating in a restaurant, is just one part of the entire service offering. The ambience, the music and their behaviour of the employees are other vital components of the service. And decisions have to be made very precisely as to how and in what degree will the ancillary elements be incorporated in the maintenance service.

Representing services in promotional methods like advertising is extremely challenging due to its intangible and variable nature. Services need more creativity and focus to get the positioning plank depicted accurately. Service providers are in frequent touch with customers. A doctor has to be good at his primary task and he also has to be a good marketer, since his attitude and behaviour, besides his ability to cure, will determine his patients opinion about the medical facility. The employees of service organization come in frequent contact with customers and they are important in promotion and brand building exercises of the company. The service provider has to be an expert in operations and marketing at the same time.

The same basic service like surgery an be provided in vastly different service facilities providing different levels of amenities and luxuries. Service offerings lend themselves to differentiation easily and the same basic service can be combined with other auxiliary services and pried differently. The service providers have huge price flexibility and charging the right price becomes a very important decision.

The same service can be delivered in various ways. With a proliferation of new technologies, the different ways that a service an be availed of is only increasing. A customer can go to the bank and withdraw money, he can use ATM to do the same job, he can use the phone, or engage in internet banking. Even medical services will see a revolution due to new channels of delivery becoming established. Even critically ill patients can stay at home while equipments attached to their bodies would transmit vital information about the functioning of their organs to doctors sitting in hospitals who can prescribe suitable remedies.

Marketing mix, conveys the positioning of a service or a product, In cases of services all the 4Ps are very flexible i.e. many number of combinations of the 4Ps are possible top arrive at a marketing mix. But the segmentation criteria has to very well defined and the positioning has to be very sharp because a customer is impacted instantly and very perceptibly as soon as he gets in contact with a service provider or enters a service facility. Service marketers face tremendous challenge in getting the marketing mix right to be able to convey their positioning plank because the marketing mix is flexible but the positioning has to be very pointed.

NATURE OF SERVICES

It is important to understand that services are different from products and this difference warrants a change in the way services are marketed. Service are intangible perishable, inseparable from the provider, and highly variable each time it is delivered. These characteristics of service have to be thoroughly understood so that appropriate operations and marketing structures are created to be able to produce and sell services profitably.

Intangibility

Pure services cannot be seen tasted or touched by customers before they are bought. Service is a deed, performance or effort. Services are experimental by nature. A customer finds difficulty in evaluating a service before purchase and yet quality has to be assessed before the act of purchase. It is impossible to judge how enjoyable a holiday will be before taking it. Patients cannot know for sure if they would be cured until they have been operated upon. For some offerings like getting a car serviced, the intangible nature leads to difficulty in evaluation even after consumption.

The service provider therefore has to use tangible cues to indicate service quality. A holiday firm may show pictures of holiday destinations, display testimonials from satisfied holiday makers and provide details of the kind of entertainment available. The maintenance task is to provide evidence of service quality by providing tangible cause for an otherwise intangible offering so that customers can evaluate the quality of services before purchase. A restaurant may thus convey quality by creating a great ambience, a clean kitchen, well dressed and well mannered staff, good table layout, great smelling food to convey quality. Cues have to be provided by all service organizations to provide customers an opportunity to judge the quality of the service offerings pre-purchase.

Inseparability

Service involve simultaneous production and consumption. The service provider is an important part of the service and is an integral part of satisfaction gained by consumer. How service providers conduct themselves will have a crucial bearing on repeat business over and above the technical efficiency of the service task. In consumer's eyes the provider, like the insurance representative or the doctor, is the company. Selection, training and rewarding front line staff is of great importance in achievement of service quality.

In service individual providers such as doctors in medical services, are better assurance for the customer than the service facility itself. Customers trust the individual service provider. It is important that individual service providers are promoted and their achievements e given wide publicity.

Presence of Other Consumers

Consumption of service may take pace in the presence of other consumers. Service providers need to identify possible sources of nuisance like noise, and make adequate provision to avoid inter customer conflict. In this regard it is important that the service provider targets the right segment so that customers seeking similar benefits only are interested in the offering. Customers may stay together in the service facility for long periods of time and they can be a big nuisance for each other. If customers do not like the company of other customers, they will discredit the service provider. A service provider should be very careful about who he takes as his customer if he does not want to invite the wrath of other customers in the facility. The marketing mix should be so adjusted that it is attractive to customers who want to enjoy the service in a similar way.

Variability

Standardization is difficult in provision of services. Services are conducted at multiple locations by people who vary in their skills and attitudes and are subject to simultaneous production and consumption. A service fault, like rudeness cannot be quality checked and corrected between production and consumption, unlike a physical product. The potential for variability in service quality emphasizes the need for rigorous selection, training and rewarding of staff in service firms. Training should emphasize the stands of behaviour expected of personnel when dealing with customers. Evaluation systems systems should be developed which allow customers to report their experiences with staff.

But the variability of services has a silver lining too. Service providers can anticipate the precise requirements and moods of the customers as they start interacting with them. An empathetic service provider will customize the service and his behaviour according to the requirement and mood of the customer. In fact, a service provider can publicize his ability to customize services for his customers.

Service standardization can be used to tackle the variability problem. The use of reliable equipment like vending machines and ATM rather than people can also help in standardization. Care needs to be taken regarding equipment reliability and efficiency. When an individual service provider fails to perform his task, the customer takes it out on him and the provider has an opportunity to placate him. But when an equipment like ATM does not work, the customer straightaway believes that the service is not good and may stop going to the service provider without giving any hint to the provider of his annoyance. Whenever an equipment is being used to provide a service, the service provider should ensure that it is working in the satisfaction of customers availing the services.

Perishability

Services cannot be stored for the future and hence its consumption cannot be deferred. Therefore once a certain supply of services such as number of rooms in a hotel premises or number of seats in an airline have been created, there must exist adequate demand for them. It is important to match supply and demand for services.

A key marketing task is to provide incentives when demand is low. Deep discounts should be offered to entice customers when the service facility is underutilized. Service facilities incur huge fixed costs while the variable cost of serving a customer is low. So even if customers are acquired by offering heavy discounts, they may still be profitable for the service provider.

There is also a problem of catering to peak demand when supply may be insufficient. In this case too, pricing and promotion play a very important role. Customers should be encouraged to avail the service at non peak hours by charging them lower fees at these hours. It is important to remember that since services cannot be inventoried for future use matching supply and demand becomes very important. Extra demand results customers walking way without availing the services, and low demand results I service provider not being fully utilized. It is loss of revenue and profit in both cases. Service providers should use promotion and pricing to shift demand from peak periods to non peak periods to balance demand and supply.

- Supply can be varied through use of part time staff during peak periods.

- Multiskilling may enable in shifting employees to tasks where there is more demand.

- Participation by consumers may be encouraged in production, as in the concept of self service.

- Demand may be smoothed through differential pricing to encourage customers to visit the service provider during off peak periods, Stimulations of off peak demand can be achieved by special events.

- If delay is unavoidable, then the provider should make it more acceptable for customers by providing a comfortable waiting area with seating and free refreshments.

