UNIT 8 FUNDAMENTALS OF MARKETING, UNDERSTANDING CONSUMERS, MARKET SURVEY, SALE FORECASTING AND ASSESSMENT

Structure

1.0 OBJECTIVES

After studying this unit, we should be able to:

- Define marketing, marketing mix, and STP;
- Identify different marketing strategies, goal formulation;
- Describe the consumer buying process;
- Explain product pricing, pricing options and strategies;
- Describe the promotion process;
- Explain distribution channel management;
- Designing and using market research effectively; and
- Define ways of measuring customer satisfaction.

1.1 INTRODUCTION

Marketing is a process of identifying human needs and fulfilling those needs. According to Philip Kotler, marketing is "meeting needs profitably". Marketing involves creation, promotion, and delivery of goods to consumers. Now a day's companies do strategic planning before starting the production.

Marketing concept involves identifying customer's requirement, targeting a segment to serve the customer need and plan to meet the requirement. Companies should use the marketing concepts to meet the customer needs profitably.

For a business to run successfully, it is important to get market information. The information is required to analyze the market, find out the needs and requirements of the market and depending on the company's capability target a particular market segment. In this unit, we will learn various aspects of marketing.

1.2 MARKETING - A PERSPECTIVE

Marketing consists of many concepts and tools. Mainly, we can consider marketing as a societal process and a managerial process.

Marketing is a societal process, which fulfills the customer's requirement through creating, presenting, and exchanging products/services with others. Marketing is a managerial process planned by the organization to meet the customer needs and organizations goals through conceptualisation, pricing, promotion, and distribution of goods/ services and ideas.

i. Marketing Vs. Sales

Normally people think marketing is selling the product. However, Selling comes after marketing. Marketing is to find and convince the customer for buying the product. Selling means getting the deal signed by the customer (or closing the deal).

Both are equally important for the success and growth of a business. Marketing prepares the customers for the sales. It mainly consists of advertising, promotion, and direct mail.

Marketing function involves:

- Identifying the prospective customers
- Market research and analysis - identifying the customer's requirement and desire
- Product identification- offering the desired product that fits into the customer's requirement.
- Strategic planning to penetrate the market
- Packaging and Pricing - providing benefits and satisfaction to the customer.
- Advertising the product

The Sales process involves converting the prospects into the customers. The Sales function includes:

- Selling the identified, packaged, and priced product in the marketplace.
- Being responsible for the revenue generation and profits

ii. Marketing Mix - 4Ps

To get the desired response from the market, marketers use several tools known as marketing mix. McCarthy divided these tools into four groups called as 4Ps of marketing: Product, Price, Place, and Promotion. Marketing variables of each P are shown in Figure 1.1.

