Economics, Management and Entrepreneurship
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Lecture – 46
Marketing Management (Contd.)

Good morning. Welcome to the 46th lecture on Economics, Management and Entrepreneurship. In our last lecture, we were discussing marketing management. We will continue to discuss marketing management in this lecture also. To start with, we shall discuss about consumer behaviour.

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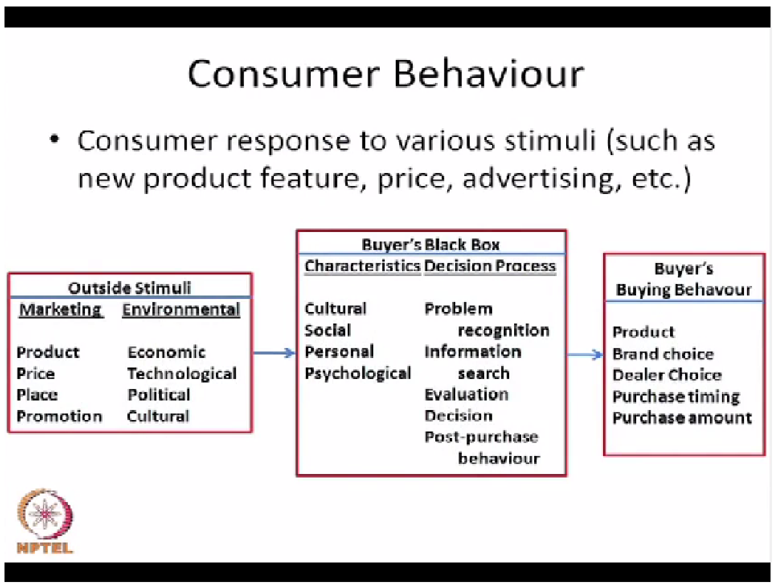

As you know, the success of an enterprise depends on how a product is sold in the market to the consumers. Therefore, it is important for the market, for the company, to understand how the consumer behaves. That is called consumer behaviour study. Basically consumer behaviour is the response of the consumer to various stimuli coming from outside and that is described in the form of 3 boxes.

One the outside stimuli, the other buyer's own Black Box, the behavioural pattern, the decision-making process, his own cultural value system and how he behaves as far as his buying of the product is concerned. In the first box, we have outside stimuli coming from 2 distinct groups of sources. One is the company's marketing efforts with regard to the 4 P's, with regard to product, price, place and sales promotion.

The other is the stimuli that is generating from the environment, from the country's environment, the economic environment of the country, the technological environment, the political environment and the cultural value system in the society. These are the external stimuli and buyer is conditioned by some of his or her cultural, social, personal and psychological characteristics and finally, the buyer decides to actually go around the market, look for products, search for information regarding functionalities of the products, the prices, the after sales service, evaluates all the values and then decides which product he will buy.

And finally, how he reacts to the warranty and the failure patterns of the products. So this is basically the buyer's own behaviour. As it is reflected in the buying of a product, the behaviour is reflected in terms of the selection of the product that he buys, the choice of the product brand, the dealer from whom he buys the product, the time at which he buys the product and the amount he pays to buy the product. So this basically is something like a model of how consumer behaves with regard to the marketing effort put forth by the company.

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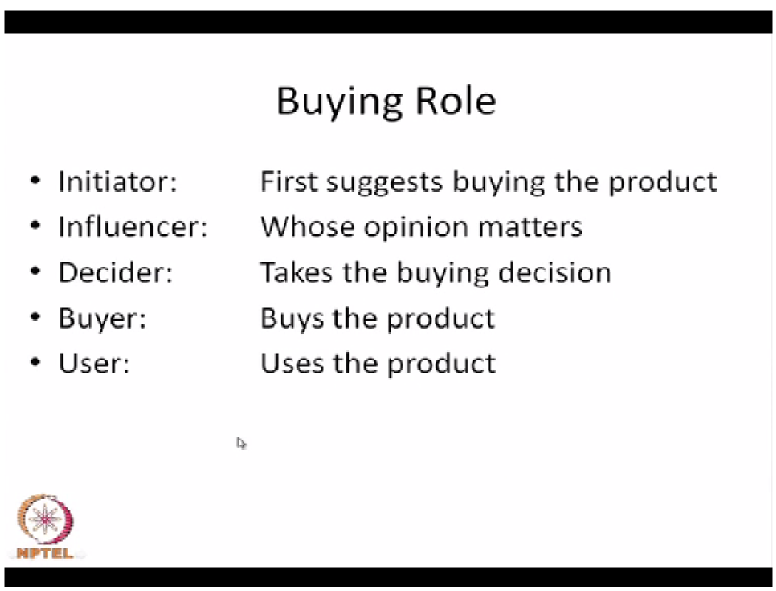

Now a buyer has got 5 types of role. He may just be an initiator who first suggests that a product of particular types should be bought. He or she could be an influencer whose opinion matters, an influential person in the family or in the friend circle. Somebody who decides that we should go for this product, may be the housewife. Buyer is the person who actually pays and buys the product and the user could be a different person. Therefore, a person can have 5 roles, initiator, influencer, decider, buyer and final user.

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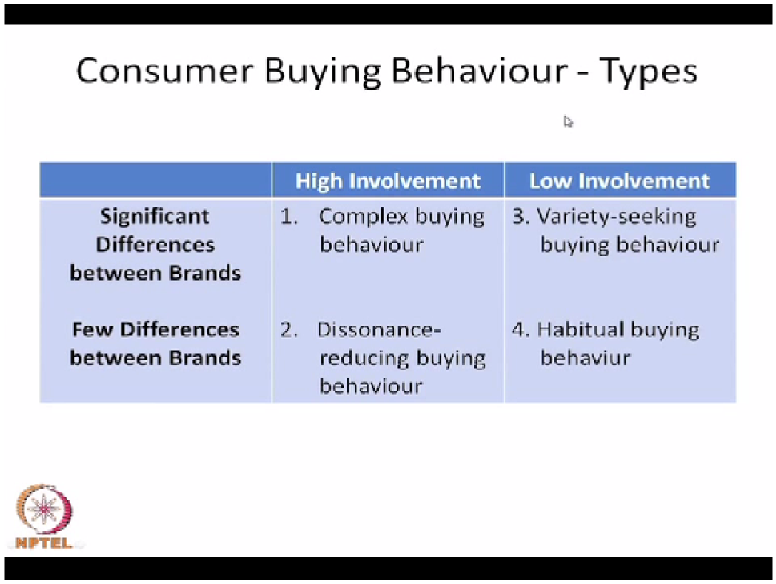

Now with regard to the involvement of a consumer in buying a product and with regard to the differences between the brands among the products, the consumer can display different behavioural patterns. If the brand difference is significant and the person takes high amount of interest and gets involved in the buying process, then it is called a complex buying behaviour. If the difference among the brands is not so distinct but the person gets highly involved in trying to find out the differences between them, then it is a different type of consumer behaviour.

And if the difference among the brand is high but person's involvement is low, then it is a different type of behaviour and finally small differences between brands and low involvement of the person buying the product, it is a different behavioural pattern. Let us study for each type of, each group of behaviour, each type of behaviour, what should be the marketing strategy.