- A reservation system can be used to balance the demand and supply.

MANAGING SERVICES

The nature of services makes its marketing inseparable from its operations. The way service are produced has an indelible influence on its saleability. Service facilities have to be managed in a way that promotes customer care when the customer is availing the service ad also simultaneously improves the efficiency and effectiveness of service provision.

Managing Service Quality

Companies that are rated higher on service quality perform better in terms of market share growth, But high standards of service quality remains elusive. There is a big gap between the expectations of the customers and the level of the service they get. It is important to understand why this gap persists inspite of the dominance of the service economy for some time now. This gap suggests that inspite of the best companies and people involved in the provision of services the quality of services is no where as good as those of products.

There are real barriers while matching expected and perceived service levels of customers and these have to be overcome if customers have to feel delighted with the services they receive.

Does Not Understand Customer Requirements : Misconception barriers arise when companies misunderstand customer expectations. Lack of market research leads managers to misconceive the important service attributes that customers use when evaluating a service and the way in which customers use these attributes in evaluation. A restaurant manager may believe that shortening the gap between courses of meals may improve customer satisfaction, when the customer actually values gaps between courses while eating.

But there are genuine difficulties in understanding what customers actually want from the service encounter. Service attributes a not well defined and they are not standardized. The variability of attributes is very high. A good ambience may mean a theme based architecture, centrally cooled atmosphere, best carpets, expensive paintings on the wall and rate plants at the premise. But for some, a good ambience may also mean a reasonably decent place where a person can have his meals peacefully. Because customers encounter such variability in service components, they have not been able to fix limited levels or grades in services as they have been able to with products. So luxury in automobiles has limited and definite levels, but luxury in a hotel or a holiday resort has no definite or limited levels. It runs in continuum and customers can demand their own level of luxury because they know that it is being offered somewhere else.

Secondly, when customers buy a product, they commit themselves to a particular level of attribute and benefit at least for some time, and so a customer can be understood reasonably well by the products that they buy. But a customer may dine at a five star restaurant at one occasion and at a very ordinary joint at some other time. He does not make commitments to any defined level of service and his buying is based on the circumstances or the occasion. It is difficult to make inferences about customer choice and profile his behaviour on h=this basis. All this makes the behaviour of customers towards services very unpredictable.

No Resources : A company may understand customer expectations but is unwilling to provide resources to met them. This may arise because of cost reduction targets or productivity focus or simply because companies believe that customers really do not mind these small shortcomings.

Unwillingness to spend in improvement of service encounters is a legacy form the days when it was believed that big investments are not needed in running a service business and all that is needed are a few hands. But improvement in services requires investment in technology, and in hiring and training talented employees. In knowledge based services like consultancy, medical science and education, investment has to be made in acquiring latest technologies and in upgrading skills and knowledge of the service professionals.

Bad Delivery : The company is not able to deliver the expected service. Companies may understand customer expectations and have adequate resources, but fail to select train and reward staff adequately, resulting in poor or inconsistent service delivery by discontent staff members.

Beyond educational and technical qualifications, a service professional has to have the ability to empathize, be able to put aside his personal worries when he is with a customer and should withstand personal discomforts in serving customers. It is difficult to get people with such attributes. So hiring can be a frustrating experience, but companies that want to excel in service delivery will have to wait to get the right people. It is important that a service organization is a good place to work at, so that large number of people are attracted to it and its chances of getting good people improves.

Management's Will : A management eager to improve quality is able to do it. It has been seen that a company's determination to improve the quality of its services is the most important factor in its quest to bridge the gap between customer expectations and actual service delivery. A determined company will find the right resources equipment and people to satisfy its customers.

Exaggerated Expectations : Exaggerated promises may become a problem. Advertising and selling messages that build expectations to a pitch that cannot be fulfilled may leave the customer dissatisfied even when receiving a good service. The company has to be careful in hyping its good services. The correct level of promotion is difficult to define but still it is important to achieve just the right levels and intensity of promotion. If the services are not promoted well enough customer expectations are not raised to adequate levels. Customers will buy services from a provider only when they expect good services from it, and so adequate promotion should be done to raise expectation of customers. But when the service is excessively hyped custome expectations are raised at exaggerated levels and even when the service is reasonably good, they are not satisfied because they expected much higher level of service. Therefore the promotion should be intense to adequately raise expectations among customers to try the service provider and the service provider should be able to fulfill those expectations. It is a balance very few companies know how to achieve.

Module – 2 : Meeting Customer Expectations

It is important to understand and meet customer expectations. A company should have a clear picture of the criteria that customers will use to evaluate whether his expectations have been met or not. The company should recognize that consumers of services value not only the outcome of the service encounter but also the experience of taking part in it. Evaluation of a hair cut depends on not only the quality of the haircut but also experience of having it done. Following criteria are used by customers when evaluating outcome and experience of service encounters :

Access is the service provided at convenient locations and at convenient times, with little waiting period in availing the service ? A customer can travel to distant locations to get a service if the service is urgent, critical, and it is not available locally. Patients travel overseas to get treated for serious ailments. Sometimes the facility for treatment may be available to get treated for serious ailments. Sometimes the facility for treatment may be available locally, but affluent customers do not trust such local facilities. Another factor is the reputation of the service provider. Student have been going out of their countries to study. Even some retail outlets have been able to attract customers from other countries.

Traditionally, service facilities have been able to attract only local customers. But if service companies spend resources on building strong brands, they can attract customers from distant locations. In addition, some like financial services, an be delivered electronically and therefore distance between the service facility and customers do not really matter, but the existence of strong brands do. Traditionally, service facilities were not too keen on customers from distant locations and were content to serve the local popular. Therefore there was not much emphasis on brand building and advertising. Promotion was mostly through word-of-mouth. But with international travel increasing and customers scouting for best services and deals internationally, it has become sensible to devote attention and resources on building brands and advertising.

Reliability : Is the service consistent and dependable ? The service provider should be able to deliver the promised service each time the customer decides to avail of it. The process to produce the service should have been tested for effectiveness, the equipments should be well maintained so that they do hot malfunction when in service, and service professionals should be competent in their basic task and should also demonstrate proper behaviour. It is important to remember that while a customer may use many criteria to evaluate a service he does not compromise with the primary service he is seeking. Therefore if a patient has to operated upon, he will not check in even if the best facilities are available but the doctors are not competent.

Credibility : Can customers trust the service company and its staff ? In most services, customers and service professionals come in frequent contact and customers are in position to form an opinion about the service professionals. It is important that such opinions are positive. Customers also spend time in the service facility, so they rapidly learnt about its systems and processes and their effectiveness. Service providers have very little hope of maintaining a façade of being a good place when they e not. What customers expect and what they get should match closely in services. The difference, if any, is quickly known to the customer. Most service facilities depend on repeated visit of their customers for their business. So every encounter between the customer and the service mattes. Credibility of the service provider becomes very important when the business is dependent on repeat customers. Service providers will build credibility by being consistent in providing good services.