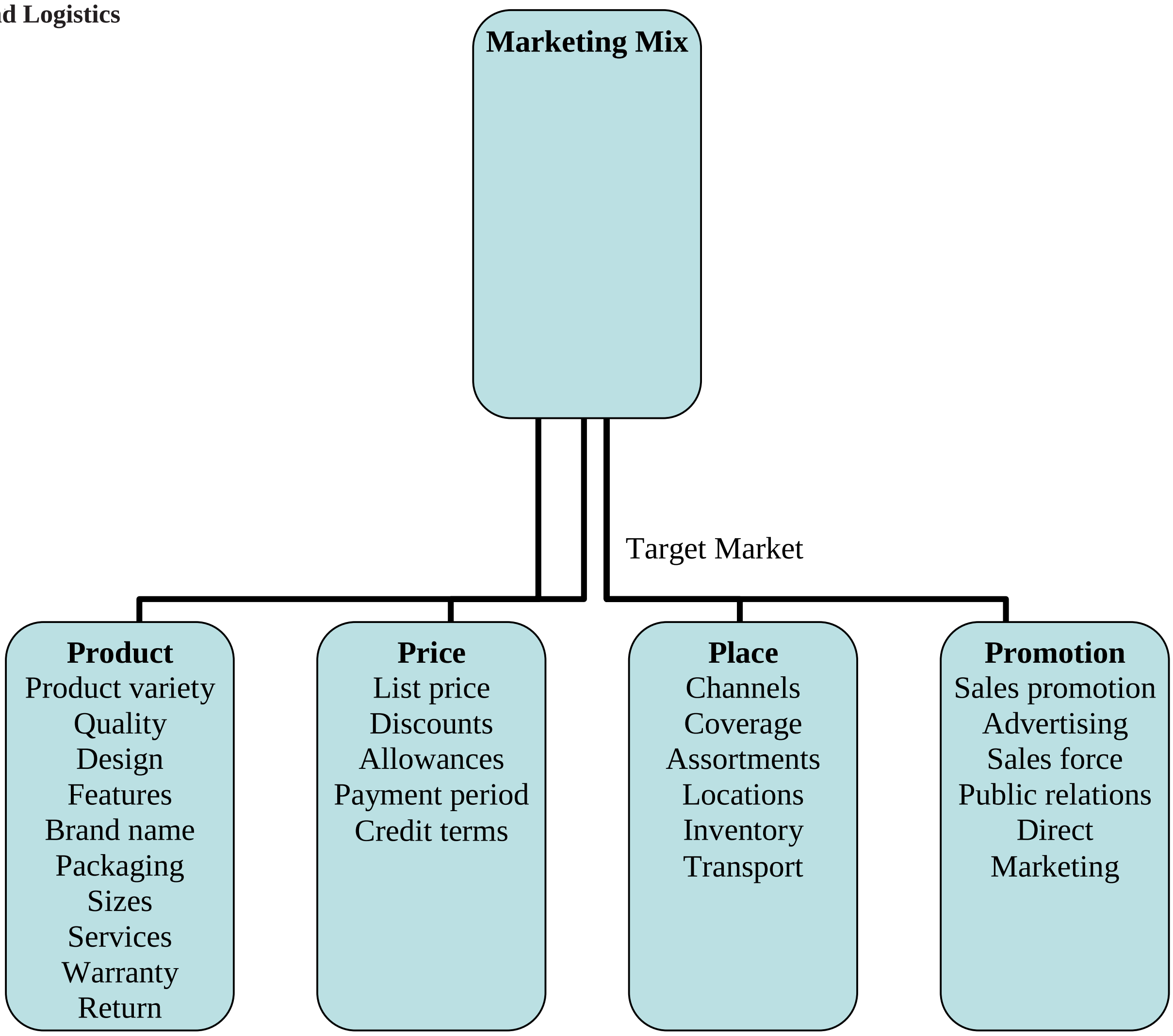

Figure 1.1 : Variables Under Each P of Marketing Mix
(Adapted from Philip Kotler)

A brief description of 4Ps is-:

a. **Product:** According to product concept, the consumer prefers products that give the most in terms of quality, performance, and modern features.

b. **Price:** Price element generates revenue. In small companies, the company's boss can set price of a product but in large companies, separate department handles the pricing. It is the most critical element for any company. To set the price, company has to decide wholesale and retail prices, discount credit terms, and allowances.

c. **Place:** Once the production is over, the next step is the movement of the product. Place consists of distribution channel, outlet locations, transportation, inventory levels and locations where the product would sell.

d. **Promotion:** Promotion includes the activities like marketing campaigns, sales schemes, print ads etc. that are required by the company to promote and communicate the features and utility of the product to the target market.

iii. Segmentation, Targeting and Positioning (STP)

Any business should generate a profit while giving value to the market. The value to the market is a function of perceived value by the consumer of the product. One of the mantras of marketing is to identify customers with different state of same need and provide products suiting those variations in need. If done effectively, it would ensure that consumer sees value in the product and the business would generate profit. This process is called Segmentation, Targeting, and Positioning.

There are two types of marketing processes:

1. Mass Marketing: It is a process, which presumes that there is one market and one product would suit the requirement of all the customers. This strategy works for those companies where all the customers have the same need. For example, marketing for liquid milk.

2. The Value-delivery process: In this process a company follows a three step marketing strategy :

a. Segmentation: Segmentation is a process in which the company divides the marketplace into subsets of same consumer needs.

As a milk producer, a dairy unit may segment the consumers into various segments like:

i. Children:

- Infants who may need milk in powder form with different health supplements
- Grown up infants and kids who may need milk with high fat content

ii. Health Conscious Adults

- Adults who may need low fat content in milk
- Adults who may not like milk flavor and may want milk in other flavors like banana; elaichi etc

iii. Travelers

- This segment may want milk to be packaged such that its shelf life increases and it can be used over few days

b. Targeting: It is the process of reviewing the market and selecting the appropriate target segment. Suppose after review it comes out that there are three different segments exist e.g. one segment wants very low fat milk, the second wants milk that has moderate level of fat, and the third wants to have milk with very high fat content for their consumption. Then, there must be three different product lines that would cater to each segment. The product lines can be double toned milk, toned milk, and the full cream milk. Now, each product would target each customer segment individually.

However, identifying separate segments does not necessarily mean catering to all segments. You may have to review your capability, analyze the viability of serving each segment and finally arrive at the target segment. This target segment would be the most suitable for your business with respect to several factors like growth prospects, competitors, pricing, market demand etc. A large dairy company like Amul, has capability to produce for each segment and can target each segment.

For example, it provides powder milk brand for infants; pouched milk; flavored milk and tetra pack milk with long shelf life. However, for a small regional player like "Parag", marketing it may not be possible to have so many offerings for the various segments in the market. Hence, they target the segment that consumes liquid milk only as the company may not have the capability to produce milk powder etc.

c. **Positioning:** It involves defining product attributes and then highlighting them during marketing or promotional . campaigns to generate interest and sales volumes for the business. Defining clear positioning by highlighting certain product attributes helps differentiate a product in the marketplace.

Let us take example of ice cream. When Amul launched its ice - cream some years ago in India there were many challenges e.g. establishing manufacturing facilities, distribution, establishing cold chain, and then marketing. The biggest of them was how to position its ice - cream in the market place vis-à-vis its competitors, which were big established names in the ice - cream industry like Quality Walls, Vadilal and Go Cool. Amul positioned its ice - cream as "Real Milk, Real Ice - Cream" against competitors who were using vegetable fats in their ice - creams. This positioning strategy helped Amul gain very big market share in no time across India.