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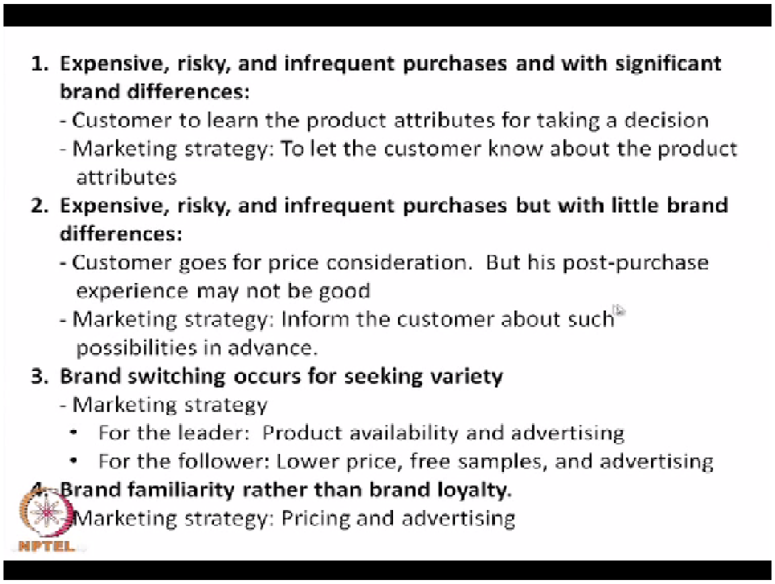

The first one, expensive, risky and infrequent purchases with significant brand differences. So these are the products expensive, risky and infrequent purchases where the brand differences could be high and the buyer's involvement could be very high. So customer must learn or tries to learn the different attributes that a product, 2 products give before taking a decision which product to actually go for.

Therefore, the marketing strategy of the company should be to let the customer know the different functionalities of the product, so that he is educated and then he can decide which product to go for. If it is expensive, risky and infrequent purchase but there is not much of a difference among the brands, then the costumer normally goes for price consideration. But the post purchase experience of the buyer may not be very good.

Therefore, the marketing strategy for such consumer behaviour is to inform the customer about the post purchase experience, such as failures, repairs, warranty and such post purchase information. Then the third type of consumer behaviour that brand switching occurs for seeking variety. The consumer basically looks for different types of products and therefore, he switches brand.

Now marketing strategy for the leader. There can be a company who is leader in the market. There can be another company who is not a leader in the market but he follows the leader. It has got less market share. They are called follower companies. The leading companies, they should go for advertisement and their products should be available on the shelf of the dealer, readily available.

Whereas for a follower, he should go for lower price, of course advertising, maybe he can give certain free samples and lastly, the 4th type of consumer behaviour is where the involvement is low and not much of a difference exists among the products, then this is a case of brand familiarity rather than brand loyalty. The marketing strategy should we go for good pricing, a competitive pricing and of course advertising. So for different types of consumer behaviour, different types of marketing strategy should be followed and these are highlighted in this particular slide.

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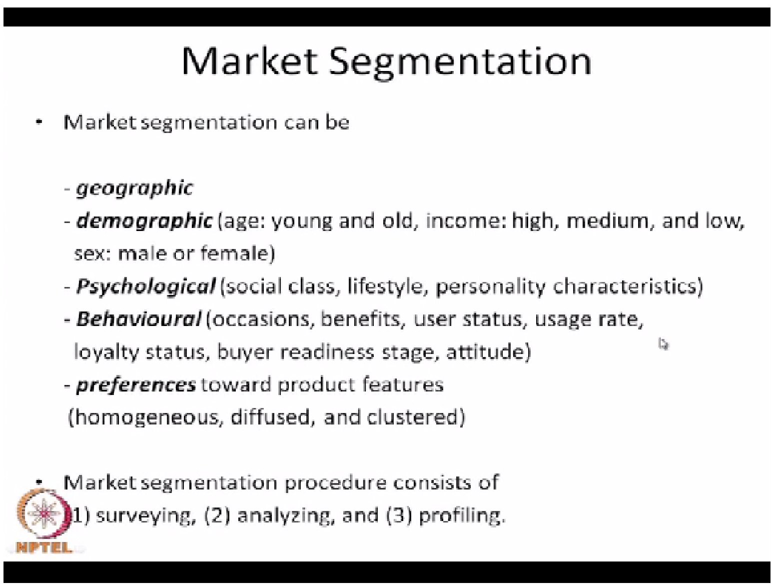

Next recall that we had discussed about market segmentation and market product positioning. Now the market segmentation can be of different types, geographic, demographic, psychological, behavioural and preferences towards product features. Basically geographic means where say Eastern India, Western India, Central India and so on so forth. Demographic could mean with respect to age or income or sex.

With respect to psychological characteristics, it could be social class, lifestyle, personality characteristics. With respect to behaviour, it could be for different occasions such as marriage, for a particular type of benefit, or user's status, usage rate, loyalty, buyer readiness and attitude. Market segmentation could also be done considering preferences towards product features.

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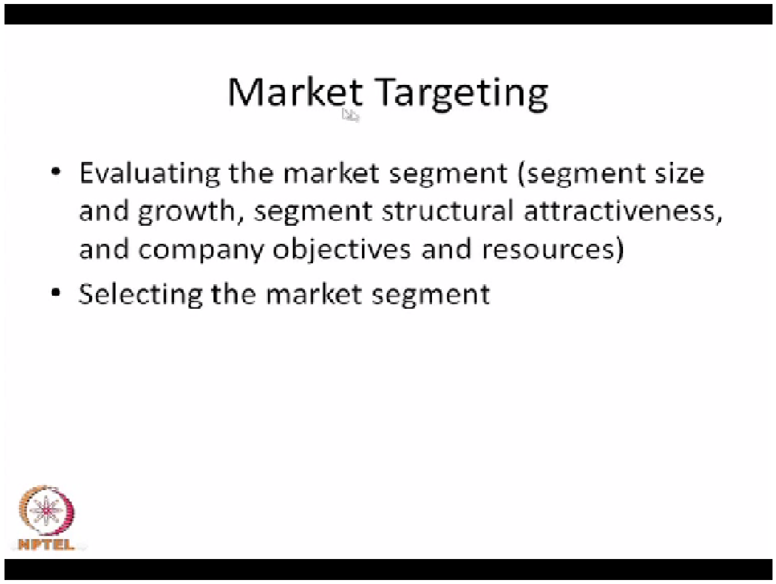

Now we have to target a particular segment. For that, we have to evaluate each market segment in terms of its size, growth, attractiveness and of course company's own objectives and resources and then only go for selecting the markets segment.