Security Can the services be used without risk ? Some like medical services can be risky to the life of the customer. Some others like financial services, have personal information about the customer. It will be damaging to the customers if such information are leaked or passed on. The company should demonstrate that it understands customer concerns about their security and that it has adequate safeguards in place to prevent any mishap from happening It will help if the service provider is candid about the risks involved in doing business with it and the precautions it takes to eliminate or reduce the risk. Customers would not take kindly to being exposed to certain risks without their knowing about it.

Understanding Customer : Does it appear that the service provider understands customer expectations ? If the company understands the expectations and also has the capability to serve them, the customer is satisfied with the service outcome. If the company understands the expectations of customers but does not have the capability to serve them, it should politely decline to serve the customers. Customers have good opinions about companies which decline business because they cannot do it ell. It is very dangerous to engage with a customer when the provider knows that he cannot serve the customer effectively. Such a customer will spread malicious stories about the company, ruining its credibility. But if the company is not able to gauge the customer's expectation, it is actually in wilderness. The customer will be unhappy with the company as he does not get what he expected but he will be confused as to why a competent company is not able to deliver. In such a situation, customers who have long term relationships with the company will be patient and will make efforts to make the company understand their requirements But new customers will leave disgruntled.

Responsiveness : How quickly do service staff respond to customer problems, requests and questions ? Customers go to a service facility with the sole purpose of availing of the service. So he should be served promptly. Customers should always be encouraged to take appointments to void waiting. But if a customer needs an urgent service like immediate medical attention, it should be provided by taking the turn of some other customer. The company should specify and make known the exigencies under which a customer would be served out of turn so that the affected customer is not angry. In medical services, critical patients are treated ahead of less critical ones without anyone making much fuss over it.

Behaviour of Employees : Do service staff act in a friendly and polite manner ? A customer is a guest in the service facility and should be treated as such in all circumstances. But friendly and polite demeanor of service professionals is more than adherence to etiquette. Such behaviour add to the value the customer is getting from the service facility. In a hospital when a patient or his family is stressed, the politeness of the staff helps them in coping up with the situation. In a holiday resort the friendly nature of employees adds to the enjoyment of the customers. Behaviour of the service provider is an integral part of the service offering.

Competence : Do service staff have requisite skills and knowledge ? The performance of then primary service will depend on the knowledge and competencies of the service providers. It is important that their professional credentials are prominently displayed for cust0mers to see and feel reassured. It is also important that the service providers are seen as updating their knowledge and skills. Their participation in seminars and courses should be well publicized. In the knowledge economy the competence of service professionals will drive business and service companies would do well to keep the employees abreast with latest knowledge in their respective fields and let their customers know about it.

Communication : Is the service described clearly and accurately ? Inmost cases, a customer travels to the service facility to avail of the service. If the service is not appropriately represented and described in the communications emanating from the company, customers may walk in expecting services that the company would not be able to perform. Such customers vent their disappointments, which can damage the company.

Physical Evidence : How well managed are the tangible aspects of service ? Since most services have high levels of intangible elements, it is important that the company provide physical evidence to customers which will assure them that they will be provided a good service. The address of the doctor and his attendants, the confidence with which they converse among themselves and the patient, the sophisticated look of the operation theatre give assurances to patient as he is being wheeled in the operation room.

These criteria form a useful checklist for service providers wishing to understand how their customers judge them.

Managing Service Productivity

Productivity is a measure of relationship between the various types of inputs that are required to produce the service and the service output. There can be a conflict between improving service productivity and raising service quality. A doctor who reduces consultation time per patient, raises productivity at the risk of lowering service quality. Increase in productivity which results in lowering of service quality will ultimately kill the business, aw customers will eventually desert such a company.

Technology can be used to improve productivit7and service quality simultaneously. ATM increase the number of transactions per period while reducing customer waiting time. Retailers have benefited from electronic point of sales and electronic data interchange. Customer comfort level with the technology should be ascertained and they should be allowed to use both technology based solution and the personnel based solution till they are convinced about the benefits of using the technology based solution and are comfortable using it. Another matter to be ascertained is whether the customer still feels the need for the company personnel I whose place the technology is being applied. Some customers may find the company personnel providing services to them more reassuring. They have to given more time to settle down with the technology based solution.

Customer involvement in production can be increased. The inseparability between production and consumption provides an opportunity to raise both productivity and service quality. Self service i.e. the customer doing a part of the service himself, can be employed as the customer is present at the site where the service is being produced. But the customer should believe that he is being adequately compensated for his lending a helping hand. A hotel that expects its Customers to service their own rooms would need a persuasive communication program to convince customers that the lack of service is being reflected in cheaper rates.

It is important to balance supply and demand. Since services cannot be stored, balancing supply ad demand is a very strong determinant of productivity. Hotels or aircrafts that are less than half full incur low productivity because the fixed costs of their operations is very high, which is incurred irrespective of the number of customers availing of the service. If in the next time period the hotel or airline is faced with excess demand, the unused space in the previous period cannot be used to meet it. Customers have to be turned away. The combined result is low productivity in the first instance and customer dissatisfaction in the other. By smoothing demand or increasing flexibility of supply, both p4oductivity and service quality n be achieved. Smoothing demand can be achieved through differential pricing i.e. the company charges higher prices when demand is expected to be high and lower pries when demand is expected to below. The idea is to shift some demand from the high demand period to low demand period so that there is less variability in demand. If this shift in demand is achieved the utilization of the facility is more even all through the year and less customers have to be turned away. A company can also stimulate off-peak demand by offering special schemes increasing supply flexibility may be achieved by using part time employees multi skilling and encouraging customers to service themselves.

Managing Service Staff

Many services involve a high degree of contact between the service staff and customers. Quality of the service experience is heavily dependent on staff customer interpersonal relationship. Research on customer loyalty in service industry shows that only 14% of customers who stopped patronizing service businesses did so because they were dissatisfied with the quality of what they had bought. More than two thirds stopped buying because they found service staff indifferent or unhelpful. The way in which service personnel treat their customers is fundamental to success in service industry.

In order for service employees to be in the frame of mind to treat their customers well, they need to fell that their company is treating them well, In companies where staff have a high regard for their company's policies and practices, customers have positive opinions of service they receive. Happy staff is more likely to be helpful to customers.

While selecting suitable service professionals, the nature of the job needs to be defined and appropriate personality characteristics needed to perform the job effectively should be outlined. The service professional should have made personal sacrifices for the welfare of others in their earlier personal and professional lives. While most prospective candidates will profess to do anything for customers, it is difficult to contemplate them doing so when they have not done anything significant for their own people in all their past. When a person has not made any sacrifice for a dear one, it is difficult to imagine him doing it for an anonymous customer. While looking for attitudinal and behavioral characteristics of candidates, it is best to probe in their past to find out if they have demonstrated the required characteristics in their earlier jobs.