Your answer should include the following points:

Check Your Progress - 1

1. Name the marketing tools and describe them.

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2. The three step process of market segmentation is:

   a. Segmentation, Marketing, and Positioning

   b. Targeting, Segmentation, and Positioning

   c. Segmentation, Targeting, and Positioning

   d. Targeting, Positioning, and Segmentation

8.3 MAPPING OUT MARKETING STRATEGY AND DEVELOPING A MARKET PLAN

Marketing strategy is a function of market context, competitive landscape, your own capabilities, and your objectives for the business. In this topic, we will see how does competition shapes our marketing strategies. An effective way to formulate a marketing plan would be to conduct a consumer analysis. This analysis consists of:

- Identifying the major product features that the consumer likes
- Prioritizing these features in terms of importance for the consumer
- Rating your and competitor's capability to deliver on important features
- Assessing your and competitor's performance on each of these features

When Amul had launched ice cream, the market leader was HLL with its Quality - Walls brand and there were other regional players like Dollops, Go Cool and Vadilal. All these ice creams were expensive and offered limited choice to the consumer. Amul launched the ice creams in variety of flavors at far lower price to make it affordable to masses; invested in cold chain and gained a significant market share to become the undisputed market leader.

i. Strategies

Companies in a market may have to follow various competitive strategies. These strategies are a function of relative leadership position of the respective market player.

a. Defensive Strategy

A market leader - a company having largest market share- has to be always attentive to protect its leadership position. It may have to continuously produce innovative products, keep the price competitive, and ensure that its profitability is not hurt. A market leader has to adopt three steps method to retain its number one position:

i) **Expand the Market:** You can do it in two ways by -

a) Finding new users of the product - Amul entered into many new potential markets and at the same time reduced prices to motivate and get new consumers. It launched the family pack for ice creams. This ensured that it found new users in form of family members, party caterers. It also ensured the increased usage.

b) Promoting more use of the product i.e. increasing per capita consumption - Amul did it by reducing per unit price of the product to make it affordable. This resulted in increase in consumption. Where earlier a person used to have ice - cream once a week increased his consumption to twice or may be thrice a week.

ii) **Protect Market Share:** For a dominant market player first thing to do, when competition increases, is to protect its market share. Subsequently, it needs to device ways to consolidate its market position. E.g., Kwality Walls has been trying to eat into Amul's share. To prevent any erosion of market share, Amul keeps running new marketing campaigns and many sales promotion schemes like buy 1 get one free.

iii) **Increase Market Share:** Amul has been investing heavily in building cold chain environment at the retailer level by providing them cool refrigerators to store ice creams and has started opening exclusive outlets selling only Amul products. It helps in increasing awareness, availability of the product, and channel loyalty that in turn results into increased market share.

b. Attack strategy: The companies who occupy second, third, and lower position in a market are called challengers. The challengers adopt different attack strategies.

i) General Attack Strategy: The challenger attacks the leader by matching its product, price, reach, positioning etc. In this strategy, the challenger must have enough financial capabilities to withstand any retaliation from the leader and it must attack the leader on different fronts - better product, better price, enhanced features, greater margin to distribution channel etc. Amul was the market leader in Mumbai market for liquid milk. Mother Dairy lunched a frontal attack on Amul by launching a blitz of brand awareness campaign, better discount to distribution channel, better packaging, and ensuring a reach equal to that of Amul. In some time, Mother Dairy has gained respectable market share in Mumbai market.

ii) Guerilla Strategy: This approach consists of engaging in intermittent attack on the leader to confuse him and use the opportunity to make its foothold strong. According to military strategists, a continuous guerrilla attack is more powerful in creating a permanent impact in competitor organization than a few large attacks. A challenger typically uses guerrilla warfare strategy to attack weak markets of the competitor.

a. Flanking: In this approach, the challenger attacks the weakest spot of the leader in terms of any uncovered geographic market or market segment. The leader is caught unaware in such a situation and it provides the challenger a good opportunity to make its foothold strong. This approach is also used when the marketer spots a shift in the needs of the consumer segment. This shift can be used to reposition the product and gain market share.

b. Niche: Niche refers to a small unique market segment. A company, which is into third or a lower position, may decide to leave the conventional market segment and instead focus on a small market and gain a leadership position there. Niching requires the nicher to clearly identify the market segment that it wants to serve and develop new specialized products for that segment, keep costs low and develop low cost channels to service customers of that segment. In essence, niching is all about specializations. Some of the possible specializations possible are as follows:

- Specific customer segment: A milk company may only want to focus on party caterers with bulk supplies.
- Geographic specialist
- Channel specialist - Like Baskin Robbins sells its ice - cream only through company owned or franchisee parlors.

ii. Strategic Planning Pyramid

Strategic planning shapes your business to gain higher profits and growth. According to Kotler, "Strategic planning calls for action in three areas: The first is managing a company's businesses (Product) as an investment portfolio. The second key area involves assessing each business's (Product) strength by considering the market's growth rate and the company's position and fit in that market. The third key area is strategy.