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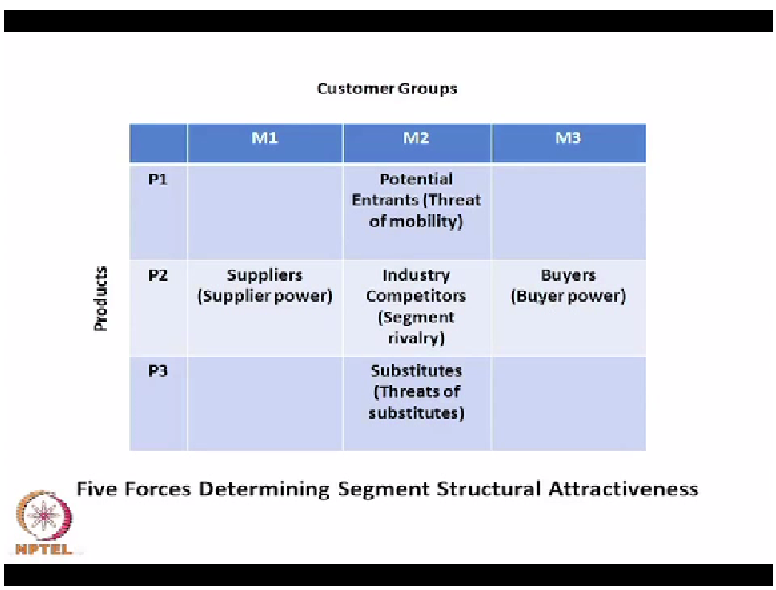

We explain this in the form of a matrix. Let us say there are different products, P1, P2 and P3 and these are target markets, M1, M2 and M3 representing different customer groups. Now we show here 5 forces determining the segment's structural attractiveness. The Porter's 5 force model where the products are like suppliers, various companies give different products or same companies may be giving different products.

This is the suppliers power. Potential entrants, there are different markets. Substitutes or threats of substitutes and the buyers who buy it and the competitor segment, segment rivalry. So basically we can think of different market segments and different products that are available to suit different market segments.

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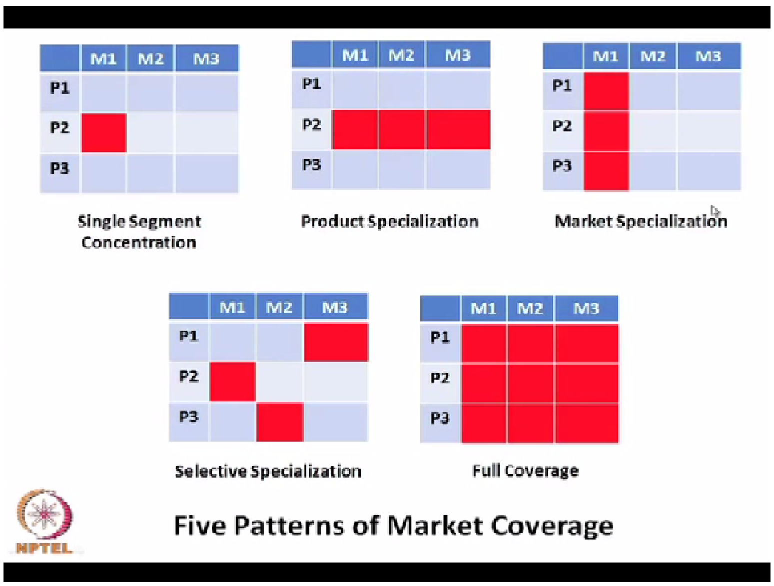

We show this in more detail here. Suppose that a company thinks that this particular product with certain attributes could feed extremely well in this particular market segment. Therefore, this is where the product should be positioned. This is called a single segment concentration. If, however, the company has only 1 product or specialises in single product and it visualises that it has a use in all the market segments, then it can offer that product to the complete market but it has only 1 single product.

It is possible that the company may have different brands. It only offers that to only 1 market segment, all types of products. So this is the case of market specialisation. The previous one is a case of products specialisation. Here is a case of selective specialisation, where the company actually finds out with regard to the segmentation that it has done in the market. This particular product may be very well-suited for this market segment whereas this P3 could be well-suited for

M2 and P1 very well-suited for M3.

So it selects depending on the attributes of the product, the functionalities of the product and the characteristics of the market segment, it decides which particular product will suit which market segment and the last is of course a company who is a leader producing a wide variety of products, can actually cover the complete market, all types of market segments. So these are different patterns of market coverage.

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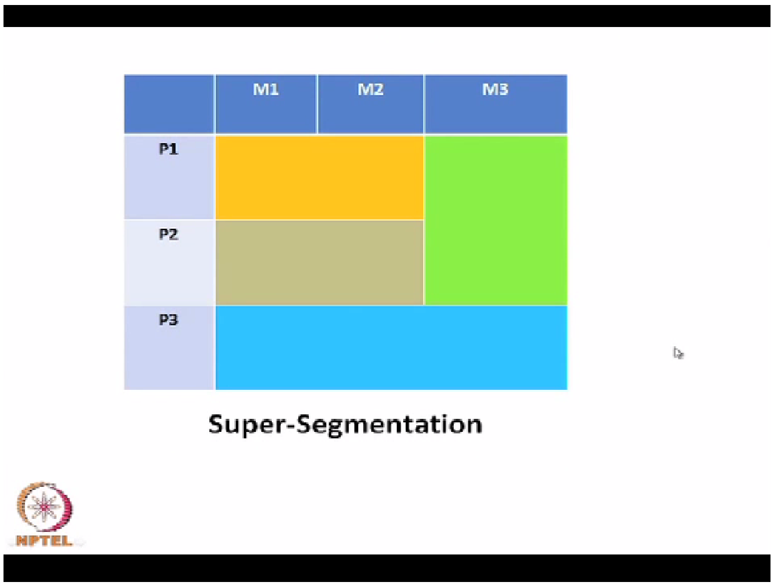

Of course, it is possible that one particular product is offered to 2 markets, P3 is offered to this market, P2 is offered to M1 and M2 and M3 is offered by both P1 and P2.

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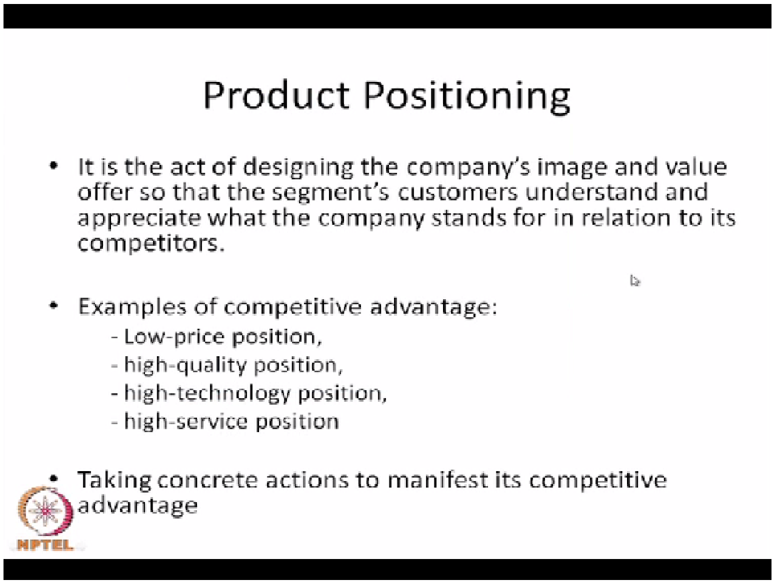

So now we are talking about product positioning. Product positioning is basically the act of designing a company's image and the value offer so that the segments customers understand and appreciate what the company stands for in relation to its competitors. So basically it is a question of what should be the competitive advantage of a particular product relative to its competitors.

Now there are, for example, the company may decide to go for a low price product. So the position it takes is low-priced position. The company may decide to offer a very high-quality product, then the position it is taking is a high-quality position or it could be a new technology product, so the position taken is a high-technology position, or it could decide to give extremely good after sales service in which case the position is a high service position.