Socialization allows the newly recruited service professionals to experience the culture and tasks of the organization. The aim is to create a type of individualism whereby the new employee accepts all key behavioral norms of the company but is encouraged to display initiative and innovation in dealing with problems of customers. Service quality is affected by the degree to which staff are empowered or given the authority to satisfy customers and deal with their problems. Each member of the staff of Marriott Hotel is allowed to spend up to 1000 pounds on their own initiative to solve customer problems. The advantage is quicker response time since staff members do not have to consult with their superiors before dealing with a problem but the responsibility of employees is increased. Most employees will pass on the difficult problems to their superiors and expect them to take decisions. It is important that empowered employees are trained and are willing to take greater responsibility for customer problems. The company will have to condone the mistake that the employees will make while solving customer problems independently and innovatively. Service professionals should have the confidence that they will get away with genuine mistakes.

Maintaining a motivated work force, in the face of irate customers and faulty support systems and boredom which accompanies some services, is a demanding task. A key factor in avoiding demotivation is to regularly and carefully monitor the technical support system so that staff members work with efficient equipment and facilities while carrying out their duties.

Customer feedback is essential to maintain high standards of service quality. The results of customer research should be given to employees so that they an relate their performance standards to customer satisfaction. Companies should tie financial incentives of employees to the results of customer satisfaction surveys.

It is very important that employees of service organization take pride in their jobs. Customers are important but employees should jot be crucified to please unreasonable customers. Employees will treat customers with care only when they themselves re treated with respect by the company. The company should also insist that the customers treat the service professionals with respect and as they maintain in Ritz, “We are ladies and gentlemen serving ladies and gentlemen”. And when the customer becomes ungentlemanlike, the service organization should stand by its employees.

POSITIONING SERVICES

Positioning is the process of establishing and keeping a distinctive place in the market for a company and its products. Service firms differentiate themselves from the competition on attributes that their target customers highly value. They develop service concepts that are highly valued. The service concepts are then communicated to target customers so that they accurately perceive the position of the service.

The positioning tasks entails two decisions :

- Choice of target market (where to complete)
- Creation of differential advantage (how to compete)

Creating a differential advantage is based on an understanding of the target cust0omer’s requirements, and serving these requirements better than the competition.

There is always an array of factors called choice criteria, that customers use to judge a service. How well a service firm satisfies these criteria depends on its marketing mix. Asking customers about the most important factors when buying a service may give misleading results. The most important factor when traveling by air may be safety. But this does not mean that customers use safety as a choice criteria when deciding which airline to use. If all major airlines are perceived as being similar in terms of safety, other less important factors like quality of in flight meals and service may be the crucial factors.

The most important decision that the service organization has to make is selecting the factors on which it will complete. An organization should select a few factors and provide superlative performances in the chosen factors. If an organization selects all or most of the factors that are important to customers, it will be able to provide only average performances in all these factors due to constraints of resources. And performances among some factors actually, contradict with each other. For instance, in most cases, personalized services cannot be provided at low prices. The company has to make trade offs. It has to either provide personalized services or offer low prices. It cannot do both. The company has to realize that it cannot do everything for every customer. Southwest airlines decided to provide frequent flights at low cost, but did not offer facilities like in flight meals. A sound positioning strategy is to provide superlative performances on a few factors of the choice criteria and attract customers who value high performances in those factors. A strongly positioned service provider will decide as to what it will not do as clearly and as decisively as it will decide what it will do. Refusing customers whom the service provider cannot serve well is the hallmark of a strongly positioned service provider.

Target Marketing

The basis of target marketing is market segmentation. A market is analyzed to identify groups of potential customers who have similar needs and price sensitivities. The pot4ntial of each of these segments is assessed on such factors as size, growth rate, degree of competition, price sensivity and a fit between its requirements and the company's capabilities. The most attractive markets are often not the biggest as they may have been identified earlier and may have already attracted a high level of competition. There may be pockets of customers who are underserved by companies which are compromising their marketing mix by trying to serve too wide a customer base. The identification of such customers indicates a prime opportunity during segmentation analysis. Target marketing allows service firms to tailor their marketing mix to the specific requirements of small groups of customers more effectively than trying to cater to diverse needs of a large segment.

A firm also needs to consider those potential customers who are not directly targeted but who may find the service attractive. These customers who are at the periphery of the target market are called halo customers, and these customers can make a substantial difference between success and failure. But a c0mpany should not dilute its positioning to cater to these fringe customers because then the offering would be less useful to the maintenance target market which may result in some of them opting for competitors products.

Differential Advantage

Understanding customer needs will be the basis of the design of a new service concept. The new service concept should be different from competitive offerings, be highly valued by target customers and therefore, create a differential advantage. The new service concept will be based on the creative use of marketing mix elements resulting in such benefits as more reliable or faster delivery, greater value, more comfort, et. Marketing research can indicate which choice criteria are more or less valued by customers and how customers rate the service provider’s performance on such criteria.

These are three possible outcomes –

- Underperformance may result from a company performing poorly on highly valued choice criteria.
- Underperformance may be the result of the company not understanding the choice criteria of customers. Overkill arises when service provider excel in matters of little consequence to customers. The company does not understand the choice criteria of customers. The company is well meaning and expends resources, but customers are not pleased. Such a company should focus on researching its customers and redirect efforts and resources on matters which are important to the customers.
- The company may not have the resources and skills to perform the required services, or the company is negligent or overconfident or may simply lack the will to excel. Such a company will not survive in a competitive market. In regulated markets, service providers like telecom operators have been in monopoly situations for long periods and have been providing mediocre services. Customers did not have choice and put up with the providers. But when such markets were deregulated and new competitors came in customers rejected erstwhile monopoly providers and forced them to change their operations.

The provider is correctly focused on its target market when it performs well on criteria which are of value to customers and less well on less valued criteria. Differentiation is achieved in those matters that are of most importance to customers while resources are not wasted improving service quality levels in areas that are unimportant to customers. The provider is able to satisfy its cus0omers and retain their patronage. It earns good profits as resources are not wasted in improving unimportant attributes of the service.

Module – 3 : SERVICES MARKETING MIX

The traditional 4Ps of product, promotion, prices and place remain but three additional variables – people, physical evidence and process are included to produce a 7Ps framework. The need for extension is due to high degree of direct contact between the firm and the customer, the highly visible nature of the service production process and simultaneous production and consumption of services.

The Service

Physical products can be inspected and tried before buying but pure services are intangible. A customer cannot go to a showroom to see a medical operation that he is considering. This means that customers of services suffer higher perceived risk in their decision making process. They do not know whether they have purchased the right service until they have used it and in some cases like medical service and car service, they cannot be sure whether they have received the right service long after they have consumed the service. The three elements of the extended marketing mix – people, physical evidence and processes provide cues about the quality of the service to the customer and are crucial in influencing the customer's perception of service quality.

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Brand name of a service can also influence the perception of a service. It is sad that service providers do not expend necessary resources and efforts in building strong brands. In situations where customers are unsure of the quality of their purchases, strong brands provide an assurance to customers that the company has a history of good quality. Customers sped lot of time, money and effort in ascertaining the likely quality of service they propose to buy and the providers do the same in assuring them customers of high quality of their offering. Both parties would be greatly served if service providers build strong brands. Customers would be less unsure of the quality that they will get. Besides promoting its service, a provider should provide high quality of services consistently so that customers talk about it favorably. A strong service brand is built by a combination of advertising and positive word of mouth. Both are necessary. Positive word of mouth without being supplemented with advertising will create a strong local brand. Customers from distant locations would not be attracted to it. Advertising without being supplemented with positive word of mouth will create awareness but customers will still look for affirmations from customers who have actually used the service.