For each of your businesses or products, you must develop a game plan for achieving its long-run objectives. You must determine what makes the most sense in the light of its industry position, objectives, opportunities, skills, and resources with respect to each product.

Figure 8.2 : Strategic Planning Pyramid

iii. SMART Goals

One of the outcomes of a good marketing strategy should be to spell out goals of that strategy. These should be SMART goals. Each alphabet of the word stands for a word:

(S) Specific - A specific goal should answer six "W"s

- Who
- What
- Where
- When

- Which
- Why

(M) Measurable: The goal should clearly state the expected outcome and how will it be measured.

(A) Achievable: The goal should be a stretch one and yet achievable. Setting unachievable goals have the danger of the developing a defeated feeling and not working towards it.

(R) Realistic: The goal should emerge because of your analysis of your strengths, weaknesses and market opportunity and not just based on dreaming.

(T) Time: The goal should clearly state the timelines for achieving each of the sub goals and the overall goal of your business.

iv. SWOT Analysis

SWOT analysis is one of the widely used tools for analyzing the business opportunities and the company's preparedness to capture them. Under this framework, you need to analyze external environment in terms of opportunities and threats to various businesses, product lines and internal environment in terms of organizational strengths and weaknesses. Let us take example of a new dairy unit at village level, which engages in SWOT analysis.

Internal analysis: There are three parameters, which are anlaysed and assessed.

	STRENGTH	NEUTRAL	WEAKNESS
Procurement			
Finance			
Logistics			

Parameter	Strength	Neutral	Weakness
Procurement	YES	NO	NO
Finance	NO	NO	YES
Logistics	NO	YES	NO

As per this analysis, the village unit decides that procurement and farmer relationship is its key strength while it is neutral on logistical support and weak on financial capability. This analysis suggests that the dairy unit should keep working to make its procurement strength stronger and leverage it by allying with some other unit, which requires procurement capability.

External Environment Analysis:

In this framework, the dairy unit analyzes the external business environment for possible business opportunities and threats. The dairy unit may take up each business possibility and subject it to this analysis to decide the worthwhile ideas. For example, it may analyze the possibility of entering loose milk and milk products market.

Opportunities in Loose Milk

- Low cost of transportation, therefore pricing could be competitive
- Freshness can be offered because procurement is your strength
- Both cow and buffalo milk could be marketed
- Consistent supply as the procurement centre is closer to market

Threats

- The competitor may lower the prices significantly
- The competitor may package the milk in a more hygienic packaging
- The Govt. may announce high packaging standards

Check Your Progress - 2

1) Write down the steps involved in consumer analysis process.

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2) A challenger attacks the weakest spot of the leader. What strategy is it called? Explain.

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8.4 MANAGING PRODUCT LIFE CYCLE - THE BUYING PROCESS

The buying process starts with a need or desire. Large companies ask consumers about their buying decision process. Companies do market survey and ask few questions from the customer for example:

- How do they get to know about the product?
- What made them decide to buy a product of a particular brand?
- How satisfied they are with the product performance?

A typical buying process consists of the following five stages:

1. Need Recognition
2. Information Search
3. Evaluation of alternatives
4. Purchase Decision
5. Post purchase behavior

It is not necessary that one-step should always come after the other step. A customer may skip one or two steps and can directly take the purchase decision. Now let us discuss the above five buying process stages one by one.

i. **Need Recognition:** Any buying process starts with a need. Generally, a need arises either due to internal stimuli or due to external stimuli. Suppose, you want to cook food and vegetables are not there. There is a need of buying vegetables; this is an example of internal stimuli. An external stimulus shows the desire. If you are going through a garment, shop and you like a shirt that is an external stimuli or desire to buy that shirt. Marketers need to find out the factors that triggers the need.

ii. **Information Search:** Once the need is identified, the next step is to search the information about the desired product. The customer can get the information from the following sources :

- Friends, relatives, neighbors, acquaintances
- Media, advertising
- Experienced customers

You should make a strategy such that customer should become aware of the company's product, he/she should shortlist the product, and should be the strong contender to buy the product.

iii. **Evaluation of Alternatives:** After information searching, a customer evaluates the alternatives. Basically a customer evaluates the alternatives by checking:

- The features and attributes of the product
- Whether product fulfills his/ her expectation
- Whether it provides some benefits

Interest in features can vary from one consumer to another.

iv. **Purchase Decision:** Evaluation gives the idea to the customer about the brand he/ she should go for. Purchase decision is affected by two factors: other's opinion and unanticipated situation. If one or more acquaintance of the customer has bad experience about the brand, customer's decision to buy that product can be negative. Unanticipated situations are the one, which can not be predicted e.g. some miss happening, or emergency to buy some other product, say for example, you are planning to buy an A.C., and fridge goes out of order than the priority may shift to buy a fridge.

A customer's purchase decision can be further divided into five parts:

Brand decision, vendor decision, quantity decision, timing decision, and payment mode decision. The above-mentioned decisions are taken by consumer at various stages of buying.

v. **Post Purchase Behavior:** It shows the customer's behavior towards the product after he/she has purchased it and may have consumed as well. A marketer must find out the satisfaction level of the customer, usage of the product and should take action to improve the product if the customer is not satisfied. In case of pouched milk if consumer feels that Mother Dairy milk has some typical flavor whereas Amul milk has natural milk flavor then Mother Dairy must know this problem to rectify it and stop its customers from switching over from their brand.