So basically product positioning means to offer product with certain competitive advantage in mind relative to its competitive products and once this strategy is made, concrete actions must be taken to ensure that the competitive advantage desired is actually implemented in the product.

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Now we come to the question of marketing strategy. So naturally it will depend on the competitor's strategies and the changing face of the product life-cycle, we have already studied product life-cycle and the market opportunities and challenges. So these are 3 aspects on which the strategy that the company should take with regard to marketing will depend, the competitors, the product life cycle phase and the opportunities and challenges in the market, both national and international.

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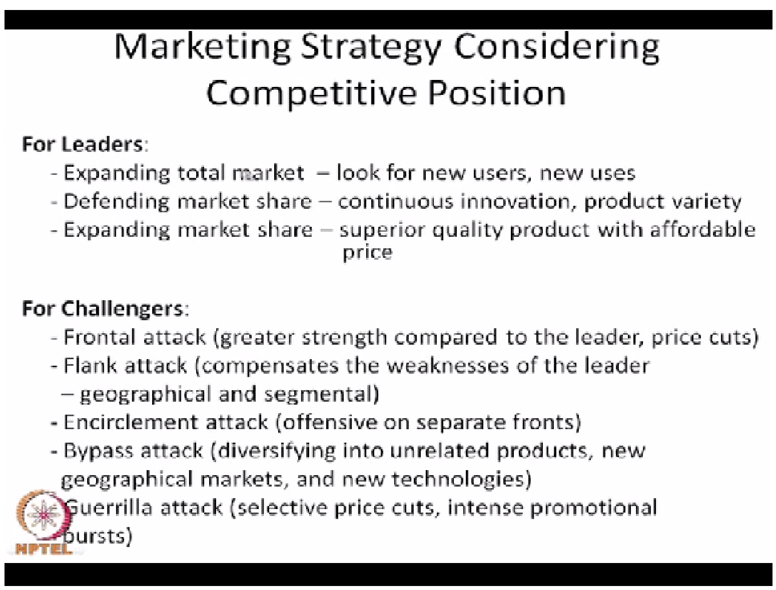

Now we try to first of all classify companies with regard to whether they are leaders, challengers, or new companies and so on and so forth and for each one of them, we try to say what should be the marketing strategy. For companies who are leaders in the market, their strategy could be of 3 types. They may expand their existing market in which case they will naturally look for new users and new usage of the same product.

They may at least defend the market share by continuously innovating new products and increasing the different or the number of types of products or the product variety or they may offer superior quality product with affordable price and thus expand the market share. So they can expand the total market, they can expand the market share and they can defend the markets share.

Next for companies who are challenging the leader, they can go for different types of strategy. These are taken from the strategies that are used in military but they have meanings when competition in marketing takes place. Frontal attack, frontal attack means, more number of products you prepare and price cuts you give. They are available in plenty in the market compared to the leader.

This is frontal attack. Flank attack, it compensates the weakness of the leader. So it tries to find out where the leader is weak. Which particular attribute the leader's product does not have, you provide that or which graphical market segment it is not offering its products or particular segment it is not offering, you try to, the challenger company, will try to popularise their product in those market segments or encirclement attack, offensive both from the front and from the side.

That means both this strategy and the flank attack strategy, both strategies are followed in the encirclement attack. Bypass attack strategy is diversifying into unrelated products. If the company finds that in this particular product, it cannot compete with the leader, then at least it can go to unrelated products, so they can diversify its business or go to new graphical markets or produce new technology products. In the list, it can use a Guerrilla attack strategy.

Selectively, it can cut prices or in some moments, it can a burst of sales-promotional activities it can undertake. So for challengers, there are a large number of strategies available to challenge the leader.

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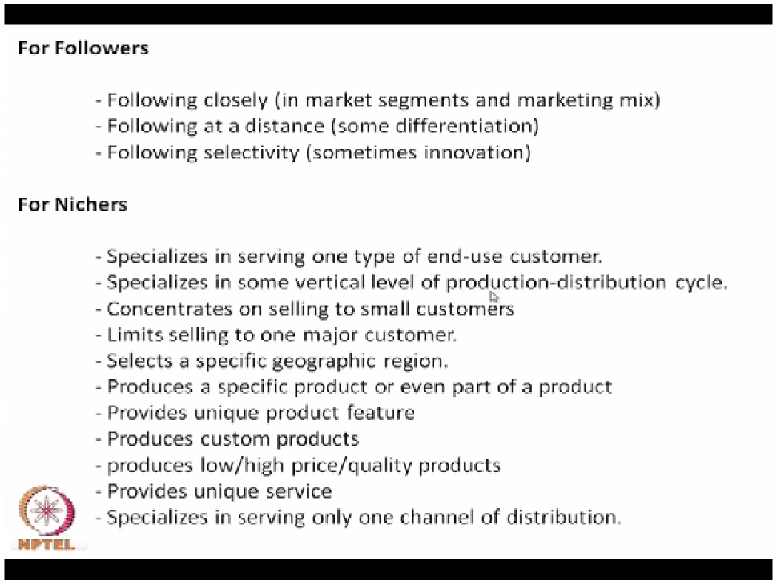

Now let us see how the followers and the newcomer's strategy should be designed. Followers can closely follow the leader, that means in the same market segment and the same marketing mix, they can use or they can follow at a distance that means they can make their products slightly different from the products of the leader or they can have some innovation in certain products, selectively.

So for a follower, these are the strategies. For Nichers, those who are new to this particular market in this particular product, they have a number of strategies. What they can do is specialises in serving one type of end-user customer. For entrepreneurs in fact these are the strategies that are meaningful. They try to focus and serve a particular end-use customer or end-user.

Specialises in some vertical level of production distribution cycle. So they go for a particular company and a particular customer. So the vertical level of production distribution they maintain. Concentrates on selling the products to very small number of customers, limits their sales to one major customer, selects a specific geographical region, produces a specific product or even a part or parts of a particular product.

They can provide the unique product features. They can produce custom products. They can produce low or high price and quality products, that means low-priced product or high-priced products or low quality products or high-quality products. They can provide unique type of service and they can specialise in serving only one channel of distribution. So there are different strategies available for the newcomers or entrepreneurs.

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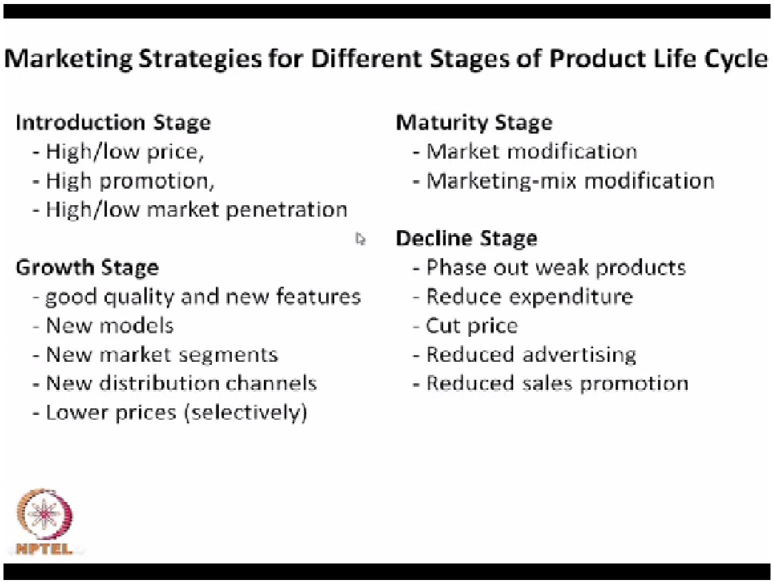

Now with regard to the stage of product life-cycle, the marketing strategies can also differ. We already know that there are basically 4 stages, introduction, growth, maturity and decline. In the introduction phase, the decision has to be taken with regard to particularly promotion. The marketing strategies should be high promotion. The company has to promote the product. They can decide whether to go for high price or low price or whether they should go for a small market or a large number of market but they promote their product.