For some services, trial is possible. Some hot4els invite key decisions makers of social clubs to visit their hotels free of charge to sample the facilities and services. The hotels hope that they will recommend a visit to their members.

Promotion

The intangible elements of service may be difficult to communicate. It may be difficult to represent courtesy, hard work and cust0mer care in an advertisement. The answer is to use tangible cues that will help customers understand and judge the service. A hotel an show the building, swimming pool, friendly staff and happy customers. Testimonials from satisfied customers can be used to communicate service benefits. Personal selling an also be effective in services marketing because of the high perceived risk inherent in many service purchases. A salesperson can explain details of a personal pension plan, can answer questions and provide reassurance.

Because of high perceived risk inherent in buying services, sales people should develop lists of satisfied customers to be used in reference selling. Sales people need to be trained to ask for referrals. Customers should be asked if they know of other people or organizations who might benefit from the service. The customer can then be used as an entry and point of reference when approaching and selling to the new prospect.

Word of mouth is critical to success because of the experimental and experiential nature of services. Talking to people who have visited a resort is more convincing than reading holiday brochures.

Promotion must acknowledge the dominant role of personal influence in the choice process and stimulate word of mouth communication. A company can follow the following approaches.

- A company can persuade satisfied customers to inform others of their satisfaction. The company can identify customers who have been especially pleased with its service and maintain relationships with them by offering them special deals. The customers are subtly asked to recommend the services to people they know. The company can have schemes in which it rewards customers who recommend and introduce others to their service. But such schemes should be played down because prospective customers will be wary of such recommendations if it comes to be widely believed that companies pay for eliciting recommendations. In any case the rewards should just act as triggers. Customers should feel that the service is worth recommending. And not many customers would be willing to stage their reputations for paltry sums i.e. it is unlikely that a customer will recommend an inappropriate service to his friend or relative.

- A company can develop materials that customers can pass on to others. Customers who are extremely satisfied with services of a particular provider recommend the prior to their acquaintances because they genuinely feel that the service provider is good and they feel that they will be helping out their friends by recommending a genuinely good service provide. When a company leaves information material with their most satisfied customers, it becomes convenient for them to pass on information about the service prior to their friends. It is very convenient to send such information through e-mail.

- A company can target leaders in its advertising campaign. Heavy users of a service are good prospects. Corporate clients of repute can also sway opinions in the provider's favor. Celebrities are useful in this context if they are not involved with too many endorsements.

- A service provider encourages potential customers to talk to current customers. Educational institutes find this exercise very useful. Prospective students anyway seek out current students to find facts about the institute. They trust current students to give true information. When current students talk well about the institute, prospective students inclination to join the institute increases. Opportunities have to be created for current and prospective students to meet. But the effectiveness of this exercise is based on the belief of the potential customers that current customers do not have any interest in projecting a false image of the institute. But when such exercises are doctored they lose their credibility.

Communication should also be targeted at employees because of their importance in maintaining and creating service quality Internal communication can define management expectation of staff, reinforce the need to delight their customer and explain the rewards that follow from giving excellent service. External communication that depict service quality also influence internal staff if they include employees and show how they take exceptional care of their customers. Care should be taken not to exaggerate promises in promotional material sine this may build up unachievable expectations among customers. Such exaggerated promises also demotivate employees and makes them cynical as they know that the company is not in a position to live up to its promises. It is very important that the employees like the way their company is projected to the outside world so that they feel proud of being a part of it and strive to live up to the promises made in the advertisements.

Price

Price is a key marketing tool in services. As it is often difficult to evaluate a service before purchase, price may act as a indicator of perceived quality. Companies expect a management consultant to have high fees, otherwise they cannot be good. Price is an important tool in controlling demand. Bars charge higher rates in the evenings when they expect lot of rush. They charge lower price during day time expecting some customers, who otherwise would have visited in the evenings, to visit during day time due to the lower prices. Less number of customers have to be turned away in the evening. Lower pries can also attract new customers who cannot afford or do not want to pay the high prices charged in the evenings. The facility is more evenly utilized throughout the day. Matching demand and supply is critical in services because services cannot be stored. A less utilized facility at some part of the day or year means lost revenue which cannot be compensated. But the price differential has to be significant to be able to shift customers, as enjoyment of some services is closely related to the time at which it is consumed. The experience of watching a movie in a theatre of weekend is very different from watching it on a weekday. People would prefer doing to a hill station in summers than at any other part of the year.

A key segmentation variable with services is price sensitivity. Some customers may be willing to pay a much higher price than others. Time is often used to segment price sensitive and insentive customers. Long distance phone alls are cheaper at some part of the day than others. Some customers may be willing to pay more to get the service early or whenever they want it, it is often debatable if a patient willing to pay more than the normal fees should be allowed access to a doctor before another patient who has been waiting for his turn. But it is slowly being accepted that customers who pay more can have faster access to the service. But the discrimination has to be done in a discreet and subtle manner, especially when both set of customers are in the same place, as it often happens in entertainment parks, where two queues of guests move at different paces toward the swings. The guests who pay more are in the faster moving queue and wait for less time than those who pay less. It is often wise to design facilities and operations in a way that the two sets of customers are not a in sight of each other.

Five techniques are used when setting fee levels :

Offset : A Company charges low fees for the core service but charges higher prices for other add on services. A restaurant may charge low price for food but will charge higher prices for drinks. But after a while customers would know the provider's tactics and customers who are primarily interested in having meals would be visiting but customers who want to enjoy their drinks will look for a place which follows the opposite practice. An entertainment park may charge low price for rides on swings but may charge high price for food.

Inducement : A company charges low fees to attract new customers or to help retain existing customers. Since price is a strong cue for quality in services, low price may make the customers believe that the quality of the service is not good.

Divisionary : A company charges low basis fees on selected services to develop the image of a provider which offers value for money. The services with low prices should be accessed more often by customers. The price of other services should not be very high as customers will then be able to see the price discrepancy between the services. The low priced services give an image of being low priced to the facility but the very high pries of other series will make the customers suspicious about the true nature of the service facility.

Guarantee : The company allows the customers to pay full fee only on achievement of agreed results. Most customers are generous enough to pay for the service that they have already consumed though they may not be fully satisfied with it. They will crib about the deficiencies in the service at the time of paying and will be assuaged with polite words. There is not much loss of revenue due to this clause. But inspite of most customers not availing the "no payment if not satisfied" option, they feel nice having the option and normally trust such providers to provide good service. Providers who give such guarantees make more efforts to provide fault free services and their operations become better. They become more alert.

Predatory : The company charges low prices to undercut competition's fees to remove them from the market. They plan to charge higher fees when competitors quit. But the events following a player's price cut does not normally follow this script. Competitor to reduce their price and a few adventure some among them even undercut the initiator. The result is low profits for every player in the industry.