8.5 PRODUCT PRICING AND MARKET DYNAMICS - CRITICALITY OF PRICING THE PRODUCT/ SERVICE CORRECTLY

With advent of internet, the availability of choices has increased for consumers and with the emergence of sophisticated analytical tools for very sharp segmentation, the role of non-price factors have increased in recent times. However, price is the most critical element of marketing mix. Particularly in India customer is very sensitive to price. Some of the interesting features of price are:

- Flexible to change: can be revised from time to time as per the objective and can be adapted differently to different geographic markets.
- Produce revenue: this is the only element that produces revenue where as the other three Ps of marketing mix produce cost.

Quite often pricing is set independently of other marketing mix elements rather than as an intrinsic element of the overall marketing strategy which is not good. This approach does not result in optimum results.

i. Pricing Dynamics During Different Stages of Product Life Cycle (PLC)

Any product has different stages in its life cycle. Each of this stage requires a rethink on marketing mix and particularly pricing. Pricing must change based on the different stages of PLC.

Introduction - This is initial stage when product is just introduced in the market. Initial fixed costs are higher and company could adopt a cost plus model.

a. **Growth -** The product awareness is fairly increased and the sales have started increasing. As the competition and sales increases, the fixed cost per unit decreases and the company could adopt a pricing strategy to increase product penetration.

b. **Maturity** - The awareness level is complete and the sales slow down because of the product's acceptability by the market. As a result, profits decline and pricing decisions are more dependent on the competition with other companies. In this stage, the company matches the price of competing product price in the marketplace.

c. **Decline -** There are many product substitutes with better value offering and the sales shows declining trend. In this stage, if company believes that under any circumstance the sales will decline with time, the company could cut the price to arrest the decline or continue with same price and not compromise on its profits.

ii. Pricing Options and Strategies

i) Price Setting Methods

a) Cost Plus

This is the most elementary method of setting up a price. Under this method, the company adds a profit margin to the cost of production and decides the price. The cost of production includes variable cost and fixed cost per unit of the product.

For example

The dairy unit procures milk from farmers, does some elementary processing in its processing unit, and transports it to market for final sales. Therefore, cost is added on actual and marginal profit is taken on the basic cost.

Variable Cost: Procurement price paid to the farmer (Rs 10/ liter)

Fixed Cost: Rent of the processing unit, transportation cost, manpower cost etc (Rs 15000/ month)

The dairy unit is expecting to sell 15000 liter per month. In such a case, the fixed cost per liter is Rs1 and variable cost is Rs 10. Therefore, the total cost of production is Rs 11. Suppose the unit wants to retain a profit margin of 27%. The final price would be:

Cost of production/ (1-desired profit margin) = 11/0.73 = Rs 14

Thus, the final price would be Rs 14/ liter.

As you would notice, with increase in sale of milk the fixed cost per liter decreased and the unit could earn higher profit margin or could reduce the price and maintain the same profit margin.

b. Value Based Pricing

Under this approach, the company offers a low price for a high quality product. It does not mean that the company compromises on the product quality to lower the price compared to competitor. It means that the company has to work backwards to reduce the cost of production. This approach creates a long-term competitive advantage for the company.

c. Perceived Value Pricing

In this approach, the company tries to estimate the price the buyers would be willing to pay for the perceived value of the product. The companies build up the perceived value of the product through innovative use of advertising and sales promotion.

d. Competitive pricing

Under this approach, the company sets the price very close to the price charged by the competitor. This approach is used in mature products where creating differentiation is difficult. This is quite a popular method of pricing which assumes that the price charged by competitor is a fair price and could leave some profit for the company.

In Mumbai, Mother Dairy had launched loose milk in competition to Amul. The price charged by Mother Dairy was same as charged by Amul.

ii) Pricing Objective

An important aspect of pricing strategy is to decide pricing objective. There could be multiple objectives:

- **Maximum Profit:** Company is interested in maximizing the profit. It works in markets where product awareness is low and a limited or no competition exists.
- **Market Share:** Company wants to increased market share. This could result in lower fixed cost per unit; establish company leadership in the market. Companies with good financial strength could use this approach.
- **Survival:** This objective is generally adopted in circumstances where
  - the company is having overcapacity or
  - is faced with intense competition, or
  - the consumer preference is changing quite rapidly or
  - Company just wants its presence to be there in the market and is not looking for any major share or profit immediately.

In this approach the company tries to recover variable cost and some or full part of fixed cost.

Price Elasticity of Demand

Elasticity refers to change in demand with respect to change in price. It is critical to know the price elasticity of your product before setting up the price or revising it. In case the demand is less elastic i.e. unlikely to change much with unit change in price, the company can afford to charge a higher price. Demand is likely to be less elastic under following circumstances:

- Consumers think that higher price is justified by higher quality and a general increase in price level across product categories
- There is no or few substitute to the product
- Consumers are slow to change their buying/ consuming pattern. They do not notice the change in price. In sale of loose milk, a small change in price of 25/ 50 paisa per liter is unlikely to change the demand pattern
- Brand loyalty - consumer is so loyal to the product that even after increase in price he or she would prefer it to other brands. E.g. if Mother Dairy ice-cream is liked by a consumer then even if it is priced higher than the competitors still consumer would buy it.