In the growth stage, they must maintain good quality and give new features or functionalities of the product. They must bring out new models. They must target new markets or market segments. They may go for not conventional distribution channels but different types of distribution channels and selectively, they can even lower prices.

Now these strategies one or some combination of the strategies should be followed in the growth stage. In the maturity stage, naturally there is competition and therefore, one can think of different types of markets or different types of marketing mix to continue to see that the products continue in the maturity phase as long as possible compared to its competitors.

In the decline stage, naturally the company has to take a strategy of phasing out products that are not giving good revenues, weak products. They must cut costs or expenditures, thus reduce price. They can go for reduced advertising expenses and reduced sales-promotion because they know that the product is being phased out. Thus there are different strategies available for different stages of a product life-cycle.

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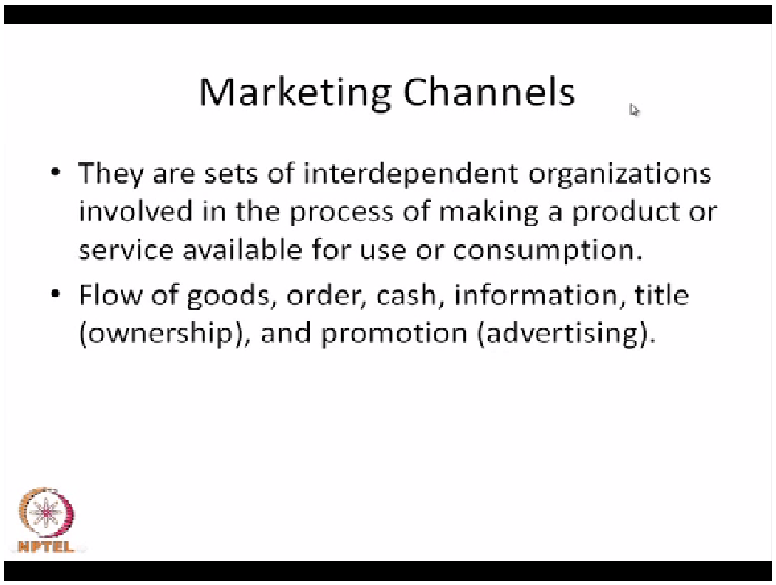

Now we go for marketing channels. We have already talked about supply chain management in great detail and marketing channels are similar to supply chain management in many respects. Basically marketing channels are sets of interdependent organisations involved in the process of making a product or service available for use or consumption and they consist of flow of goods, order, cash, information, even title or ownership and promotion or advertising.

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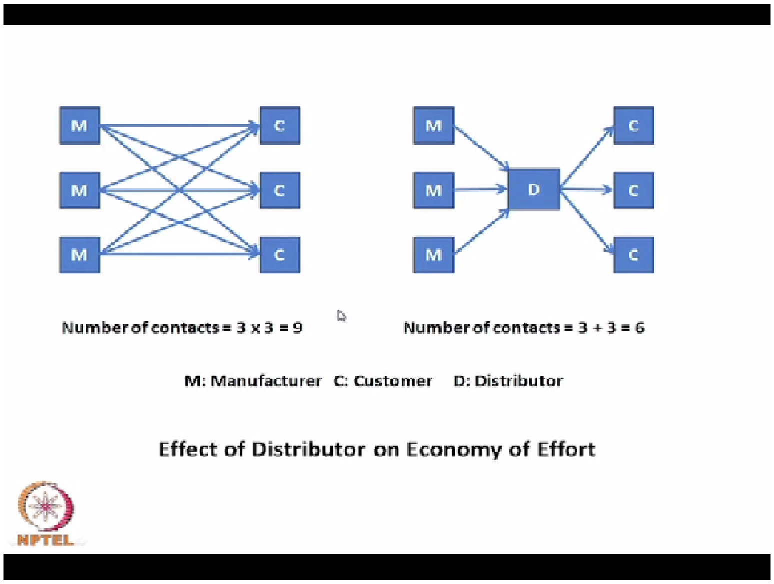

Now we depict them as we have done in supply chain management in some network form. We use M for manufacturer, C for customer and D for distributer. This is the case where manufacturer directly contacts the customers. So if there are 3 manufacturers and there are 3 customers, the number of contact points are 9 whereas if there is a distributor in between the manufacturing and the consumption stage or manufacturer and consumer, then we have only 6 number of contacts.

Thus there is an economy of effort. Each manufacturer knows that it has to supply to 1 distributor, so the effort of the manufacturer in trying to contact the customer is less. It is passed on to the distributor and it can concentrate on designing and manufacturing the product with less number of, less price and high number of product features.

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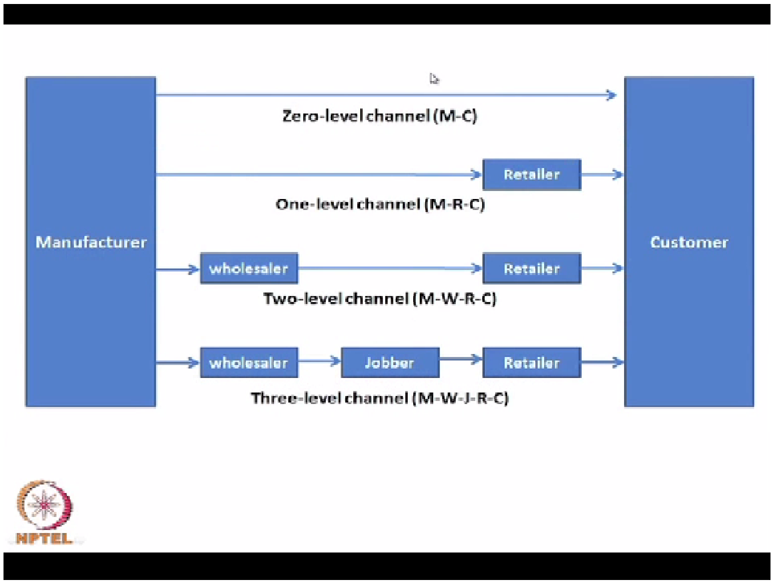

Now between the manufacturer and the customer, there can be a direct contact if there are no intermediaries. This is called a zero-level channel or manufacturer can directly give to the retailer who in turn sales it to the customer which is a one-level channel M-R-C, M for manufacturer, R for retail, C for customer or there can be 2-level channel, manufacturer, wholesaler, retailer and customer.