Place

Distribution channels for services are more direct. There is no storage of services. Production and consumption is simultaneous and direct contact between customer and service provider is essential for most services. Growth for many service companies means opening new facilities in new location, due to simultaneous production and consumption. The evaluation of locations is a critical skill for such services. Expansion often means a multi point strategy because the whole set up for service production and marketing has to replicated. Success of many service providers has been due to their ability to choose profitable new sites and replicating their operations at the new sites.

New technologies permit service companies to provide services without customers coming to their facility. Information and financial services are leading this revolution. A customer can carry out transactions with a bank through ATMs, internet or the phone. Information products can be widely distributed through internet. But there are many other services where contact between the provider and the customer is still essential. But service companies should be looking for an alternative to personal contact with customers for at least a part of the service. Should education be provide solely through teacher student interaction in a classroom or can at least a few of these sessions be substituted by a recorded lecture ? Should a patient visit a doctor each time he feels unwell? Or can he have a monitoring system at his house which an transmit information about his body's functioning to the hospital, from where a doctor will prescribe medicines over the phone? It is not being suggested that all this is possible. But service companies should be experimenting with various alternatives to deliver services Personal contact between a service provider and a customer is costly, cumbersome and full of inter personal complications. If it can be avoided without sacrificing customer satisfaction, it should be.

People

Service quality is inseparable from quality of service providers. The company has to set standards to improve quality of service provided by employees and monitor their performance. Without training and control, employees tend to be variable in their performance leading to variable service quality. Training is crucial so that employees understand the appropriate norms of behaviour. Service providers train their staff to identify and categories different personality types of customers and to modify behavior accordingly. Staff members need to know how much discretion they have to talk informally to customers ad control their own behaviour so that they are not intrusive, noisy or immature. They need to adopt a customer first attitude rather than putting their own convenience and enjoyment before that of their customers.

Employees of service organizations have to be adopt in multiple roles. They have to be good in their primary task and they have to be good in interpersonal skills. They also should have empathy to judge the service requirement and mood of the customer and modify their service and behaviour accordingly. A service professional has to have the combined skills of an operations man, a marketers, and a human resource manager. It is not easy to find employees with such diverse skills.

The company has to examine the role played by customers in service environment and seek to eliminate harmful interactions. The enjoyment of a restaurant meal or air travel will depend upon actions of other customers as well. The service facility's marketing mix should be such that it attracts customers desiring similar benefits from the provider. The target market has to be very homogenous and the positioning very precise.

Physical Evidence

Physical evidence is about the environment in which the service is delivered and it includes any tangible goods that facilitate the performance and communication of the service. Customers look for clues to have an idea about the likely quality of a service by inspecting the tangible evidence. Prospective customers may gauge through a restaurant window to check the appearance of the waiters, the décor and the furnishings. The layout of a service operation can be a compromise between operational need for efficiency and marketing desire for effectively serving the customer.

Customers do not know what is in store for them when they decide to consume a service as they cannot examine it before using it. The whole facility is important to the customer as a source for cues by which he will try to gauge the quality of the service he is going to consume. Service providers should research the concerns of the customer regarding the service and also find out the cues that the customer will be searching to get an ideas of that part of the service which is of concern to him. The service provider should strengthen those cues.

Process

These are the procedures, mechanisms and flow of activities by which a service is delivered to customers. Self service cafeteria is very different from a restaurant. The company needs to research the requirements of its customers and set its processes accordingly so that the required service is delivered. Since requirements of customers vary widely processes cannot be standardized But if a process is allowed too much flexibility, the efficiency of the facility goes down. Therefore customer requirements should not be allowed to vary widely. Through targeting the smaller segment of customers, variations in their requirements can be controlled.

The process is important because in some services they are visible to customers. Sometimes the effectiveness of a process can be compromised in the effort to make it look good to the customer. Some patients feel good when they are extensively examined by the door through it may not be necessary. Some processes in personal grooming and hair are saloons are not really required but service professionals have to carry them out because customers have come to expect them. Classroom lectures are largely ineffective but students will feel that they have-not been taught t all if such lectures are not held. The idea is that customers have to be educated about the need or irrelevance of certain professes. A process should be employed only when it is required to provide a service and not because customers have come to expect it.

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10

RURAL MARKETING

Module – 1 : Meaning, Current Indian Rural Market Scenario

A van rolls out from a district headquarter and parks itself in a rural area. A few men on motorcycles go out to the nearby villages informing men, women and children about entertainment in the evening and as the sum sets, people from all these villagers assemble near the van and sit down. A screen rolls out and about 3000 people watch their favourite film, songs and dances interspersed by advertisements of leading consumer product watch their favourite film, songs and dances interspersed by advertisements of leading consumer product companies. It's a captive audience for the advertiser and the message goes straight to the target audience. The next day the van rolls on its journey to other areas. This is "Video on Wheels" ushering in a social change and creating new patters of consumption throughout rural India.

Rural markets are gaining importance in the marketing planning exercise of all leading consumer and social marketers. This is not just because 70% of India's population still lives in rural areas, but because of the seeping changes that are occurring here. Let's examine the reasons for the growing interest of the marketers in the rural markets.

IMPORTANCE OF RURAL MARKETS

Increasing Competition in Urban Markets

Urban markets are incres1asingly becoming competitive and in many products, perhaps, even getting saturated. Consider the case of toiletries, packaged tea, dry cell batteries and even electronics like entertainment products. For most of them, the demand seems to have reached a saturation level. All that one sees is brand switching behaviour. No new demand seems to be coming in. In such a situation, one of the growth strategies is to find new markets for the existing products. Rural markets are the new markets which are opening up for most of these packed goods. Companies that have expanded in these areas find that they are able to ward off competition, generate a new demand and in turn increase their sales or profits. Companies like Hindustan Levers, Lipton Brooke Bond, Union Carbide (Eveready batteries), Geoffrey Manners (Anacin) and Colgate Palmolive long realized the potential that existed for their products in these areas and had gone out to penetrate these markets. They expanded their distribution net work and even employed cycle salesmen, who would go out in these areas and motivate rural consumes to use the product. Today, many more firms are reaching out to these markets. Products being promoted range from television, two in ones, to toiletries, packaged goods financial instruments and even social products like condoms.

Rural markets today offer growth oppor5unities to firms caught up in an intensive inter firm rivalry in urban and metro markets.

Socio-economic Changes in Rural India

The sudden lure of rural India can be attributed to the soil economic changes sweeping rural areas today. These changes an be linked to an increase in productivity in the farm sector. Following agricultural revolution green or white the yield pre acre or animal increased substantially. This was largely due to the application of technology to the farm sector and using modern farming methods. Formation of cooperatives in western and southern India also helped the farmer increase farm productivity.

The increased productivity now meant more income in the hands of the farmer who now wanted to buy the same products as his/her urban counterpart did. The rural electrification programme also brought anew hope in these areas and so did the irrigation ad rural development programmes.

The process of income generation and creating hope for better standards of living was also accelerated by companies and banks adopting villages for an integrated rural development. So, while fertilizer companies interest in adopting villages lay in increasing consumption of their products, companies like TISCO, TELCO and ITC made it a part 0f their social commitments. The Integrated Rural Development Programme has education, health modern farming practices land development and cooperative marketing of produce as its pillars. Development of village industry and craft is also another component of this programme.