Check Your Progress - 3

1. What are the factors that can change the buyer's decision?

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2. You are launching your packed milk in the market where the only competitor is loose milk. Which pricing method will you use?

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8.6 PROMOTION

Promotion is one of the marketing mix tools. Promotion is communication. It is important for any company to promote its product carefully in the target market because a customer only gets to know about the company's product through promotion.

i Purpose and Elements of Promotion

To sell the product successfully the target group should have knowledge about the existence and availability of the product in the market. This is achieved through promotion. There are two reasons for promotion:

- To inform the customers about the products and services offered by the company
- To encourage the customers to buy the product and services

Promotion includes the following:

- Advertising

- Public relations
- Sales promotion
- Direct marketing
- Personal selling

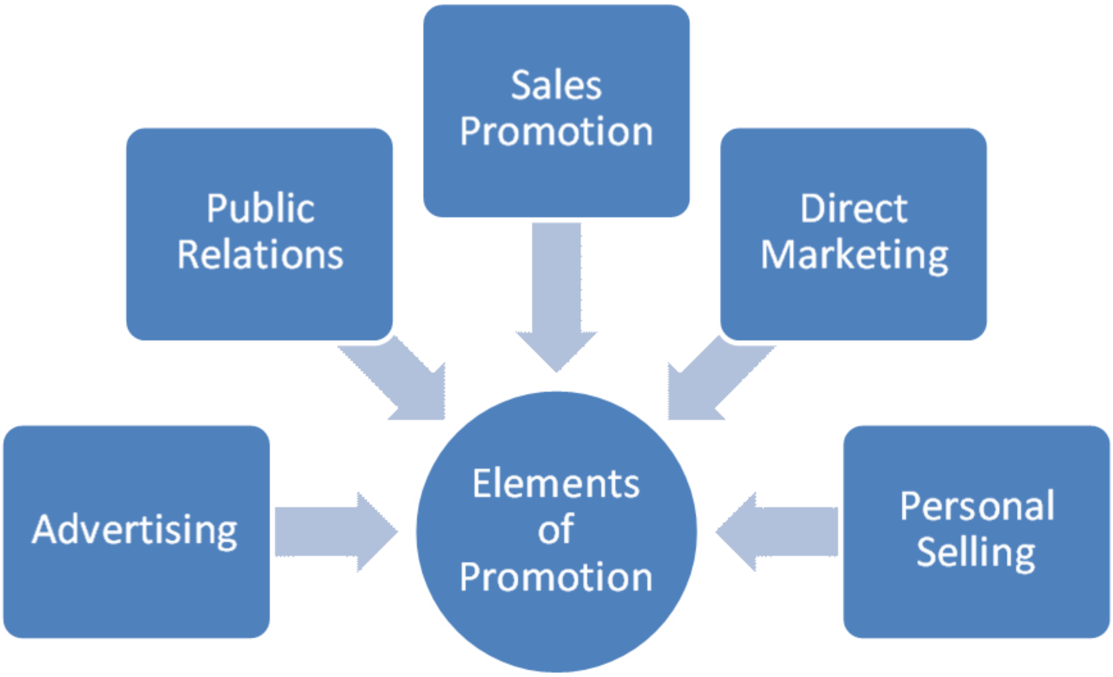

Figure 8.3 : Elements of Promotion

ii. Promotion Process and Communication:

The promotion processes includes:

a. Advertising

- Public presentations
- Print and TV advertisement
- Expressive advertisements to gain the customers attention easily

b. Sales Promotion: the various sales promotion tools are contests, coupons, premiums, various offers like buy 1 get one free etc. Sales promotion tools easily gain attention of the customer by providing value and instant buying trigger.

c. Personal Selling: Personal selling is one of the most effective tools of promotion. Personal selling helps a customer to build the trust on the product because a customer is able to observe the product closely. Attending exhibitions is also one of the examples of personal selling.

d. Direct Marketing: It involves direct mail, internet marketing, and telemarketing. The advantages of direct marketing are:

- A message can be prepared quickly and addressed to a specific target person.

- We can change the message according to the person's response and can appeal to the addressed person.

e. **Public Relations and Publicity:** It involves other ways of promoting the product in the market e.g. providing knowledge to the customer through some article or by telling new features instead of giving information through print or media ads. It helps in case of those customers who do not want to interact with salespeople.

iii. Promotional Campaigns: Now a days marketers use all promotion tools together to promote the product. The factors involved in sales promotion are:

- Size of the incentive to be given to the customers.
- Conditions for participation.
- Promotion duration - it should not be either too long or too short.
- Choosing a distribution method - For example, discounts coupons can be given to the customer through various methods like newspaper, mail, in malls, or in some stores etc.
- Time of promoting a product - For example annual or biannual promotions.
- Total sales-promotion budget - Cost to promote a product consists of administrative cost (market research and analysis, planning, promotion, and channel management cost), and incentive cost (cost of providing offers to the customers) multiplied by the expected number of deals to be sold. For example, your total administrative cost/unit is Rs. X, Incentive cost/unit is Rs. Y, and you expect to sell 100 units. Then, the total sales promotion budget would come to (X+Y)*100.