Or there can be a 3-level channel, manufacturer, wholesaler, jobber, retailer and customer. A jobber work is to bring from the wholesaler goods and give it to the retailer and collect orders from retailers and give it to wholesaler. So this is a 3-level channel where there are 3-channel organisations. 2-level channel, 2-level of organisation, one organisation retailer and no organisation here.

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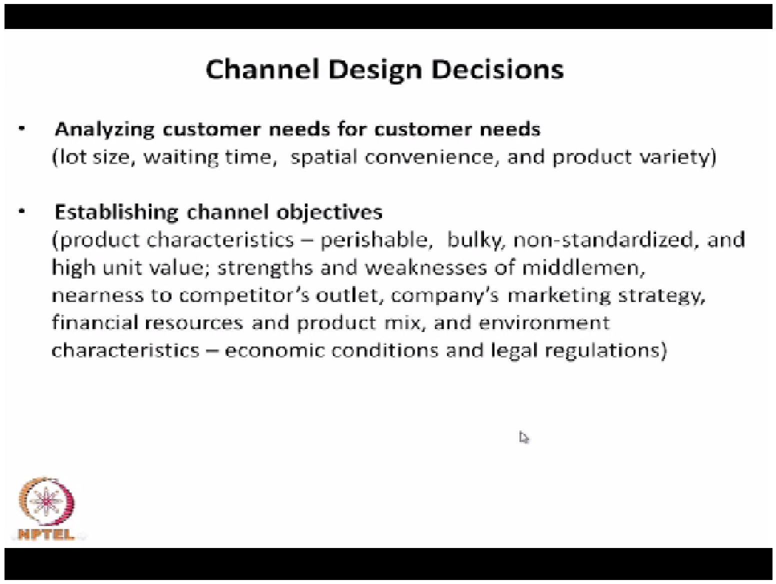

Now the company has to decide which particular, which particular channel it should go for, whether should directly contact or go through a retail or a wholesaler retailer and a wholesaler, jobber and retailer channel. This decision the company must make. For that, mathematical analysis can be done but before that, certain information is collected. Analyse customer needs for customer needs.

Analyse customer needs, I am sorry there is a mistake. Analyse, yes, analysing customer needs with regard to the lot size. How long they can weight, how many items they need, that is the lot size. Which point they would like to be given the product and what product variety. Then establish channel objectives. Product characteristics, they have to understand product characteristics which is perishable, bulky, non-standardised or high unit value.

They have to also consider strengths and weaknesses of middlemen, nearness to competitor's outlet, company's marketing strategy, financial resources and product mix, environmental characteristics such as economic conditions and legal regulations. So these are of course written down in a very subjective manner but as I am telling that it is possible to take or make mathematical analysis with regard to deciding what should be the number of levels of intermediaries in the marketing channel.

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Identify major channel alternatives and it has been seen that for equipment manufacture, the company sales force or manufacturer's is agency or industrial distributor would constitute the intermediaries. For FM car radio manufacturer for example, the OEM market, original equipment manufacturer market, auto dealer market, retail automotive parts dealer, or mail-order market and these are the intermediaries.

Of course, it is possible to go for door-to-door selling and through department or discount stores. Now the number of intermediaries also will depend on the type of distribution we are making. If it is intensive distribution it means that we are stocking product in many outlets. Exclusive distribution, we are giving products only to a few dealers or we are selectively deciding to whom we should give more than 1 but less than the willing intermediaries.

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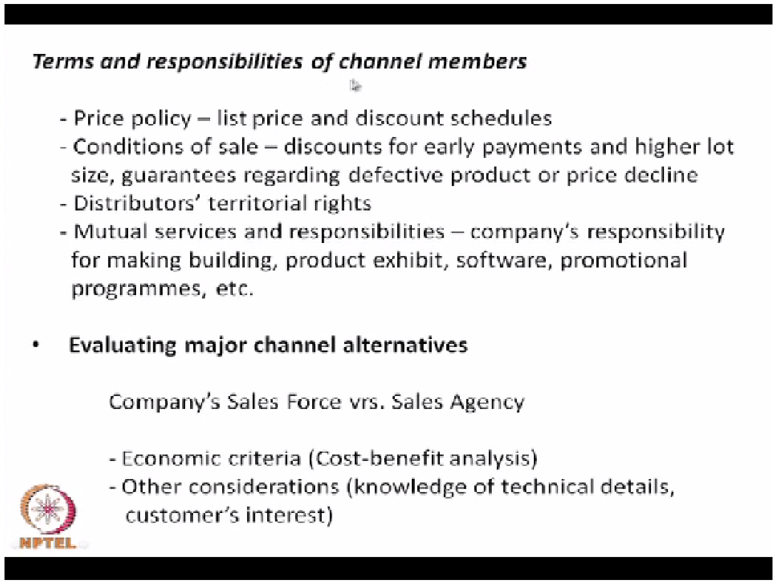

Now terms and responsibilities of channel members. Price policy, what should be the least price and what should be the discount schedules. Conditions of sale, discounts for early payments or for higher lot size, guarantees regarding defective product or price decline and distributors' territorial rights. Mutual services and responsibilities, company's responsibility for making building, product exhibit, software, promotional programs, etc.

So these are to be decided when we decide the channel member and an agreement must be signed by the company with these channel members. Lastly evaluating major channel alternatives, whether the company should go for its own sales force to sell the product in the market or it should go through sales agency. It can follow certain economic criteria such as cost benefit analysis or it can go for other considerations such as knowledge of technical details, knowing the customer's interest, so on and so forth.

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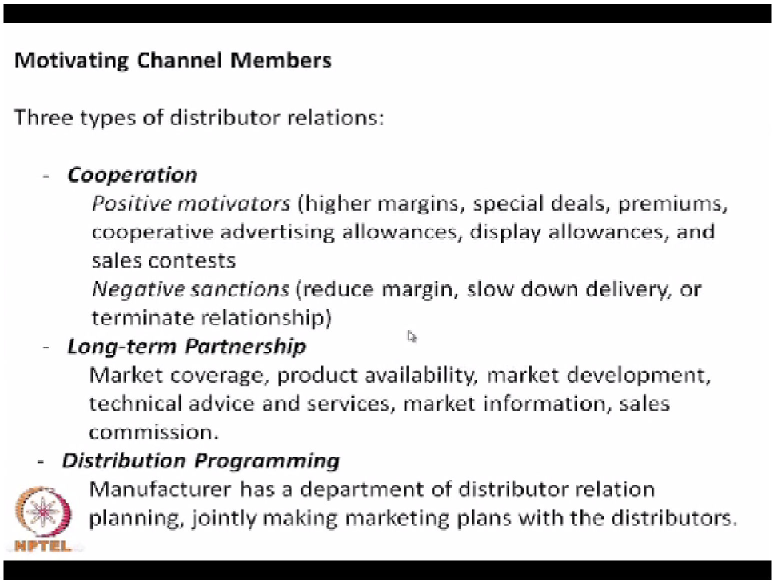

How to motivate the channel members? There are different ways. Already we have discussed some of them in our supply chain management lectures. We are adding some more. We can bring in certain cooperation by providing higher margins, special deals or premiums, or we can, the company can go for cooperative advertising allowances, display allowances, or sales contract, these are all positive motivators to motivate the channel member to cooperate with you or you can negatively also influence them so that their cooperation increases.