All these changes meant more income, higher aspirations and changing life styles in rural India. And these changes cut across caste or religious barriers.

The social change has also been fueled by the reach of television and radio in these areas. We know that today the radio programmes reach almost 95% of the Indian population and the reach of television programmes is now as high as 85%. Television and satellite communication has created the maximum change in rural areas something which was hitherto unheard of in these areas. So today, the Zee T.V programmes beamed through STAR T.V's satellite are received by the community's dish antenna and rural consumer watch them on the community T.V. set. They also watch Dooradarshan programmes and perhaps also knows what's happening in the world. To add to this change is the video culture which has come to stay in the rural areas. Today, it is not surprising to come across a thatched but or a small one room converted into a video theatre. The owner of this theatre brings the latest film cassette from the neighbouring town and runs on the video at fixed hours to a group of rural folks who see this as a new form of entertainment and information.

Another major technology that has influenced socio economic change in rural India is the Gobar Gas Project. This is a project which recycles all the waste in the village including human or animal excreta into a fuel which is piped into the houses to be used as cooking gas, to light the village streets and provide power to the crushers and village industries. This project has changed the quality of life for the people of an average village. For example, the rural woman does not have to spend several hours finding fuel and then lighting her the place to cook the food for the family. Today, she has more time to hell her husband and also to look after children. She has more leisure time.

All these socio economic changes, largely fueled by technology, government policies corporate strategies and satellite communication mean more demand for consumer goods.

Higher awareness of brand names in these products as also that of financial instrument and social products mean a better pull for these products in the rural markets.

Size of the Rural Market

The magnitude of the rural market can be gauged by Tables 24.1 to 24.5. As one will observe, the rural market today is not just for products like fertilizers and pesticides but offers significant opportunities for all consumer goods. The most interesting aspect is that the rural market is growing at an astounding rate of 25% per annum. It is this opportunity that all marketers now want to grab.

To penetrate the rural markets, the marketer needs to know the rural customers characteristics and the marketing mix. Let us first understand the rural buyer's behaviour.

Size of the Rural Market

Packaged consumer Products	More than rs.2000 Crores
Market for Non-Food Items.	Rs.20,000 Crores – Growing at 2.5% P.A.)
Consumption of Pesticides	68,000 Tonnes-Growing at 10% P.A.
Consumption of Fertiliser	9 Million Tonnes-Growing at 10% P.A
Tractors	100,000 Nos per year-Growing at 15% P.A.
Pumps and tube Well	At 11% P.A

Rural Consumption

	Toiletries	Rural Share %
1.	Safety Bazar Blade	48
2.	Popular Soaps	48
3.	Premium Soaps	24
4.	Tooth Powder	23
5.	Tooth Paste	20
6.	Hair Oil	20
7.	Talcum Powder	17
8.	Prickly Heat Powder	16
9.	Shampoos	6
10.	Shaving Cream	5
11.	Hair Removers	5
12.	Twin Blades	2

Rural Consumption

	OTC Products	Rural Share (%)
1.	Medicated Dress	25
2.	Cold Analgesic	42
3.	Rubefacients	35
4.	Antiseptic Creams	28
5.	Digestives	26
6.	Cough Lozenges	21
7.	Antiseptic Liquids	19
8.	Chavanprash	17

	Miscellaneous	Rural Share (%)
1.	Batteries	52
2.	Torches	30
3.	Mosquito Repellants	7
4.	Sanitary Napkins	3

Top Five Consumer Products in rural Market and their Offtake (1989)

Popular toilet soaps	408
Washing Soap Cakes/Bars	311
Detergents	239
Packaged Tea	214
Washing Powders	206

Distribution Index
Top Ten Products in Terms of Distribution Coverage

Popular Soaps	100
Safety Razor Blades	97
Detergent Cakes/Bars	91
Soap Cakes/Bars	89
Washing Powders/Liquids	83
Blues	64
Batteries	60
Packaged Tea	57
Cold Analgesic Tables	48
Premium Soaps	47

Rural Customer

The rural customer shows distinctive characteristics which makes him/her different from urban buyers.

- **Education Profile**

The rural consumer is illiterate and at best has much lesser education than his/her urban counterpart. Generally, the maximum education that one sees among rural areas is till primary school or high school level. Though rural literacy programmes have made significant headway, we are still confronted with a customer who is illiterate. This comes in the way of the marketer using print media and handbills to promote the product. Visual displays and phonetics become important in promoting the product in the rural areas. Demonstration on product usage and even on how to use it becomes integral to the marketer's promotion strategy. The sales person of a leading consumer product firm, Bajaj Electricals, once told how he could get his company's diesel pump sets accepted in one of the rural areas. Recalling his experience he mentioned that people in this rural area did not believe him and neither the product. Being an agricultural science graduate, he used another track to sell the product. This time he asked the headman of the village as to how did the farmers in the village protect their crop from pests or insect. He was told that they used old method of Kerosene but obviously they suffered significant loss. The sales person educated them and demonstrated them on the benefits of pesticides and insecticides. This established his credibility ad helped him sell the product. Demonstration is often important in these markets.

- **Low Income Levels**

Though rural incomes have grown manifold in the last one decade, still an average rural consumer has a much lower income than his/her urban counterpart. Still a large part of this income goes to provide the basic necessities, leaving smaller income to be spent on other consumer goods. This makes the rural consumer much more price sensitive than the urban consumer. The rural demand is for low priced products. Marketers have evolved various strategies to lower their final prices. One such strategy is designing special products as reflected by Hindustan Levers strategy of developing Sunlight detergent power and the other is even reducing, the size of the product. Consider the example of toilet soaps where companies have reduced the size of the soap cake to make it affordable by the customer.

Another aspect of this low income is that an average rural customer buys a single unit of the product and not in bulk. One of the market researchers mentioned that an average customer goes to the rural pharmacy or grocery shop in the morning, gives 25 paise to get one spoon of cough syrup and again in the evening repeats 9t. the process goes on till he gets cured. He can't buy the full bottle of cough syrup that may be priced around Rs.5 as he can't afford it. But he can afford 50 paise daily. This has implication for the market in the packaging area.

- **Occupation**

Typically, in a rural area one finds that the principal occupation is farming, trading, crafts, and other odd jobs like plumbing, electric works, etc. One also finds primary health workers and teachers in the rural areas. Since farming, animal husbandry and poultry farming are the principal occupations we find that even here we have different types of farmers. The basis for differentiation is obviously their size and ownership of land. We have big and small farmers and also the farm workers. Though each of them is associated with farming occupation, their consumption patterns differ mainly because of their income levels. For example, a large or a big farmer will have almost everything that an urban consumer ill have – T.V. refrigerator, gas stove, furniture and other home appliances and will be a user of all branded packaged goods. He is an affluent farmer and represents the highest end of the rural income continuum.