8.7 DISTRIBUTION CHANNEL MANAGEMENT

Mostly companies do not sell their product directly to the end-user. There are some intermediaries like brokers, sales agents, wholesalers, retailers that constitute distribution channel.

According to Kotler, "Marketing channels are set of interdependent organizations involved in the process of making a product or service available for use or consumption."

According to Stern and El-Ansary, "Intermediaries smooth the flow of goods and service. This procedure is necessary in order to bridge the discrepancy between the assortment of goods and services generated by the producer and the assortment demanded by the consumer. The discrepancy results from the fact that manufacturers typically produce a large quantity of limited variety of goods, whereas consumers usually desire only a limited quantity of wide variety of goods."

i. Establishing Distribution Channel Management

Designing a channel management involves analyzing customer requirements, establishing channel objectives, identifying and evaluating the channel alternatives.

a. Analyzing Customer Requirements Includes:

- Number of units permissible to buy at one time by a customer
- Time taken to deliver the product
- Convenience of the customer to buy a product
- Availability of variety of goods
- Add-on services provided by the channel

There is a direct correlation between the service output quality and the channel cost. If the service output gets better the channel cost increases which increases the product price for the customer.

b. Establishing Objectives: Channel objectives are defined to get the targeted output level. Objectives vary with the product. Some product needs more direct marketing however; some product needs little marketing or no interaction with the intermediary.

c. Identifying Major Channel Alternatives: According to Kotler a channel alternative is described by three elements: the types of available business intermediaries, the number of intermediaries needed, and the term and responsibilities of each channel member.

d. Evaluating the Major Alternatives: Each channel should be evaluated against different criteria. Different criteria are economic, control and adaptive.

ii. Managing Channel Partners

Once the channel is finalized, the next step is to select, train, motivate, and evaluate them.

Producers should try to recruit better intermediaries in terms of their capability and knowledge. Companies should train the intermediaries carefully because at the end of the day, they are the face of the company in front of your final customer. A company should motivate the channel partners by finding out their need and should plan and implement some programs to increase their performance. Company should evaluate their performance time to time. They should be rewarded/ retrained depending on the performance.

Check Your Progress - 4

1. You are launching a new milk product in the market. Which promotional tool will you use for that and why?

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2. Write down the steps involved in establishing a distribution channel.

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8.8 DESIGNING AND USING MARKET RESEARCH EFFECTIVELY

According to Kotler, "Marketing research is the systematic design, collection, analysis, and reporting of data and findings relevant to a specific marketing situation facing the company."

Most large companies have a separate department to do market research but for a small entrepreneur it has to be done, mostly on his own. Nowadays there are outside specialized research agencies available that do market research for you. The market research process involves the following five steps:

1. **Define the Problem and Research Objective:** It says that the problem should be defined accurately and objectives should be laid down clearly to solve the problem.

2. **Develop the Research Plan:** This stage involves the plan development to get the needed information like data sources, research approach, research instruments, sampling plan, and contact methods.

3. **Collect the Information:** This is the most error prone phase. Problem comes when the respondents do not answer properly or they are not available.

4. **Analyze the Information:** In this phase, collected data is analyzed and the information is used by the researchers to tabulate the data.

5. **Present the Findings:** This is the last step, where the researcher gives the information to the relevant parties.

Lets us take dairy unit example to understand market research process more effectively: A group of young entrepreneurs are contemplating to start selling of liquid milk in the nearby town. They may start the marketing research by defining the problem statement as -"What are the unmet needs of consumers from existing milk product offering".

To answer this problem statement, they make the research plan that includes a administering a questionnaire to 30 households (randomly selected) in 10 colonies of the town. The questionnaire design is such that it captures qualitative and quantitative information on various aspects like timely delivery, quality of milk with respect to freshness, flavor, smell, packaging quality etc.

Subsequently administer this questionnaire door-to-door and collect relevant information. Subsequently, document the outcome. The result could be that the erratic supply is the most important unmet demand of the customer, at present.

As a result, entrepreneurs need to focus on supply chain aspect of business to penetrate and be successful in the market with their product.

8.9 MEASURING CUSTOMER SATISFACTION

Whether a customer is satisfied or not, depends on the performance of the product. A customer feels satisfied if the product performance is up to the expectation. Dissatisfaction occurs when the product does not produce the desired result. Getting more than the expectation delights or highly satisfies a customer.

Nowadays companies aim for higher satisfaction level in their customers because an unsatisfied customer may switch to some other brand and they may loose sales. However, there are fewer chances of switching to some other brand in case of a highly satisfied customer.

A buyer forms his/her expectation by:

- Getting the information from several sources like friends, relatives, acquaintances, family members, and neighbors
- Company's reputation in the market compared to other companies
- Promises and claims made by the company and their correctness

Companies are raising customer expectations and trying to deliver the expected output to satisfy every customer. Two different customers may be satisfied with the company's product due to two different reasons. A company can hold the customer by gaining customer satisfaction. A highly satisfied customer:

- Stays for a long period
- Have a good mouth about the company's product and services
- Do not give much attention to other brands
- Buys more product (more consumption)
- Costs less to serve than the new customer

Regular customer satisfaction surveys help a company protect its market share.