You can reduce margin, slowdown delivery, or even lastly terminate relationship. The company can go for a long-term partnership with the channel members, like you can tell the intermediary to cover a higher market segment, make products available for a longer time, develop the market by subsidising, give technical advices and services, provide market information, or give sales commission, or a third type of strategy is manufacturer may have a department of distributor relation planning, jointly making marketing plans along with the distributors.

Thus 3 types of distributor relations are cooperation, long-term partnership and distribution programming.

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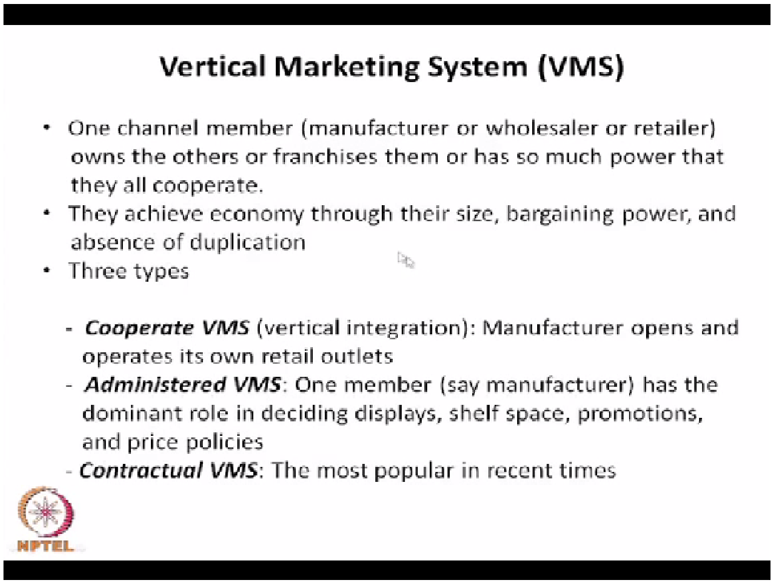

Now it is possible that the marketing system can be developed in a vertical fashion. One channel member, that is manufacturer or wholesaler or retailer, owns the others or franchises them or has so much power that they all cooperate. They thus achieve economy through their size, bargaining power and absence of duplication. There are 3 types of vertical marketing system.

One cooperative VMS, called vertical integration where manufacturer opens and operates its own retail outlets or administer VMS. One member say manufacturer has the dominant role in deciding displays, shelf space, promotions and pricing policies and of course contractual VMS, where the manufacturer gives a contract to a retailer which is the most popular in recent times.

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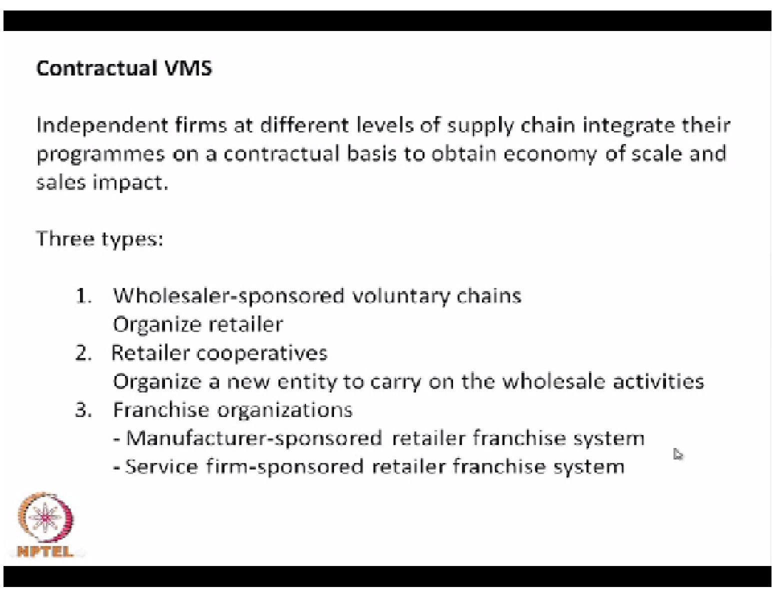

Contractual VMS are independent forms at different levels of supply chain who integrate their programs on a contractual basis to obtain economy of scale and sales impact. So basically different intermediaries, they corporate to obtain economy of scale and sales impact. There are 3 types of contractual VMS: wholesaler-sponsored voluntary chains. They organise the retailers. Retailer cooperatives.

They organise a new entity to carry on the wholesale activities. They decide, the retailers decide who the wholesaler should be. Here the wholesaler decides who the retailer should be or there could be franchise organisations where manufacturer-sponsored retailer franchise system. It could be manufacturer-sponsored retailer franchise system or it could be service-firm sponsored retailer franchise system. I am sorry there is a duplication here. Yes.

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It is also possible that there is a horizontal marketing or a symbiotic marketing system where 2 or more non-related companies put together their resources or programs to exploit an emerging market. Example is that the manufacturer and the distributor together setup an advertising company or it could be a multichannel marketing or multi-marketing where a single form sets of more than 1 marketing channel.

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So we have talked about marketing channel at length. Now let us discuss about promotional mix strategy. Now there are 4 ways in which promotion can be done. Product can be promoted in the market: advertising, sales promotion, publicity and personal selling. Advertising is basically non-personal presentation. Person is not directly involved with the customer.

Sales-promotion basically is short-term incentives, giving short-term incentives to the buyer such as rebates, low-interest financing, lotteries, gifts and demonstrations. Publicity is non-personal stimulation of demand by trade shows, speeches, seminars, annual reports, charitable donations and public relations and finally product can be promoted by personal selling, that is overall presentation such as sales meeting, telemarketing, etc.

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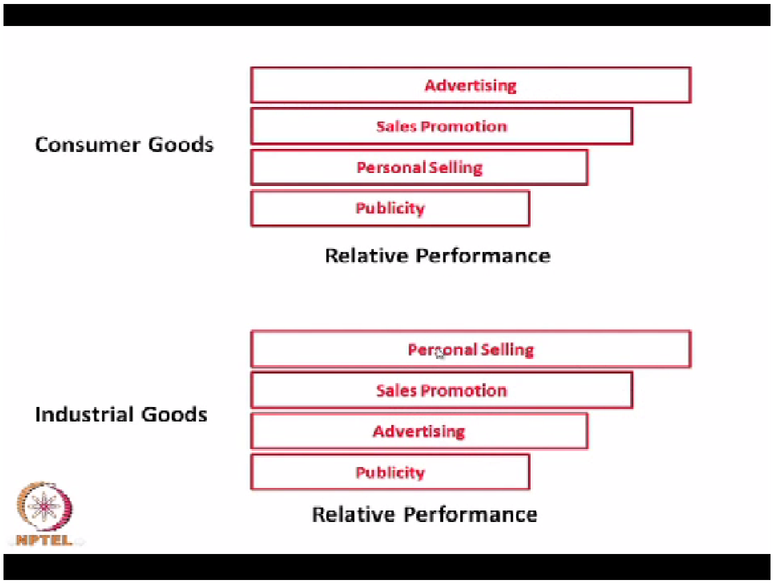

Now for consumer goods and industrial goods, the relative performance of different promotions, product promotion schemes can be different. For example, it is seen that for consumer goods, advertising is the best promotional scheme and publicity is not so well. Advertising is best followed by sales-promotion followed by personal selling followed by publicity. Whereas for industrial goods, personal selling is the best as far as its performance is concerned compared to others. Sales-promotion, advertising comes next and the last is of course publicity.