- **Reference Groups**

Typically, in a rural area the reference groups are the primary health workers, doctors, teachers and the panchayat members. One may even observe that the village trader or the grocery shop owner, commonly called the “baniya” or the “mahajan”, may also be an important influencer in the rural customer’s decision making. This is because the trader extends credit to the farmers. Today, another person is also considered as a change agent and that is the rural bank’s officer or manager. A marketer needs to be aware of these influencers who can effect a change in the rural customer’s consumption patterns.

- **Media Habits**

A rural customer is fond of music and folklore. In a state like Maharashtra the rural theater called “Tamasha” has held sway with the people. Rural folks listen to the brave deeds of their hero Shivaji and several other known and unknown heroes. Likewise, the rural Uttar Pradesh is entertained by “Nautanki” in which the artists are a part of the audience. Today, television and radio are important forms of media which hold the attention of rural folks. So is the video.

As we mentioned earlier because of a low education level, print media does not have that much of an impact as the audio and the audio visual media does.

Marketing Mix for the rural Markets

We now turn to the marketing mix for the rural markets. At the outset w4e should note that the market will need to adopt his/her marketing mix to suit the rural conditions and the maximum adaptation will have to be in the distribution and media mix.

- **Product decisions**

The product for the rural markets will have to be simpler, easy to use and services or maintained. Consider the example of tractors. One of the reasons of Eicher’s success in the tractor market has been the ease with which it can be serviced and maintained in the rural areas itself. This has been different from Escorts which marketed Fergusson brand of tractors more complicated and difficult to be services or maintained by the rural mechanics. A Fergusson tractor owner had to all a mechanic from the nearby city to service it. Though as a product in terms of technology it is claimed to be better than Eicher’s but since the latter is easy to use, service and maintain it has been more successful.

The product literature has to be simple enough for the rural customer to understand ad as far as possible have illustrations of do's and don'ts. This will help in faster diffusion of the product in the rural society.

Further the product should be dispensable in single nits. For example, a typical rural buyer buys one unit of match box unlike an urban consumer who may buy a full pack of tens or twelve match boxes. Likewise, a rural smoker may either buy a packet of bidi or just a single cigarette stick.

Product packaging needs to be functional and capable of dispensing smaller units of the product. Sachet packaging is one alternative which has been successfully used by tea, shampoo, toothpaste, pan masala and even tomato ketch up manufacturers to penetrate rural markets. Today one finds that a typical rural kiosk stores sachets and smaller sized products of well known brands like colgate tooth paste, Lifebuoy Lux, Liril, Cinthol Toilet soaps, Parachute Coconut hair oil Pan Parag, Sunsilk shampoo et. A typical Kiosk which earlier sold only cigarettes, bidis and pan is a mini departmental stores today, serving daily needs of consumers in the rural areas.

Brand identity in rural markets is often created through the visual logo of the product or the colour of the product or the taste of the product. For example, in one of our rural market surveys, the buyer of thumps Up recognized it through its logo and mentioned it as sweet black water that came in a bottle. The generic name was "Soda water". But he didn't want just any aerated soda but the thumps Up that had a fizz in it and hence he called it "Soda water". The role of the log and visual brand is important in the rural markets.

- **Pricing Decision**

As we mentioned earlier, the rural consumer is price sensitive mainly because of his/her relatively lower income levels than the urban consumers. The market will have to examine methods by which they can make the product more affordable by the rural consumer. In the case of consumer durables, one way is to work through rural hanks and offer hire purchase terms to the customer. Tractors pump sets and even televisions have been marketed through this approach.

Another way is to offer smaller unit size, at a lower price. Toiletries are marketed in rural areas in smaller unit size thus making these products more affordable than their larger sizes. Thus, while in the urban stores Lux toilet soap will be available in 25 gm. or even bigger sizes in the rural markets the same brand is available in 5 or 10 gm sizes at almost half the price. A firm may even consider buying the product from smaller firms and marketing it in the rural markets. This strategy can help a large firm pass on the benefits of lower costs of a small firm to the customer in the form of lower prices.

Finally, the market has to understand that the rural markets are far more utilitarian and price conscious and hence fantasy alone may not be enough to penetrate the market.

- **Promotion Decisions**

While no significant change in the advertising copy may be required, it is important to note that well-known film stars and common people next door neighbour are able to successfully communicate the message. Jingles, folklore and music can combine to make a message and the brand name memorable. Visual copy has a much greater appeal than just the audio or the print. In terms of the media, television, radio, wall paintings, and even roof paintings have been found to be effective. So have been the bus panels and hoardings. Wall hanging and other point of purchase material like stickers and shelf display are effective in getting the market's message through to rural consumer.

Rural sports like Kabaddi, Kho-Kho, bullock cart race, rural fairs and haats have a special place in the rural consumer's life. Firms like Bajaj Electricals, Hindustan Levers, Parle ITC etc. have successfully used them to promote their brands. Gujarat Bottling, a Parle's franchise in Ahmedabad, sponsors rural Navratri Shows in October through a breathtaking display of the company's brands of soft drinks.

Personal selling is also imp9rtant here. But it does not have to be through a flashy, flambouyant and aggressive salesperson. Research shows theta simple but subtle salesman can deliver better results here. Hence many Companies use local young boys and girls to sell the product.

- **Distribution**

Distribution is the key to penetrating rural markets. It is here that the firm has to deploy a mobile distribution strategy. The firm may either have its own fleet of vans or hire the services of a distributor having his own fleet of vans. This is crucial because, today, a firm an no loner afford to wait for the rural buyer to come to the city to buy his/her requirements. Competition is driving firms to reach out to the buyer. And since no single village an consume the entire van load of products the firm an derive economies by covering several villages in a single van cycle.

Another key to effective distribution is the weekly rural market or also called the rural haat. It's important that the firms products are available here either through small petty traders or through its van.

The firm should also link the village grocer with the nearest wholesale distributor so that the market is not starved at any given time.

Module – 2 : Case Study

Samsung India Electronics Ltd.

Samsung Electronic for penetrating the Indian rural markets has used the following strategy.

Product : Samsung will introduce a low ed, basic, CTV developed especially for the rural market. Samsung has introduced its 14" CTV for the rural and semi urban areas.

Place : Samsung plans to fortify its distribution. The rural areas will bear services buy distributors based in district headquarters with support from Company appointed sales staff. Distributors will use multibrand retailers to increase product penetration. Samsung electronics has penetrated lass II towns (population size between 50,000 – 99,000) and will reach lass III town (20,000 – 49,999) next year.

Price: Samsung has launched two economic models in the 20^{th} models range with price tags of Rs. 13,500 and Rs. 14900. it will soon be introducing 14^{th} models priced below Rs. 10,000. Samsung also decided to join the exchange schemes.

Promotion: Samsung plans to go in for regional language wall paintings, participate in local fairs and mobile vans. It will also do minimal amount of local newspaper advertising. Bus shelter will also be used.

Questions:

1) What other promotional tools should Samsung undertake to attract rural consumer.

2) What other products other than color T.V. should be introduced from Samsung?

3) Draw a profile of the target segment of the CTV's in the rural market. Do you think that these people have the purchasing power to buy an expensive CTV set.

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