Therefore, for a company to run successfully, it should look out all the areas that can satisfy a customer.

8.10 LET US SUM UP

- Marketing is a process of identifying human needs and fulfilling those needs. Marketing concept involves identifying customer's requirement, targeting a segment to serve the customer need and plan to meet the requirement. Companies should use the marketing concepts to meet the customer needs profitably.
- To get the desired response from the market, marketers use several tools known as marketing mix. McCarthy divided these tools into four groups called as 4Ps of marketing: Product, Price, Place, and Promotion.

- Product is to solution. Price is to cost. Place is to convenience. Promotion is to communication.

- Segmentation is a process in which the company divides the marketplace into subsets of same consumer needs. Targeting is the process of reviewing the market and selecting the appropriate target segment. Positioning involves positioning of the same product differently to different market segment.

- Strategic planning shapes the company's business to gain the higher profits and growth. You can use various strategies to stay in the market competition. Various strategies are - attack, defensive, niche, guerilla, and flanking.

- Strategic planning calls for action in three areas: The first is managing a company's businesses as an investment portfolio. The second key area involves assessing each business's strength by considering the market's growth rate and the company's position and fit in that market. The third key area is strategy. For each of its businesses, the company must develop a game plan for achieving its long-run objectives. Each company must determine what makes the most sense in the light of its industry position, objectives, opportunities, skills, and resource.

- The buying process starts with a need or desire. The buying process consists of five stages: need recognition, information search, evaluation of alternatives, purchase decision, post purchase behavior.

- Price is the most critical element of marketing mix. Some of the interesting features of price are flexible to change and produces revenue.

- Promotion is one of the marketing mix tools. Promotion is communication. It is important for any company to promote its product carefully in the target market because a customer only gets to know about the company's product through promotion.

- Mostly companies do not sell their product directly to the end-user. There are some intermediaries like broker, sales agents, wholesalers, retailers who make a marketing channel that is known as distribution channel.

- Marketing research is the systematic design, collection, analysis, and reporting of data and findings relevant to a specific marketing situation facing the company.

8.11 KEY WORDS

Marketing Mix : Tools of marketing 4Ps - Product, Price, Place, Promotion

STP : Segmentation, Targeting, Positioning

Guerilla : A strategy that consists of engaging in intermittent attack on the leader to confuse him and use the opportunity to make its foothold strong

Flanking : A market strategy that helps to reposition the product and gain market share

Niche : A market strategy that helps to find out a specialized market segment

Distribution Channel : Intermediary between the Seller and the end-user.

SMART : Specific, Measurable, Achievable, Realistic, Time.

SWOT : Strength, Weakness, Opportunity, and Threat.

8.12 SOME USEFUL BOOKS

Palmer, A. (2004), Introduction to Marketing: Theory and Practice, Oxford University Press.

McCarthy, E.J. (1964), Basic Marketing, Richard D. Irwin, Homewood, IL.

Kotler, P. (1976), Marketing Management, millennium ed., Prentice-Hall, Englewood Cliffs, NJ.

Kotler, P., Ang, S.H., Leong, S.M. and Tan, C.T. (1999), Marketing Management - An Asian Perspective, 2nd Ed., Prentice Hall.

Arussy, L. (2005), Congratulations, You Are at Par: The New Four Ps, Customer Relationship Management, Vol. 9, Iss. 3.

8.13 ANSWERS TO CHECK YOUR PROGRESS

Your answer should include the following points:

Check Your Progress - 1

1) There are four marketing tools known as 4Ps- product, price, place, promotion. A brief description of 4Ps is given below:

   a. Product: According to product concept, the consumer prefers products that give the most in terms of quality, performance, and modern features.

   b. Price: Price element generates revenue. In small companies, the company's boss can set price of a product but in large companies, separate department handle the pricing. It is the most critical element for any company. To set the price, company has to decide wholesale and retail prices, discount credit terms, and allowances.

   c. Place: Once the production is over, the next step is the movement of the product. Place consists of distribution channel, outlet locations, transportation, inventory levels and locations.

   d. Promotion: Promotion includes the activities required by the company to promote and communicate the product to the target market.

2) Correct answer is (c) - Segmentation, Targeting and Positioning

Check Your Progress - 2

1) Consumer analysis process involves the following steps:

1 Identifying the major product features that the consumer likes

- Prioritizing these features in terms of importance for the consumer
- Rating your and competitor capability to deliver on important features
- Assessing your and competitor performance on each of these features

2) Flanking

Check Your Progress - 3

1) Factors involved are - other's opinion or unanticipated situation.

2) You can use either cost plus method or perceived value pricing or a combination of the two.

Check Your Progress - 4

1) Use Personal Selling method to induce trial and sampling.

2) The steps are:

   a. Analyzing customer requirements

   b. Establishing objectives

   c. Identifying major channel alternatives

   d. Evaluating the major channel alternatives