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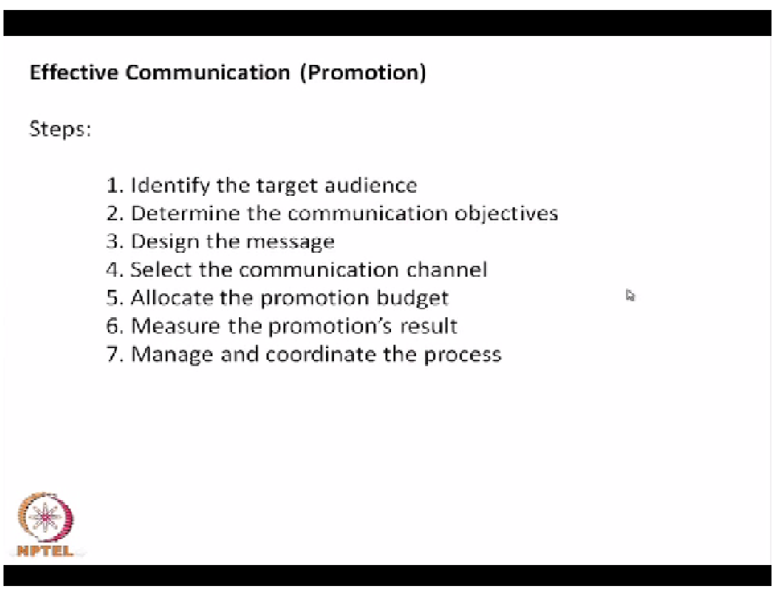

Now promotion is basically effective communication about the product features to the potential customers. Now there are different stages, steps. Identify the target audience is a first step. Determine what you would like to convey to the audience, basically audience means potential customers. Design the message what exactly you would like to convey. Select the communication channel. How you would like to convey. Allocate a budget. Measure the result of the promotional scheme and coordinate the process. So there are 7 steps, we shall discuss a few.

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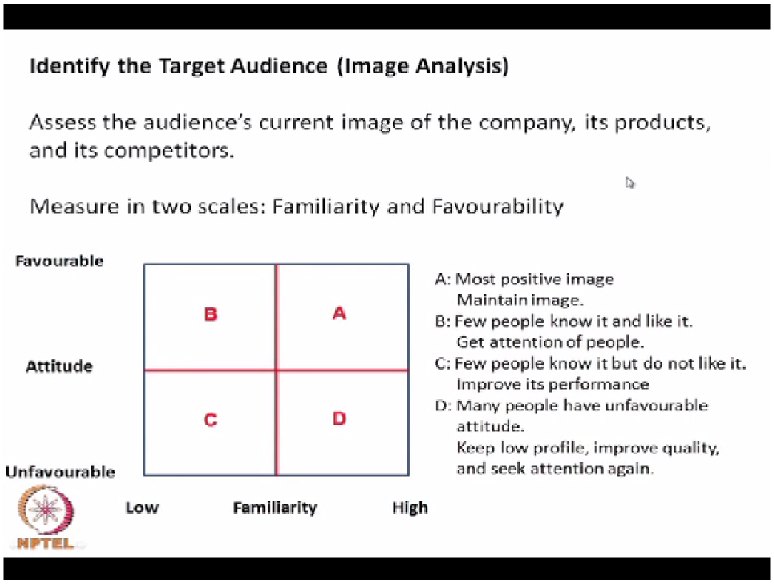

Identify target audience. Here we are assessing the audience's current image of the company, its products and its competitors. So basically potential customer, what he or she thinks about the company and its products and about the competitors, competitive products in the market. Normally they are measured in 2 scales. Familiarity of the product and the company with the customer and the attitude of the customer.

They can be in 4 grids, A B C D. If the potential customer is highly familiar with the company and its product and his attitude is favourable, then this is the most positive image the customer is carrying. So he must continue to maintain the image. The strategy of the advertising or strategy of our promotional scheme should be that this image must be maintained. The second is the customer is highly favourable to buying a product but not very familiar with the company's product or with the company.

So few people know about the company or its product and few people like it. Therefore, the strategy should be that their attention must be drawn to the company and to the product. C is few people know it but they do not like it. So unfavourable attitude. They do not like it and so naturally you will have to improve the performance of your product and of the company.

And lastly, many people have unfavourable attitude, they are familiar with your product but they are not favourable as far as the product is concerned. So what is required is they do not go for high profile advertisement, keep a low profile but try to increase the quality of the product and once the quality is improved, seek attention of the potential customers again.

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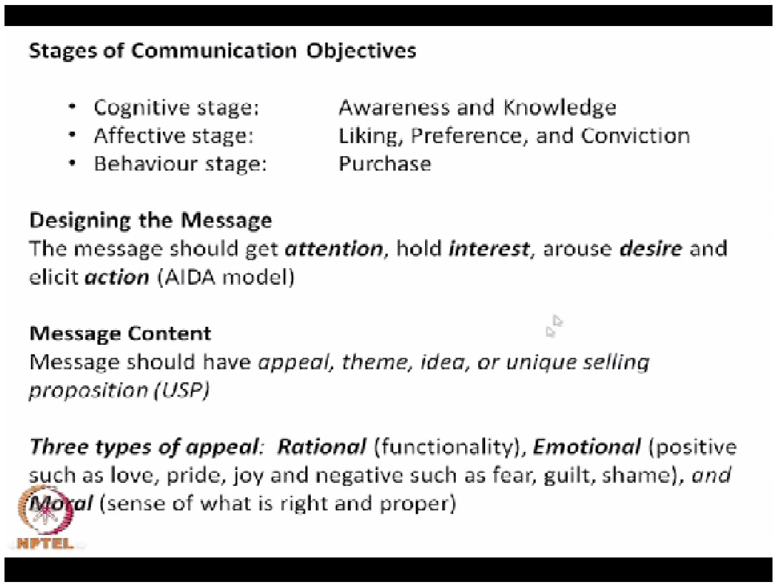

Now there are different stages of communication objectives for a potential customer. One is that the cognitive stage or affective stage or behaviour stage. Cognitive stage is basically making a potential customer aware about the product, to let him know about the product. Affective stage is that he is aware but he must like the product, he must prefer it to other products and he must be convinced that this product is the best among the available products.

Third is of course that he buys it. So these are 3 different stages through which a potential customer passes before he buys. So these are the different stages of communication objectives. Designing the message so what you are actually focusing or designing your advertisement, you should try to get the attention of a potential customer, that is awareness and knowledge, hold his interest and arouse desire and elicit actual buying or action.

This is called A I D A model, attention interest desire and action model. Now what should be the content of the message. The message should have appeal, theme, idea and a unique selling proposition, USP. There are 3 types of appeal: Rational, emotional and moral. Rational meaning the functionality of the product should be let known to the potential customer. The emotional appeal is what he will derive from acquiring the product: Love, pride, joy, or he will get rid of fear, guilt, or shame and the moral appeal that he is doing what is right and proper.

So friends marketing management is a very very developed area with high practicality in real life. We could not cover everything. We have given only the essence of marketing management and it is hoped that an entrepreneur will try to not only produce products but also market these products effectively to the potential customers. Thank you very much.